Chapter 01 - Accounting: Information for Decision Making

Chapter 01
Accounting: Information for Decision Making

True / False Questions

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

2. Return on investment is the same as return of investment.
   True    False

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

4. Management accounting refers to the preparation and use of accounting information designed to meet the needs of decision makers outside the business organization.
   True    False

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

6. The tailoring of an accounting report to meet the needs of a specific decision maker is more characteristic of financial accounting reports than of management accounting reports.
   True    False
7. The annual financial statements of large corporations such as Microsoft or PepsiCo need not be audited by independent certified public accountants, since these firms maintain large accounting departments as part of their organizations.
True    False

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

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

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

11. The American Institute of Certified Public Accountants has the legal authority over publicly held corporations to enforce compliance with generally accepted accounting principles.
True    False

12. An accounting practice can become a "generally accepted accounting principle" through widespread use, even if the practice is not mentioned in the official pronouncements of the accounting standard-setting organizations.
True    False

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

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

16. External users of accounting information have a financial interest in an entity but are not involved with the day-to-day operations of the enterprise.
True    False

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

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

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

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

22. The Sarbanes-Oxley Act places responsibility on CEOs and CFOs of companies to certify the fairness of company's financial statements. The Act also created the Public Company Accounting Oversight Board which oversees the public accounting profession.  
True    False

23. The internal control structure of an organization has no relationship to the reliability of accounting information.  
True    False

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

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

26. The Code of Ethics of the AICPA calls for a member in public practice to be independent in fact and appearance when providing auditing services.  
True    False

27. The Public Company Accounting Oversight Board is responsible for creating and promoting International Financial Reporting Standards.  
True    False
Multiple Choice Questions

28. Financial accounting information is:
A. Designed to assist investors and creditors.
B. Not used by managers and in income tax returns.
C. Called "special-purpose" accounting information.
D. Not applicable to individuals.

29. Financial statements must be prepared for which time period?
A. One year.
B. Less than one year.
C. More than one year.
D. Any time period.

30. Generally accepted accounting principles:
A. Are based on official decrees only.
B. Are based on tradition only.
C. Are based on an accountant's experience only.
D. May change over time.

31. The Sarbanes-Oxley Act of 2002 created:
A. The Security and Exchange Commission.
C. The Public Company Accounting Oversight Board.
D. The Income Tax Return Overview Board.

32. Overseeing a company's affairs to ensure that the company is managed with the best interest of shareholders in mind is called:
A. Internal control.
B. Financial integrity.
C. Corporate governance.
D. The audit function.
33. The field of accounting may best be described as:
A. Recording the financial transactions of an economic entity.
B. Developing information in conformity with generally accepted accounting principles.
C. The art of interpreting, measuring, and describing economic activity.
D. Developing the information required for the preparation of income tax returns.

34. The basic purpose of bookkeeping is to:
A. Provide financial information about an economic entity.
B. Develop the types of information best-suited to specific managerial decisions.
C. Record the financial transactions of an economic entity.
D. Determine the taxable income of individuals and business entities.

35. Which of the following is not characteristic of financial accounting?
A. Information used in financial statements is prepared in conformity with generally accepted accounting principles.
B. The information is confidential and is intended for use only by company management.
C. The information is used in a wide variety of business decisions.
D. The information is developed primarily by "private accountants" that is, accountants employed by business organizations.

36. Financial statements are prepared:
A. Only for publicly owned business organizations.
B. For corporations, but not for sole proprietorships or partnerships.
C. Primarily for the benefit of persons outside of the business organization.
D. In either monetary or nonmonetary terms, depending upon the need of the decision maker.

37. It is the function of management accounting to perform the following activities, except:
A. Financial forecasts.
B. Cost accounting.
C. Internal audits.
D. Audited financial statements.
38. The basic purpose of an audit is to:
A. Assure financial statements are in conformity with GAAP.
B. Provide as much useful information to decision makers as possible, regardless of cost.
C. Record changes in the financial position of an organization by applying the concepts of double entry accounting.
D. Meet an organization's need for accounting information as efficiently as possible.

39. The accounting systems of most business organizations:
A. Are tailored to meet the organization's needs for accounting information and the resources available for operating the system.
B. Are similar in design to the journals, ledgers, and worksheets illustrated in this text.
C. Utilize data bases, rather than ledger accounts.
D. Are designed by the CPA firm that performs the annual financial audit.

40. Which of the following is not a basic function of an accounting system?
A. To interpret and record the effects of business transactions.
B. To classify the effects of similar transactions in a manner that permits determination of various totals and subtotals useful to management.
C. To ensure that a business organization will be managed profitably.
D. To summarize and communicate information to decision makers.

41. Information is cost effective when:
A. The information aids management in controlling costs.
B. The information is based upon historical costs, rather than upon estimated market values.
C. The value of the information exceeds the cost of producing it.
D. The information is generated by a computer based accounting system.

42. The body created by the Sarbanes Oxley Act and charged with oversight of the accounting profession is the:
A. Public Company Accounting Oversight Board.
B. Auditing Standards Board.
C. International Accounting Standards Board.
D. Security and Exchange Commission.
43. Which of the following is generally not considered an external user of accounting information?
A. Stockholders of a corporation.
B. Bank lending officers.
C. Financial analysts.
D. Factory managers.

44. Although accounting information is used by a wide variety of external parties, financial reporting is primarily directed toward the informational needs of:
A. Investors and creditors.
B. Government agencies such as the Internal Revenue Service.
C. Customers.
D. Trade associations and labor unions.

45. Investors may be described as:
A. Individuals and enterprises that have provided credit to a reporting entity.
B. Individuals and enterprises that own a reporting entity business.
C. Anyone that has an interest in the results of the operations of the reporting entity.
D. Those whose primary economic activity consists of buying and selling stocks and bonds.

46. Investors and creditors are interested in the probability that their original investment or loan will eventually be returned, and that they will receive a reasonable return while their funds are invested or borrowed. These expectations are collectively referred to as:
A. Expected profitability.
B. The objectives of financial reporting.
C. Cash flow prospects.
D. Financial position.

47. The FASB takes on a responsibility to do the following, except:
A. Set the objectives of financial reporting.
B. Describe the elements of financial statements.
C. Judge disputes between management and the CPA.
D. Determine the criteria for deciding what information to include in financial statements.
48. Which organization best serves the professional needs of a CPA?
A. FASB.
B. AICPA.
C. SEC.
D. AAA.

49. A complete set of financial statements for Citywide Company, at December 31, 2009, would include each of the following, except:
A. Balance sheet as of December 31, 2009.
D. Notes containing additional information that is useful in interpreting the financial statements.

50. The general purpose financial statements prepared annually by a corporation would not include the:
A. Balance sheet.
B. Income tax return.
C. Income statement.
D. Statement of cash flows.

51. The designation of CPA is given by:
A. Universities.
B. States.
C. The AICPA.
D. The SEC.

52. Which of the following is a characteristic of financial accounting information?
A. Its preparation requires judgment.
B. It is more about the future than it is about the past.
C. None of it is based on estimates, assumptions, and judgments.
D. Notes and explanations from management are not included.
53. The financial statements of a business entity:
A. Include the balance sheet, income statement, and income tax return.
B. Provide information about the cash flow prospects of the company.
C. Are the first step in the accounting process.
D. Are prepared for a fee by the Financial Accounting Standards Board.

54. Which of the following events is not a transaction that would be recorded in a company's accounting records?
A. The purchase of equipment for cash.
B. The purchase of equipment on account.
C. The investment of additional cash in the business by the owner.
D. The death of a key executive.

55. Financial statements are designed primarily to:
A. Provide managers with detailed information tailored to the managers' specific information needs.
B. Provide people outside the business organization with information about the company's financial position and operating results.
C. Report to the Internal Revenue Service the company's taxable income.
D. Indicate to investors in a particular company the current market values of their investments.

56. The principal difference between management accounting and financial accounting is that financial accounting information is:
A. Prepared by managers.
B. Intended primarily for use by decision makers outside the business organization.
C. Prepared in accordance with a set of accounting principles developed by the Institute of Certified Management Accountants.
D. Oriented toward measuring solvency rather than profitability.
57. Which financial statement is prepared as of a specific date?
A. The balance sheet.
B. The income statement.
C. The statement of cash flows.
D. The balance sheet, income statement, and statement of cash flows are all for a period of time rather than at a specific date.

58. In comparison with a financial statement prepared in conformity with generally accepted accounting principles, a management accounting report is more likely to:
A. Be used by decision makers outside of the business organization.
B. Focus upon the operation results of the most recently completed accounting period.
C. View the entire organization as the reporting entity.
D. Be tailored to the specific needs of an individual decision maker.

59. Which of the following decision makers is least likely to be among the users of management accounting reports developed by Sears Roebuck and Co.?
A. The chief executive officer of Sears.
B. The manager of the Automotive Department in a Sears' store.
C. The manager of a mutual fund considering investing in Sears' common stock.
D. Internal auditors within the Sears organization.

60. Which financial statement is primarily concerned with reporting the financial position of a business at a particular time?
A. The balance sheet.
B. The income statement.
C. The statement of cash flows.
D. All three statements are concerned with the financial position of a business at a particular time.
61. The measures used by an organization to provide reasonable assurance that the organization produces reliable financial reports, complies with applicable laws and regulations, and conducts its operations in an efficient and effective manner are collectively referred to as:
A. Generally accepted accounting principles.
B. Financial accounting standards.
C. Securities and exchange regulations.
D. The internal control structure.

62. A strong internal control structure:
A. Contributes to the accuracy and reliability of the accounting records.
B. Will prevent a business from operating at a loss.
C. Assures that a business will remain solvent.
D. Will prevent fraud, theft, and embezzlement.

63. Which of the following is considered a return "on" investment?
A. Dividends.
B. Repayment of a loan.
C. Purchase of an asset.
D. Securing a loan.

64. The basic purpose of audited financial statements is to:
A. Provide the reporting company with assurance that all assets are protected from theft or embezzlement.
B. Prepare financial statements for companies that do not have their own accounting departments.
C. Provide users of the financial statements with assurance that the statements are reliable and are presented in conformity with generally accepted accounting principles.
D. Provide both the reporting company and the users of the statements with a written guarantee that the statements are error-free.
65. Audits of financial statements are performed by:
A. The controller of the reporting company.
C. The management of the reporting company.
D. Independent certified public accountants (CPAs).

66. The auditor's report on the published financial statements of a large corporation should be viewed as:
A. The opinion of independent experts as to the overall fairness of the statements.
B. The opinion of the corporation's chief accountant as to the overall fairness of the statements.
C. A guarantee by a firm of certified public accountants that the statements are accurate.
D. A guarantee by the Financial Statements Insurance Board that the statements do not overstate assets or net income.

67. The set of standards, assumptions, and concepts that form the "ground rules" for financial reporting in the United States is termed:
A. The conceptual framework.
B. Generally accepted accounting principles.
D. American standards for certified public accountants.

68. The basic purpose of generally accepted accounting principles is to:
A. Minimize the possibility of a business becoming insolvent.
B. Provide a framework for financial reporting that is understood by both the preparers and the users of financial statements.
C. Ensure that financial statements include the type of information that is best suited to every type of business decision.
D. Eliminate the need for professional judgment in preparing financial statements.
69. Generally accepted accounting principles are intended to assist accountants in preparing financial statements that:
A. Are relevant, reliable, comparable, and understandable.
B. Show the business to be both solvent and profitable.
C. Comply with all income tax rules and regulations.
D. Are ideally suited to the specific needs of each user of the financial statements.

70. Which of the following is not an objective of generally accepted accounting principles?
A. To minimize the amount of income taxes owed.
B. To ensure that both preparers and users of financial statements understand the concepts and assumptions used in presenting information within these statements.
C. To enhance the relevance and reliability of information contained in financial statements.
D. To increase the comparability of financial statements prepared by different companies.

71. In the phrase "generally accepted accounting principles," the words accounting principles refers to:
A. The standards, assumptions, and concepts that serve as "ground rules" for financial reporting.
B. Ethical standards that prohibit fraudulent or misleading financial reporting.
C. The steps in the accounting cycle.

72. Which of the following is not considered a return "of" investment?
A. Dividends.
B. Repayment of a loan.
C. Purchase of an asset.
D. Securing a loan.
73. The accounting standards and concepts used in the preparation of financial statements are called:
   A. Certified principles of accounting (CPA).
   B. Generally accepted accounting principles (GAAP).
   C. Federal accounting standards and bylaws (FASB).
   D. Standards enforcing consistency (SEC).

74. Generally accepted accounting principles are the "ground rules" used in the preparation of:
   A. Income tax returns.
   B. All accounting reports.
   C. Reports to federal and state regulatory agencies.
   D. Financial statements.

75. The Financial Accounting Standards Board is:
   A. Responsible for the review and audit of federal income tax returns.
   B. Primarily concerned with the preparation of the annual federal budget.
   C. A private group that conducts research and issues Statements that represent authoritative expressions of generally accepted accounting principles.
   D. A government agency with legal authority to approve or disapprove the financial statements of corporations that sell their securities to the public.

76. Statements of Financial Accounting Standards are developed by:
   A. The Financial Accounting Standards Board.
   B. Certified public accountants.
   C. The Securities and Exchange Commission.
   D. The Internal Revenue Service.

77. Which of the following are not considered "external" users of financial statements?
   A. Owners.
   B. Creditors.
   C. Labor unions.
   D. Managers.
78. Which of the following is not recognized as a source of generally accepted accounting principles?
A. Widespread and long-term use of a particular practice.
C. The American Institute of Certified Public Accountants (AICPA).
D. Statements of the Committee of Sponsoring Organizations (COSO).

79. In the phrase "generally accepted accounting principles," the words generally accepted mean that the principles:
A. Have been adopted by Congress or approved by the voters in a general election.
B. Are acceptable to the Internal Revenue Service.
C. Are understood and observed by all the participants in the financial reporting process.
D. Have been approved by a majority of the members of the Financial Accounting Standards Board.

80. An accounting principle must receive substantial authoritative support to qualify as generally accepted. Among the organizations and agencies that have been influential in the development of generally accepted accounting principles, which of the following has provided the most influential leadership?
A. Internal Revenue Service.
B. Institute of Management Accountants.
C. Financial Accounting Standards Board.
D. New York Stock Exchange.

81. Which of the following has the least impact upon the reliability of financial statements issued by publicly owned corporations?
A. Federal securities laws.
B. Professional judgment of the accountants who prepare the financial statements.
C. Audits of the financial statements by the Internal Revenue Service.
D. Competence and integrity of the CPAs who perform audits.
82. Which of the following is true?
A. The existence of generally accepted accounting principles (GAAP) virtually eliminates the need for professional judgment except in very unusual circumstances.
B. Federal securities laws regarding the issuance of misleading financial statements apply not only to the independent auditors, but to management of the company as well.
C. Attaining a passing score on the part of the Uniform CPA Examination that covers professional ethics is evidence of integrity and commitment to ethical conduct.
D. A professional accountant should resign his position rather than become involved in the distribution of financial statements indicating insolvency.

83. The work of accountants practicing in public accounting may best be described as:
A. Providing various types of accounting services to a wide variety of clients.
B. Preparing income tax returns for individuals and small businesses.
C. Developing and interpreting information tailored to the needs of business managers.
D. Helping governmental agencies carry out their various regulatory responsibilities.

84. The primary function of external auditors is to:
A. Express an opinion on the fairness and reliability of the company's financial statements.
B. Determine the accuracy of the management reports.
C. Evaluate the efficiency of operations and the degree of compliance with management's policies in all departments within a large organization.
D. Determine that financial statements and all special reports to management are prepared in conformity with generally accepted accounting principles.

85. Management accountants primarily are concerned with developing information:
A. For use in income tax returns.
B. Suited to the needs of stockholders, creditors, and other external decision makers.
C. In conformity with generally accepted accounting principles.
D. Suited to the needs of decision makers within the organization.
86. The principal function of CPAs is to:
   A. Audit income tax returns to determine if taxpayers have underpaid their income taxes.
   B. Conduct audits to determine whether the employees of a business are performing their jobs honestly and efficiently.
   C. Advise individual investors on stock market investments.
   D. Perform audits to determine the fairness and reliability of a company's financial statements.

87. The best definition of an accounting system is:
   A. Journals, ledgers, and worksheets.
   B. Manual or computer-based records used in developing information about an entity for use by managers and also persons outside the organization.
   C. The personnel, procedures, devices, and records used by an entity to develop accounting information and communicate this information to decision makers.
   D. The concepts, principles, and standards specifying the information which should be included in financial statements, and how that information should be presented.

88. Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them $8,000 to help get the company started, and have promised to repay your $8,000 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?
   A. $8,000.
   B. $800.
   C. $8,800.
   D. $7,200.

89. Which of the following is generally not considered one of the general purpose financial statements issued by a corporation?
   A. Income statement forecast for the coming year.
   B. Balance sheet.
   C. Statement of financial position.
   D. Statement of cash flows.
90. All of the following are characteristics of management accounting, *except*:
A. Reports are used primarily by insiders rather than by persons outside of the business entity.
B. Its purpose is to assist managers in planning and controlling business operations.
C. Information must be developed in conformity with generally accepted accounting principles or with income tax regulations.
D. Information may be tailored to assist in specific managerial decisions.

91. Of the following objectives of financial reporting, which is the most specific?
A. Provide information useful in assessing amount, timing, and uncertainty of future cash flows.
B. Provide information useful in making investment and credit decisions.
C. Provide information about economic resources, claims to resources, and changes in resources and claims.
D. Provide information useful to help the enterprise achieve its goals, objectives, and mission.

92. Which of the following does not describe accounting?
A. It is commonly referred to as the language of business.
B. It is an end rather than a means to an end.
C. It is useful for decision-making.
D. It is used by businesses, governments, non-profit organizations, and individuals.

93. Establishing international accounting standards is the responsibility of:
A. AICPA.
B. IASB.
C. SEC.
D. AAA.

94. The objectives of an accounting system include all of the following *except*:
A. Interpret and record the effects of business transactions.
B. Classify the effects of transactions to facilitate the preparation of reports.
C. Summarize and communicate information to decision makers.
D. Dictate the specific types of business transactions that the enterprise may engage in.
95. Internal users of financial accounting information include all of the following except:
   A. Investors.
   B. Managers.
   C. Chief Financial Officer.
   D. Chief Executive Officer.

96. Objectives of financial reporting to external investors and creditors include preparing information about all of the following except:
   A. Information used to determine which products to produce.
   B. Information about economic resources, claims to those resources, and changes in both resources and claims.
   C. Information that is useful in assessing the amount, timing, and uncertainty of future cash flows.
   D. Information that is useful in making investment and credit decisions.

97. Financial accounting information is characterized by all of the following except:
   A. It is historical in nature.
   B. It results from inexact and approximate measures.
   C. It is factual, so it does not require judgment to prepare.
   D. It is enhanced by management's explanation.

98. Which of the following is not a user of internal accounting information?
   A. Store manager.
   B. Chief executive officer.
   C. Creditor.
   D. Chief financial officer.

99. Characteristics of internal accounting information include all of the following except:
   A. It is audited by a CPA.
   B. It must be timely.
   C. It is oriented toward the future.
   D. It measures efficiency and effectiveness.
100. Which of the following is not an important factor in ensuring the integrity of accounting information?
   A. Institutional factors, such as standards for preparing information.
   B. Professional organizations, such as the American Institute of CPAs.
   C. Competence, judgment, and ethical behavior of individual accountants.
   D. The cost of preparing the financial information.

101. The code of conduct of the American Institute of Certified Public Accountants includes requirements in which of the following areas?
   A. The Public Interest.
   B. Objectivity.
   C. Independence.
   D. All of the above.
Essay Questions

102. Accounting terminology
Listed below are nine accounting terms introduced in this chapter:

<table>
<thead>
<tr>
<th>Audit</th>
<th>Return of investment</th>
<th>Return on investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generally accepted</td>
<td>Balance sheet</td>
<td>Income statement</td>
</tr>
<tr>
<td>accounting principles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal control structure</td>
<td>Management accounting</td>
<td>Statement of cash flows</td>
</tr>
</tbody>
</table>

Each of the following statements may (or may not) describe one of these terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms.

(A.) The repayment to an investor of the amount originally invested in an enterprise.
(B.) An investigation of financial statements designed to determine their fairness in relation to generally accepted accounting principles.
(C.) The accounting standards and concepts used in the preparation of financial statements.
(D.) A system of measures designed to assure management that all aspects of the business are operating according to plan.
(E.) A listing of assets, liabilities, and stockholders' equity as of a specific date.
(F.) The payment of an amount for using another's money.
(G.) An activity statement that shows the details of the company's activities involving cash during a period of time.
103. Accounting terminology
Listed below are seven accounting organizations introduced in this chapter:

<table>
<thead>
<tr>
<th>American Accounting Association</th>
<th>Financial Accounting Standards Board</th>
<th>Institute of Internal Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Institute of CPAs</td>
<td>Securities and Exchange Commission</td>
<td>Institute of Management Accountants</td>
</tr>
<tr>
<td>Internal Revenue Service</td>
<td></td>
<td>International Accounting Standards Board</td>
</tr>
</tbody>
</table>

Each of the following statements may (or may not) describe one of these organizations. In the space provided below each statement, indicate the accounting organization described, or answer "None" if the statement does not correctly describe any of the organizations.

(A.) Private sector organization that establishes accounting standards.
(B.) A professional organization that establishes auditing standards.
(C.) A government organization that establishes financial reporting requirements for publicly-held companies in the United States.
(D.) A federal government agency that audits many other agencies of the federal government and reports its findings to Congress.
(E.) A professional organization dedicated to the improvement of accounting education, research, and practice.
(F.) A professional organization that influences the concepts and ethical practice of management accounting.
(G.) A professional organization that establishes global accounting standards.

104. AICPA Code of Professional Conduct
State and discuss the six articles of the AICPA Code of Professional Conduct that guide members in performing their professional responsibilities.
105. Users of accounting information
List seven groups that would typically use financial information.

106. Briefly explain how generally accepted accounting principles enhance the integrity of financial accounting information.
107. Accounting Terminology
Listed below are 8 accounting terms.

<table>
<thead>
<tr>
<th>Accounting Term</th>
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</thead>
<tbody>
<tr>
<td>Management Accounting</td>
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<tr>
<td>Financial Accounting</td>
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<tr>
<td>Financial Position</td>
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<tr>
<td>Results of Operations</td>
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<tr>
<td>Accounting System</td>
</tr>
<tr>
<td>Internal Controls</td>
</tr>
<tr>
<td>Financial Statements</td>
</tr>
<tr>
<td>Financial Reporting</td>
</tr>
</tbody>
</table>

Each of the following statements may (or may not) describe one of these terms. In the space provided, indicate the accounting term described or answer "None" if the statement does not accurately describe any of the terms.

(A.) Information describing the financial resources, obligations, and activities of an economic entity.
(B.) An entity's financial resources and obligations at a point in time.
(C.) Accounting information intended specifically to assist company's management.
(D.) The personnel, procedures, and technology used by an organization to develop accounting information and to communicate this information to decision makers.
(E.) An entity's financial activities during the year.
(F.) Measures used by an organization to guard against errors, waste, and fraud and to assure the reliability of accounting information.
(G.) A plan of financial operations for some future period.
(H.) A written assertion identifying, measuring, and communicating financial information about an economic entity.

108. Financial statements
Briefly describe the balance sheet, the income statement, and the statement of cash flows.
109. Development of generally accepted accounting principles
(A.) What is meant by the phrase "generally accepted accounting principles"?
(B.) Give the names of three organizations that currently play an active role in the
development of accounting principles in the United States.

110. Objectives of financial reporting
List and briefly describe the objectives of financial reporting beginning with the most general
and ending with the most specific.

111. Financial and management accounting information
Explain one way in which the characteristics of financial and management accounting
information differ.
Matching Questions

112. Match the organizations on the left with the descriptions on the right. Each description should be used only once

1. Securities and Exchange Commission
   Government agency that regulates financial reporting by publicly held companies. ____

2. Institute of Internal Auditors
   International organization dedicated to the advancement of internal auditing. ____

3. Internal Revenue Service
   Private organization most directly involved in the development and issuance of accounting standards. ____

4. Institute of Management Accountants
   Organization dedicated to the advancement of accounting education and research. ____

5. American Accounting Association
   Organization most involved with the ethical conduct of the accountants working within a company. ____

6. Financial Accounting Standards Board
   Organization which develops formal standards for auditing in the United States. ____

7. American Institute of CPAs
   A governmental agency that handles income tax returns of individuals and businesses and performs an audit function to verify the data presented. ____

Essay Questions

113. Investors and creditors are interested in a company’s "cash flow prospects" What two specific concerns of investors and creditors are summarized by the term "cash flow prospects"?
114. List the three financial statements that are used to communicate financial accounting information to interested external parties.

115. Provide a brief example to illustrate that externally reported financial accounting information must be based in part on estimates, judgments, and assumptions.

Multiple Choice Questions

116. The best definition of an accounting system is:
A. Journals, ledgers, and worksheets.
B. Manual or computer-based records used in developing information about an entity for use by managers and also persons outside the organization.
C. The personnel, procedures, devices, and records used by an entity to develop accounting information and communicate this information to decision makers.
D. The concepts, principles, and standards specifying the information which should be included in financial statements, and how that information should be presented.
117. Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them $7,000 to help get the company started, and have promised to repay your $7,000 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?
   A. $7,000.
   B. $700.
   C. $7,700.
   D. Some other amount.

118. Which of the following is generally not considered one of the general purpose financial statements issued by a corporation?
   A. Income statement forecast for the coming year.
   B. Balance sheet.
   C. Statement of financial position.
   D. Statement of cash flows.

119. All of the following are characteristics of management accounting, except:
   A. Reports are used primarily by insiders rather than by persons outside of the business entity.
   B. Its purpose is to assist managers in planning and controlling business operations.
   C. Information must be developed in conformity with generally accepted accounting principles or with income tax regulations.
   D. Information may be tailored to assist in specific management decisions.

120. Which of the following is not an objective of financial reporting?
   A. Provide information useful in assessing amount, timing, and uncertainty of future cash flows.
   B. Provide information useful in making investment and credit decisions.
   C. Provide information about economic resources, claims to resources, and changes in resources and claims.
   D. Provide information to guarantee the enterprise achieves its goals, objectives, and mission.
Short Answer Questions

121. The information is summarized in a set of statements distributed to the public.

122. The information is historical in nature. It reports the results of events and transactions that have already occurred.

123. The timeliness of the information is more critical than its completeness.

124. To increase its usefulness to investors and creditors, the information is usually accompanied by explanations from management.
125. The information is intended to be used for planning and control decisions.

Essay Questions

126. Investors and creditors are interested in a company's "cash flow prospects" What two specific concerns of investors and creditors are summarized by the term "cash flow prospects?"
List three financial statements that are used to communicate financial accounting information to interested external parties.
Provide a brief example to illustrate that externally reported financial accounting information must be based in part on estimates, judgments, and assumptions.
Briefly explain how generally accepted accounting principles enhance the integrity of financial accounting information.

Multiple Choice Questions

127. Which of the following does not describe accounting?
A. Language of business.
B. Is an end rather than a means to an end.
C. Useful for decision-making.
D. Used by businesses, governments, non-profit organizations, and individuals.
128. To understand and use accounting information in making economic decisions, you must understand:
A. The nature of economic activities that accounting information describes.
B. The assumptions and measurement techniques involved in developing accounting information.
C. Which information is relevant for a particular type of decision that is being made.
D. All of the above.

129. Purposes of an accounting system include all of the following except:
A. Interpret and record the effects of business transactions.
B. Classify the effects of transactions to facilitate the preparation of reports.
C. Summarize and communicate information to decision makers.
D. Dictate the specific types of business transactions that the enterprise may engage in.

130. External users of financial accounting information include all of the following except:
A. Investors.
B. Labor unions.
C. Line managers.
D. General public.

131. Objectives of financial reporting to external investors and creditors include preparing information about all of the following except:
A. Information used to determine which products to produce.
B. Information about economic resources, claims to those resources, and changes in both resources and claims.
C. Information that is useful in assessing the amount, timing, and uncertainty of future cash flows.
D. Information that is useful in making investment and credit decisions.

132. Financial accounting information is characterized by all of the following except:
A. It is historical in nature.
B. It results from inexact and approximate measures.
C. It is factual, so it does not require judgment to prepare.
D. It is enhanced by management's explanation.
133. Which of the following is not a user of management accounting information?
A. Store manager.
B. Chief Executive Officer.
C. Creditor.
D. Chief Financial Officer.

134. Characteristics of management accounting information include all of the following except:
A. Is audited by a CPA.
B. It must be timely.
C. It is oriented toward the future.
D. It measures efficiency and effectiveness.

135. Which of the following are important factors in ensuring the integrity of accounting information?
A. Institutional factors, such as standards for preparing information.
B. Professional organizations, such as the American Institute of CPAs.
C. Competence, judgment and ethical behavior of individual accountants.
D. All of the above.

136. The code of conduct of the American Institute of Certified Public Accountants includes requirements in which of the following areas?
A. The Public Interest.
B. Objectivity.
C. Independence.
D. All of the above.
Chapter 01 - Accounting: Information for Decision Making

Chapter 01 Accounting: Information for Decision Making Answer Key

True / False Questions

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

   AACSB: Reflective Thinking
   AICPA BB: Industry
   AICPA FN: Reporting
   Bloom’s: Remember
   Difficulty: Easy
   Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions
   Topic: Accounting Information: A Means to an End

2. Return on investment is the same as return of investment.
   FALSE

   AACSB: Analytic
   AICPA BB: Resource Management
   AICPA FN: Measurement
   Bloom’s: Remember
   Difficulty: Easy
   Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
   Topic: Financial Accounting Information

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

   AACSB: Communications
   AICPA BB: Legal
   AICPA FN: Reporting
   Bloom’s: Remember
   Difficulty: Easy
   Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
   Topic: Financial Accounting Information
4. Management accounting refers to the preparation and use of accounting information designed to meet the needs of decision makers outside the business organization. **FALSE**

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

6. The tailoring of an accounting report to meet the needs of a specific decision maker is more characteristic of financial accounting reports than of management accounting reports. **FALSE**
Chapter 01 - Accounting: Information for Decision Making

7. The annual financial statements of large corporations such as Microsoft or PepsiCo need not be audited by independent certified public accountants, since these firms maintain large accounting departments as part of their organizations.  
**FALSE**

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

9. One purpose of generally accepted accounting principles is to make accounting information prepared by different companies more comparable.  
**TRUE**
10. Today, the most authoritative source of generally accepted accounting principles is the American Accounting Association. **FALSE**

11. The American Institute of Certified Public Accountants has the legal authority over publicly held corporations to enforce compliance with generally accepted accounting principles. **FALSE**

12. An accounting practice can become a "generally accepted accounting principle" through widespread use, even if the practice is not mentioned in the official pronouncements of the accounting standard-setting organizations. **TRUE**
13. The statement of financial position and the income statement are one and the same.  
**FALSE**

AACSB: Communications  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom’s: Remember  
Difficulty: Easy  
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.  
Topic: Financial Accounting Information

**TRUE**

AACSB: Communications  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom’s: Remember  
Difficulty: Easy  
Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.  
Topic: Integrity of Accounting Information

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

AACSB: Communications  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom’s: Remember  
Difficulty: Easy  
Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.  
Topic: Integrity of Accounting Information
16. External users of accounting information have a financial interest in an entity but are not involved with the day-to-day operations of the enterprise. **TRUE**

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

18. A statement of cash flows depicts the way profits have changed during a designated period. **FALSE**
19. Public accounting is the segment of the profession where professionals offer audit, tax, and consulting services to clients.  
**TRUE**

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

**TRUE**
22. The Sarbanes-Oxley Act places responsibility on CEOs and CFOs of companies to certify the fairness of company's financial statements. The Act also created the Public Company Accounting Oversight Board which oversees the public accounting profession.

**TRUE**

AACSB: Ethics  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom’s: Remember  
Difficulty: Medium  
Learning Objective: 01-07 Discuss the importance of personal competence: professional judgment: and ethical behavior on the part of accounting professionals.  
Topic: Integrity of Accounting Information

23. The internal control structure of an organization has no relationship to the reliability of accounting information.

**FALSE**

AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Risk Analysis  
Bloom’s: Understand  
Difficulty: Medium  
Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.  
Topic: Accounting Systems

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

**TRUE**

AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Bloom’s: Understand  
Difficulty: Medium  
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.  
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.  
Topic: Management Accounting Information
25. The Code of Ethics of the AICPA calls for a commitment to ethical behavior but not at the sacrifice of personal advantage.

**FALSE**

26. The Code of Ethics of the AICPA calls for a member in public practice to be independent in fact and appearance when providing auditing services.

**TRUE**

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

**FALSE**
Multiple Choice Questions

28. Financial accounting information is:
A. Designed to assist investors and creditors.
B. Not used by managers and in income tax returns.
C. Called "special-purpose" accounting information.
D. Not applicable to individuals.

AACSB: Communications
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom’s: Remember
Difficulty: Easy
Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions
Topic: Accounting Information: A Means to an End

29. Financial statements must be prepared for which time period?
A. One year.
B. Less than one year.
C. More than one year.
D. Any time period.

AACSB: Communications
AICPA BB: Legal
AICPA FN: Measurement
Bloom’s: Remember
Difficulty: Easy
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information
30. Generally accepted accounting principles:
A. Are based on official decrees only.
B. Are based on tradition only.
C. Are based on an accountant's experience only.
D. May change over time.

31. The Sarbanes-Oxley Act of 2002 created:
A. The Security and Exchange Commission.
C. The Public Company Accounting Oversight Board.
D. The Income Tax Return Overview Board.

32. Overseeing a company's affairs to ensure that the company is managed with the best interest of shareholders in mind is called:
A. Internal control.
B. Financial integrity.
C. Corporate governance.
D. The audit function.
33. The field of accounting may best be described as:
A. Recording the financial transactions of an economic entity.
B. Developing information in conformity with generally accepted accounting principles.
C. The art of interpreting, measuring, and describing economic activity.
D. Developing the information required for the preparation of income tax returns.

34. The basic purpose of bookkeeping is to:
A. Provide financial information about an economic entity.
B. Develop the types of information best-suited to specific managerial decisions.
C. Record the financial transactions of an economic entity.
D. Determine the taxable income of individuals and business entities.
35. Which of the following is not characteristic of financial accounting?
A. Information used in financial statements is prepared in conformity with generally accepted accounting principles.
B. The information is confidential and is intended for use only by company management.
C. The information is used in a wide variety of business decisions.
D. The information is developed primarily by "private accountants" that is, accountants employed by business organizations.

AACSB: Communications
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions
Topic: Accounting Information: A Means to an End

36. Financial statements are prepared:
A. Only for publicly owned business organizations.
B. For corporations, but not for sole proprietorships or partnerships.
C. Primarily for the benefit of persons outside of the business organization.
D. In either monetary or nonmonetary terms, depending upon the need of the decision maker.

AACSB: Communications
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information
37. It is the function of management accounting to perform the following activities, except:
   A. Financial forecasts.
   B. Cost accounting.
   C. Internal audits.
   D. Audited financial statements.

38. The basic purpose of an audit is to:
   A. Assure financial statements are in conformity with GAAP.
   B. Provide as much useful information to decision makers as possible, regardless of cost.
   C. Record changes in the financial position of an organization by applying the concepts of double entry accounting.
   D. Meet an organization's need for accounting information as efficiently as possible.
39. The accounting systems of most business organizations:
A. Are tailored to meet the organization's needs for accounting information and the resources available for operating the system.
B. Are similar in design to the journals, ledgers, and worksheets illustrated in this text.
C. Utilize data bases, rather than ledger accounts.
D. Are designed by the CPA firm that performs the annual financial audit.

AACSB: Technology
AICPA BB: Resource Management
AICPA FN: Leveraging Technology
Bloom’s: Understand
Difficulty: Medium
Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Topic: Accounting Systems

40. Which of the following is not a basic function of an accounting system?
A. To interpret and record the effects of business transactions.
B. To classify the effects of similar transactions in a manner that permits determination of various totals and subtotals useful to management.
C. To ensure that a business organization will be managed profitably.
D. To summarize and communicate information to decision makers.

AACSB: Technology
AICPA BB: Resource Management
AICPA FN: Reporting
Bloom’s: Remember
Difficulty: Medium
Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Topic: Accounting Systems
41. Information is cost effective when:
A. The information aids management in controlling costs.
B. The information is based upon historical costs, rather than upon estimated market values.
C. The value of the information exceeds the cost of producing it.
D. The information is generated by a computer based accounting system.

AACSB: Reflective Thinking
AICPA BB: Resource Management
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Topic: Accounting Systems

42. The body created by the Sarbanes Oxley Act and charged with oversight of the accounting profession is the:
A. Public Company Accounting Oversight Board.
B. Auditing Standards Board.
C. International Accounting Standards Board.
D. Security and Exchange Commission.

AACSB: Ethics
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information
43. Which of the following is generally not considered an external user of accounting information?
   A. Stockholders of a corporation.
   B. Bank lending officers.
   C. Financial analysts.
   D. Factory managers.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Bloom's: Remember
Difficulty: Medium
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information

44. Although accounting information is used by a wide variety of external parties, financial reporting is primarily directed toward the informational needs of:
   A. Investors and creditors.
   B. Government agencies such as the Internal Revenue Service.
   C. Customers.
   D. Trade associations and labor unions.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information
45. Investors may be described as:
   A. Individuals and enterprises that have provided credit to a reporting entity.
   B. Individuals and enterprises that own a reporting entity business.
   C. Anyone that has an interest in the results of the operations of the reporting entity.
   D. Those whose primary economic activity consists of buying and selling stocks and bonds.

46. Investors and creditors are interested in the probability that their original investment or loan will eventually be returned, and that they will receive a reasonable return while their funds are invested or borrowed. These expectations are collectively referred to as:
   A. Expected profitability.
   B. The objectives of financial reporting.
   C. Cash flow prospects.
   D. Financial position.
47. The FASB takes on a responsibility to do the following, except:
A. Set the objectives of financial reporting.
B. Describe the elements of financial statements.
C. Judge disputes between management and the CPA.
D. Determine the criteria for deciding what information to include in financial statements.

48. Which organization best serves the professional needs of a CPA?
A. FASB.
B. AICPA.
C. SEC.
D. AAA.
49. A complete set of financial statements for Citywide Company, at December 31, 2009, would include each of the following, except:
   A. Balance sheet as of December 31, 2009.
   D. Notes containing additional information that is useful in interpreting the financial statements.

50. The general purpose financial statements prepared annually by a corporation would not include the:
   A. Balance sheet.
   B. Income tax return.
   C. Income statement.
   D. Statement of cash flows.
51. The designation of CPA is given by:
A. Universities.
B. States.
C. The AICPA.
D. The SEC.

52. Which of the following is a characteristic of financial accounting information?
A. Its preparation requires judgment.
B. It is more about the future than it is about the past.
C. None of it is based on estimates, assumptions, and judgments.
D. Notes and explanations from management are not included.

53. The financial statements of a business entity:
A. Include the balance sheet, income statement, and income tax return.
B. Provide information about the cash flow prospects of the company.
C. Are the first step in the accounting process.
D. Are prepared for a fee by the Financial Accounting Standards Board.
54. Which of the following events is not a transaction that would be recorded in a company's accounting records?
   A. The purchase of equipment for cash.
   B. The purchase of equipment on account.
   C. The investment of additional cash in the business by the owner.
   D. The death of a key executive.

55. Financial statements are designed primarily to:
   A. Provide managers with detailed information tailored to the managers' specific information needs.
   B. Provide people outside the business organization with information about the company's financial position and operating results.
   C. Report to the Internal Revenue Service the company's taxable income.
   D. Indicate to investors in a particular company the current market values of their investments.
56. The principal difference between management accounting and financial accounting is that financial accounting information is:
A. Prepared by managers.
B. Intended primarily for use by decision makers outside the business organization.
C. Prepared in accordance with a set of accounting principles developed by the Institute of Certified Management Accountants.
D. Oriented toward measuring solvency rather than profitability.

AACSBB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information

57. Which financial statement is prepared as of a specific date?
A. The balance sheet.
B. The income statement.
C. The statement of cash flows.
D. The balance sheet, income statement, and statement of cash flows are all for a period of time rather than at a specific date.

AACSBB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information
58. In comparison with a financial statement prepared in conformity with generally accepted accounting principles, a management accounting report is more likely to:

A. Be used by decision makers outside of the business organization.
B. Focus upon the operation results of the most recently completed accounting period.
C. View the entire organization as the reporting entity.
**D. Be tailored to the specific needs of an individual decision maker.**

AACSB: Communications  
AICPA BB: Industry  
AICPA FN: Critical Thinking  
Bloom's: Understand  
Difficulty: Medium

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Topic: Management Accounting Information

59. Which of the following decision makers is least likely to be among the users of management accounting reports developed by Sears Roebuck and Co.?

A. The chief executive officer of Sears.
B. The manager of the Automotive Department in a Sears' store.
C. The manager of a mutual fund considering investing in Sears' common stock.
D. Internal auditors within the Sears organization.

AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Decision Making  
Bloom's: Understand  
Difficulty: Medium

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Topic: Management Accounting Information
60. Which financial statement is primarily concerned with reporting the financial position of a business at a particular time?
A. The balance sheet.
B. The income statement.
C. The statement of cash flows.
D. All three statements are concerned with the financial position of a business at a particular time.

AACSB: Communications  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom's: Remember  
Difficulty: Easy  
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.  
Topic: Financial Accounting Information

61. The measures used by an organization to provide reasonable assurance that the organization produces reliable financial reports, complies with applicable laws and regulations, and conducts its operations in an efficient and effective manner are collectively referred to as:
A. Generally accepted accounting principles.
B. Financial accounting standards.
C. Securities and exchange regulations.
D. The internal control structure.

AACSB: Reflective Thinking  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom's: Remember  
Difficulty: Medium  
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.  
Topic: Integrity of Accounting Information
62. A strong internal control structure:
A. Contributes to the accuracy and reliability of the accounting records.
B. Will prevent a business from operating at a loss.
C. Assures that a business will remain solvent.
D. Will prevent fraud, theft, and embezzlement.

63. Which of the following is considered a return "on" investment?
A. Dividends.
B. Repayment of a loan.
C. Purchase of an asset.
D. Securing a loan.
64. The basic purpose of audited financial statements is to:
A. Provide the reporting company with assurance that all assets are protected from theft or embezzlement.
B. Prepare financial statements for companies that do not have their own accounting departments.
C. Provide users of the financial statements with assurance that the statements are reliable and are presented in conformity with generally accepted accounting principles.
D. Provide both the reporting company and the users of the statements with a written guarantee that the statements are error-free.

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom’s: Remember
Difficulty: Medium
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information

65. Audits of financial statements are performed by:
A. The controller of the reporting company.
C. The management of the reporting company.
D. Independent certified public accountants (CPAs).

AACSB: Ethics
AICPA BB: Legal
AICPA FN: Reporting
Bloom’s: Remember
Difficulty: Easy
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information
Chapter 01 - Accounting: Information for Decision Making

66. The auditor's report on the published financial statements of a large corporation should be viewed as:
A. The opinion of independent experts as to the overall fairness of the statements.
B. The opinion of the corporation's chief accountant as to the overall fairness of the statements.
C. A guarantee by a firm of certified public accountants that the statements are accurate.
D. A guarantee by the Financial Statements Insurance Board that the statements do not overstate assets or net income.

AACSB: Ethics
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information

67. The set of standards, assumptions, and concepts that form the "ground rules" for financial reporting in the United States is termed:
A. The conceptual framework.
B. Generally accepted accounting principles.
D. American standards for certified public accountants.

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information
68. The basic purpose of generally accepted accounting principles is to:
   A. Minimize the possibility of a business becoming insolvent.
   B. **Provide a framework for financial reporting that is understood by both the preparers and the users of financial statements.**
   C. Ensure that financial statements include the type of information that is best suited to every type of business decision.
   D. Eliminate the need for professional judgment in preparing financial statements.

AACSB: Communications  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom’s: Remember  
Difficulty: Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information

69. Generally accepted accounting principles are intended to assist accountants in preparing financial statements that:
   A. Are relevant, reliable, comparable, and understandable.
   B. Show the business to be both solvent and profitable.
   C. Comply with all income tax rules and regulations.
   D. Are ideally suited to the specific needs of each user of the financial statements.

AACSB: Communications  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom’s: Remember  
Difficulty: Medium

Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information
70. Which of the following is not an objective of generally accepted accounting principles?
A. To minimize the amount of income taxes owed.
B. To ensure that both preparers and users of financial statements understand the concepts and assumptions used in presenting information within these statements.
C. To enhance the relevance and reliability of information contained in financial statements.
D. To increase the comparability of financial statements prepared by different companies.

71. In the phrase "generally accepted accounting principles," the words accounting principles refers to:
A. The standards, assumptions, and concepts that serve as "ground rules" for financial reporting.
B. Ethical standards that prohibit fraudulent or misleading financial reporting.
C. The steps in the accounting cycle.
72. Which of the following is not considered a return "of" investment?
A. Dividends.
B. Repayment of a loan.
C. Purchase of an asset.
D. Securing a loan.

73. The accounting standards and concepts used in the preparation of financial statements are called:
A. Certified principles of accounting (CPA).
B. Generally accepted accounting principles (GAAP).
C. Federal accounting standards and bylaws (FASB).
D. Standards enforcing consistency (SEC).
74. Generally accepted accounting principles are the "ground rules" used in the preparation of:
A. Income tax returns.
B. All accounting reports.
C. Reports to federal and state regulatory agencies.
D. Financial statements.

AACSB: Communications
AICPA BB: Legal
AICPA FN: Measurement
Bloom's: Remember
Difficulty: Easy
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information

75. The Financial Accounting Standards Board is:
A. Responsible for the review and audit of federal income tax returns.
B. Primarily concerned with the preparation of the annual federal budget.
C. A private group that conducts research and issues Statements that represent authoritative expressions of generally accepted accounting principles.
D. A government agency with legal authority to approve or disapprove the financial statements of corporations that sell their securities to the public.

AACSB: Reflective Thinking
AICPA BB: Legal
AICPA FN: Measurement
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information
Chapter 01 - Accounting: Information for Decision Making

76. Statements of Financial Accounting Standards are developed by:
A. The Financial Accounting Standards Board.
B. Certified public accountants.
C. The Securities and Exchange Commission.
D. The Internal Revenue Service.

AACSB: Communications
AICPA BB: Legal
AICPA FN: Research
Bloom’s: Remember
Difficulty: Easy
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information

77. Which of the following are not considered "external" users of financial statements?
A. Owners.
B. Creditors.
C. Labor unions.
D. Managers.

AACSB: Communications
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Bloom’s: Remember
Difficulty: Easy
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information

78. Which of the following is not recognized as a source of generally accepted accounting principles?
A. Widespread and long-term use of a particular practice.
C. The American Institute of Certified Public Accountants (AICPA).
D. Statements of the Committee of Sponsoring Organizations (COSO).

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom’s: Understand
Difficulty: Medium
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information
79. In the phrase "generally accepted accounting principles," the words *generally accepted* mean that the principles:
A. Have been adopted by Congress or approved by the voters in a general election.
B. Are acceptable to the Internal Revenue Service.
C. Are understood and observed by all the participants in the financial reporting process.
D. Have been approved by a majority of the members of the Financial Accounting Standards Board.

80. An accounting principle must receive substantial authoritative support to qualify as generally accepted. Among the organizations and agencies that have been influential in the development of generally accepted accounting principles, which of the following has provided the *most* influential leadership?
A. Internal Revenue Service.
B. Institute of Management Accountants.
C. Financial Accounting Standards Board.
D. New York Stock Exchange.
81. Which of the following has the least impact upon the reliability of financial statements issued by publicly owned corporations?
A. Federal securities laws.
B. Professional judgment of the accountants who prepare the financial statements.
C. Audits of the financial statements by the Internal Revenue Service.
D. Competence and integrity of the CPAs who perform audits.

AACSB: Communications
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information

82. Which of the following is true?
A. The existence of generally accepted accounting principles (GAAP) virtually eliminates the need for professional judgment except in very unusual circumstances.
B. Federal securities laws regarding the issuance of misleading financial statements apply not only to the independent auditors, but to management of the company as well.
C. Attaining a passing score on the part of the Uniform CPA Examination that covers professional ethics is evidence of integrity and commitment to ethical conduct.
D. A professional accountant should resign his position rather than become involved in the distribution of financial statements indicating insolvency.

AACSB: Ethics
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Learning Objective: 01-07 Discuss the importance of personal competence: professional judgment: and ethical behavior on the part of accounting professionals.
Topic: Integrity of Accounting Information
83. The work of accountants practicing in public accounting may best be described as:
A. Providing various types of accounting services to a wide variety of clients.
B. Preparing income tax returns for individuals and small businesses.
C. Developing and interpreting information tailored to the needs of business managers.
D. Helping governmental agencies carry out their various regulatory responsibilities.

84. The primary function of external auditors is to:
A. Express an opinion on the fairness and reliability of the company's financial statements.
B. Determine the accuracy of the management reports.
C. Evaluate the efficiency of operations and the degree of compliance with management's policies in all departments within a large organization.
D. Determine that financial statements and all special reports to management are prepared in conformity with generally accepted accounting principles.

85. Management accountants primarily are concerned with developing information:
A. For use in income tax returns.
B. Suited to the needs of stockholders, creditors, and other external decision makers.
C. In conformity with generally accepted accounting principles.
D. Suited to the needs of decision makers within the organization.
86. The principal function of CPAs is to:
A. Audit income tax returns to determine if taxpayers have underpaid their income taxes.
B. Conduct audits to determine whether the employees of a business are performing their jobs honestly and efficiently.
C. Advise individual investors on stock market investments.
D. Perform audits to determine the fairness and reliability of a company's financial statements.

AACSB: Reflective Thinking  
AICPA BB: Legal  
AICPA FN: Reporting  
Bloom's: Remember  
Difficulty: Medium  
Learning Objective: 01-08 Describe various career opportunities in accounting.  
Topic: Careers in Accounting

87. The best definition of an accounting system is:
A. Journals, ledgers, and worksheets.
B. Manual or computer-based records used in developing information about an entity for use by managers and also persons outside the organization.
C. The personnel, procedures, devices, and records used by an entity to develop accounting information and communicate this information to decision makers.
D. The concepts, principles, and standards specifying the information which should be included in financial statements, and how that information should be presented.

AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Reporting  
Bloom's: Remember  
Difficulty: Medium  
Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.  
Topic: Accounting Systems
88. Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them $8,000 to help get the company started, and have promised to repay your $8,000 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?

A. $8,000.
B. $800.
C. $8,800.
D. $7,200.

Return on investment is payment for usage of the money—interest in this setting. 10% x $8,000 = $800.

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

A. Income statement forecast for the coming year.
B. Balance sheet.
C. Statement of financial position.
D. Statement of cash flows.
90. All of the following are characteristics of management accounting, except:
A. Reports are used primarily by insiders rather than by persons outside of the business entity.
B. Its purpose is to assist managers in planning and controlling business operations.
C. Information must be developed in conformity with generally accepted accounting principles or with income tax regulations.
D. Information may be tailored to assist in specific managerial decisions.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.
Topic: Management Accounting Information

91. Of the following objectives of financial reporting, which is the most specific?
A. Provide information useful in assessing amount, timing, and uncertainty of future cash flows.
B. Provide information useful in making investment and credit decisions.
C. Provide information about economic resources, claims to resources, and changes in resources and claims.
D. Provide information useful to help the enterprise achieve its goals, objectives, and mission.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Hard
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information
92. Which of the following does not describe accounting?
A. It is commonly referred to as the language of business.
B. It is an end rather than a means to an end.
C. It is useful for decision-making.
D. It is used by businesses, governments, non-profit organizations, and individuals.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom’s: Understand
Difficulty: Medium
Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions
Topic: Accounting Information: A Means to an End

93. Establishing international accounting standards is the responsibility of:
A. AICPA.
B. IASB.
C. SEC.
D. AAA.

AACSB: Communications
AICPA BB: Global
AICPA FN: Reporting
Bloom’s: Remember
Difficulty: Easy
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information

94. The objectives of an accounting system include all of the following except:
A. Interpret and record the effects of business transactions.
B. Classify the effects of transactions to facilitate the preparation of reports.
C. Summarize and communicate information to decision makers.
D. Dictate the specific types of business transactions that the enterprise may engage in.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom’s: Understand
Difficulty: Medium
Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Topic: Accounting Systems
95. Internal users of financial accounting information include all of the following except:
A. Investors.
B. Managers.
C. Chief Financial Officer.
D. Chief Executive Officer.

96. Objectives of financial reporting to external investors and creditors include preparing information about all of the following except:
A. Information used to determine which products to produce.
B. Information about economic resources, claims to those resources, and changes in both resources and claims.
C. Information that is useful in assessing the amount, timing, and uncertainty of future cash flows.
D. Information that is useful in making investment and credit decisions.
97. Financial accounting information is characterized by all of the following except:
A. It is historical in nature.
B. It results from inexact and approximate measures.
C. It is factual, so it does not require judgment to prepare.
D. It is enhanced by management's explanation.

98. Which of the following is not a user of internal accounting information?
A. Store manager.
B. Chief executive officer.
C. Creditor.
D. Chief financial officer.

99. Characteristics of internal accounting information include all of the following except:
A. It is audited by a CPA.
B. It must be timely.
C. It is oriented toward the future.
D. It measures efficiency and effectiveness.
Chapter 01 - Accounting: Information for Decision Making

100. Which of the following is not an important factor in ensuring the integrity of accounting information?
A. Institutional factors, such as standards for preparing information.
B. Professional organizations, such as the American Institute of CPAs.
C. Competence, judgment, and ethical behavior of individual accountants.
D. The cost of preparing the financial information.

AACSB: Ethics
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom’s: Understand
Difficulty: Medium
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.
Topic: Integrity of Accounting Information

101. The code of conduct of the American Institute of Certified Public Accountants includes requirements in which of the following areas?
A. The Public Interest.
B. Objectivity.
C. Independence.
D. All of the above.

AACSB: Ethics
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Bloom’s: Remember
Difficulty: Medium
Learning Objective: 01-07 Discuss the importance of personal competence: professional judgment: and ethical behavior on the part of accounting professionals.
Topic: Integrity of Accounting Information
102. Accounting terminology
Listed below are nine accounting terms introduced in this chapter:

<table>
<thead>
<tr>
<th>Audit</th>
<th>Return of investment</th>
<th>Return on investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generally accepted</td>
<td>Balance sheet</td>
<td>Income statement</td>
</tr>
<tr>
<td>accounting principles</td>
<td>Management accounting</td>
<td>Statement of cash flows</td>
</tr>
<tr>
<td>Internal control structure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Each of the following statements may (or may not) describe one of these terms. In the space provided below each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms.

(A.) The repayment to an investor of the amount originally invested in an enterprise.
(B.) An investigation of financial statements designed to determine their fairness in relation to generally accepted accounting principles.
(C.) The accounting standards and concepts used in the preparation of financial statements.
(D.) A system of measures designed to assure management that all aspects of the business are operating according to plan.
(E.) A listing of assets, liabilities, and stockholders' equity as of a specific date.
(F.) The payment of an amount for using another's money.
(G.) An activity statement that shows the details of the company's activities involving cash during a period of time.

(A.) Return of investment; (B.) Audit; (C.) Generally accepted accounting principles; (D.) Internal control structure; (E.) Balance sheet; (F.) Return on investment; (G.) Statement of cash flows
103. Accounting terminology

Listed below are seven accounting organizations introduced in this chapter:

| American Accounting Association | Financial Accounting Standards Board | Institute of Internal Auditors |
| American Institute of CPAs | Securities and Exchange Commission | Institute of Management Accountants |
| Internal Revenue Service | | International Accounting Standards Board |

Each of the following statements may (or may not) describe one of these organizations. In the space provided below each statement, indicate the accounting organization described, or answer "None" if the statement does not correctly describe any of the organizations.

(A.) Private sector organization that establishes accounting standards.
(B.) A professional organization that establishes auditing standards.
(C.) A government organization that establishes financial reporting requirements for publicly-held companies in the United States.
(D.) A federal government agency that audits many other agencies of the federal government and reports its findings to Congress.
(E.) A professional organization dedicated to the improvement of accounting education, research, and practice.
(F.) A professional organization that influences the concepts and ethical practice of management accounting.
(G.) A professional organization that establishes global accounting standards.

(A.) Financial Accounting Standards Board; (B.) American Institute of CPAs; (C.) Securities and Exchange Commission; (D.) None (The statement describes the General Accounting Office); (E.) American Accounting Association; (F.) Institute of Management Accountants; (G.) International Accounting Standards Board

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom’s: Remember
Difficulty: Easy
Learning Objective: 01-07 Discuss the importance of personal competence: professional judgment: and ethical behavior on the part of accounting professionals.
Topic: Integrity of Accounting Information
104. AICPA Code of Professional Conduct
State and discuss the six articles of the AICPA Code of Professional Conduct that guide members in performing their professional responsibilities.

(I.) Responsibilities
(II.) The Public Interest
(III.) Integrity
(IV.) Objectivity and Independence
(V.) Due Care
(VI.) Scope and Nature of Services

AACSB: Ethics
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Medium
Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.
Learning Objective: 01-07 Discuss the importance of personal competence: professional judgment: and ethical behavior on the part of accounting professionals.
Topic: Integrity of Accounting Information

105. Users of accounting information
List seven groups that would typically use financial information.


AACSB: Diversity
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Bloom's: Remember
Difficulty: Medium
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information
106. Briefly explain how generally accepted accounting principles enhance the integrity of financial accounting information.

Adherence to generally accepted accounting principles assures comparability of accounting information among organizations.
Chapter 01 - Accounting: Information for Decision Making

107. Accounting Terminology
Listed below are 8 accounting terms.

Management Accounting  Accounting System
Financial Accounting    Internal Controls
Financial Position      Financial Statements
Results of Operations   Financial Reporting

Each of the following statements may (or may not) describe one of these terms. In the space provided, indicate the accounting term described or answer "None" if the statement does not accurately describe any of the terms.

(A.) Information describing the financial resources, obligations, and activities of an economic entity.
(B.) An entity's financial resources and obligations at a point in time.
(C.) Accounting information intended specifically to assist company's management.
(D.) The personnel, procedures, and technology used by an organization to develop accounting information and to communicate this information to decision makers.
(E.) An entity's financial activities during the year.
(F.) Measures used by an organization to guard against errors, waste, and fraud and to assure the reliability of accounting information.
(G.) A plan of financial operations for some future period.
(H.) A written assertion identifying, measuring, and communicating financial information about an economic entity.

(A) Financial Accounting
(B) Financial Position
(C) Management Accounting
(D) Accounting System
(E) Results of Operations
(F) Internal Controls
(G) None
(H) Financial Statements

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 01-01 Discuss accounting as the language of business and the role of accounting information in making economic decisions
Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-05 Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

Topic: Accounting Information: A Means to an End
108. Financial statements
Briefly describe the balance sheet, the income statement, and the statement of cash flows.

Balance sheet (statement of financial position) - A position statement that shows where the company stands in financial terms at a specific date.
Income statement - An activity statement that shows details and results of a company's profit-related activities for a period of time.
Statement of cash flows - An activity statement that shows the details of the company's activities involving cash during a period of time.

109. Development of generally accepted accounting principles
(A.) What is meant by the phrase "generally accepted accounting principles"?
(B.) Give the names of three organizations that currently play an active role in the development of accounting principles in the United States.

(A.) Generally accepted accounting principles provide the framework for determining what information is to be included in the financial statements and how that information is to be presented.
(B.) Financial Accounting Standards Board; Securities and Exchange Commission; American Institute of CPAs; American Accounting Association.
110. Objectives of financial reporting
List and briefly describe the objectives of financial reporting beginning with the most general and ending with the most specific.

(1.) Provide information useful in making investment and credit decisions.
(2.) Provide information useful in assessing the amount, timing, and uncertainty of future cash flows.
(3.) Provide information about economic resources, claims to economic resources, and changes in resources and claims.

111. Financial and management accounting information
Explain one way in which the characteristics of financial and management accounting information differ.

Financial accounting information is primarily historical in nature, while management accounting information is future directed.
Financial accounting information is general purpose information designed to serve the needs of a variety of external parties. Management accounting information is customized to the needs of a particular internal decision-maker.
The timeliness of management accounting information is critical. For financial accounting information completeness and reliability are more important than timeliness.
Financial accounting information is prepared in accordance with generally accepted accounting principles while the nature and content of management accounting information is dictated by the nature of the decision it is intended to support.
## Matching Questions

112. Match the organizations on the left with the descriptions on the right. Each description should be used only once.

| 1. Securities and Exchange Commission | Government agency that regulates financial reporting by publicly held companies. |
| 2. Institute of Internal Auditors | International organization dedicated to the advancement of internal auditing. |
| 3. Internal Revenue Service | Private organization most directly involved in the development and issuance of accounting standards. |
| 4. Institute of Management Accountants | Organization dedicated to the advancement of accounting education and research. |
| 5. American Accounting Association | Organization most involved with the ethical conduct of the accountants working within a company. |
| 7. American Institute of CPAs | A governmental agency that handles income tax returns of individuals and businesses and performs an audit function to verify the data presented. |

AACSB: Reflective Thinking  
AICPA BB: Critical Thinking  
AICPA FN: Reporting  
Bloom's: Remember  
Difficulty: Easy  
Learning Objective: 01-06 Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.  
Topic: Integrity of Accounting Information
Essay Questions

113. Investors and creditors are interested in a company's "cash flow prospects." What two specific concerns of investors and creditors are summarized by the term "cash flow prospects?"

Return of investment and return on investment.

114. List the three financial statements that are used to communicate financial accounting information to interested external parties.

Balance sheet (Statement of financial position)
Income statement
Statement of cash flows
Chapter 01 - Accounting: Information for Decision Making

115. Provide a brief example to illustrate that externally reported financial accounting information must be based in part on estimates, judgments, and assumptions.

To account for the use of long-lived equipment, estimates must be made of the lifetime and scrap value of that equipment.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom’s: Understand
Difficulty: Medium
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Topic: Financial Accounting Information

Multiple Choice Questions

116. The best definition of an accounting system is:
A. Journals, ledgers, and worksheets.
B. Manual or computer-based records used in developing information about an entity for use by managers and also persons outside the organization.
C. The personnel, procedures, devices, and records used by an entity to develop accounting information and communicate this information to decision makers.
D. The concepts, principles, and standards specifying the information which should be included in financial statements, and how that information should be presented.

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.
117. Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them $7,000 to help get the company started, and have promised to repay your $7,000 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?

A. $7,000.
B. $700.
C. $7,700.
D. Some other amount.

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

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

A. Income statement forecast for the coming year.
B. Balance sheet.
C. Statement of financial position.
D. Statement of cash flows.

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

119. All of the following are characteristics of management accounting, except:

A. Reports are used primarily by insiders rather than by persons outside of the business entity.
B. Its purpose is to assist managers in planning and controlling business operations.
C. Information must be developed in conformity with generally accepted accounting principles or with income tax regulations.
D. Information may be tailored to assist in specific management decisions.

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.
120. Which of the following is not an objective of financial reporting?
A. Provide information useful in assessing amount, timing, and uncertainty of future cash flows.
B. Provide information useful in making investment and credit decisions.
C. Provide information about economic resources, claims to resources, and changes in resources and claims.
D. Provide information to guarantee the enterprise achieves its goals, objectives, and mission.

Learning Objective: 01-02 Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.
Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

Short Answer Questions

121. The information is summarized in a set of statements distributed to the public.

Financial

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

122. The information is historical in nature. It reports the results of events and transactions that have already occurred.

Financial

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.
Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.
123. The timeliness of the information is more critical than its completeness.

Management

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.

124. To increase its usefulness to investors and creditors, the information is usually accompanied by explanations from management.

Financial

Learning Objective: 01-03 Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

Learning Objective: 01-04 Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.
125. The information is intended to be used for planning and control decisions.

Management

Essay Questions

126. Investors and creditors are interested in a company's "cash flow prospects." What two specific concerns of investors and creditors are summarized by the term "cash flow prospects?"

List three financial statements that are used to communicate financial accounting information to interested external parties.

Provide a brief example to illustrate that externally reported financial accounting information must be based in part on estimates, judgments, and assumptions.

Briefly explain how generally accepted accounting principles enhance the integrity of financial accounting information.

1. Return of investment and return on investment.
2. Balance sheet (Statement of financial position)
3. Income statement
   Statement of cash flows
3. To account for the use of long lived equipment, estimates must be made of the lifetime and scrap value of that equipment
4. Adherence to generally accepted accounting principles assures comparability of accounting information among organizations.
Chapter 01 - Accounting: Information for Decision Making

Multiple Choice Questions

127. Which of the following does not describe accounting?
A. Language of business.
B. Is an end rather than a means to an end.
C. Useful for decision-making.
D. Used by businesses, governments, non-profit organizations, and individuals.

128. To understand and use accounting information in making economic decisions, you must understand:
A. The nature of economic activities that accounting information describes.
B. The assumptions and measurement techniques involved in developing accounting information.
C. Which information is relevant for a particular type of decision that is being made.
D. All of the above.

129. Purposes of an accounting system include all of the following except:
A. Interpret and record the effects of business transactions.
B. Classify the effects of transactions to facilitate the preparation of reports.
C. Summarize and communicate information to decision makers.
D. Dictate the specific types of business transactions that the enterprise may engage in.

130. External users of financial accounting information include all of the following except:
A. Investors.
B. Labor unions.
C. Line managers.
D. General public.
131. Objectives of financial reporting to external investors and creditors include preparing information about all of the following except:
A. Information used to determine which products to produce.
B. Information about economic resources, claims to those resources, and changes in both resources and claims.
C. Information that is useful in assessing the amount, timing, and uncertainty of future cash flows.
D. Information that is useful in making investment and credit decisions.

132. Financial accounting information is characterized by all of the following except:
A. It is historical in nature.
B. It results from inexact and approximate measures.
C. It is factual, so it does not require judgment to prepare.
D. It is enhanced by management's explanation.

133. Which of the following is not a user of management accounting information?
A. Store manager.
B. Chief Executive Officer.
C. Creditor.
D. Chief Financial Officer.

134. Characteristics of management accounting information include all of the following except:
A. Is audited by a CPA.
B. It must be timely.
C. It is oriented toward the future.
D. It measures efficiency and effectiveness.

135. Which of the following are important factors in ensuring the integrity of accounting information?
A. Institutional factors, such as standards for preparing information.
B. Professional organizations, such as the American Institute of CPAs.
C. Competence, judgment and ethical behavior of individual accountants.
D. All of the above.
136. The code of conduct of the American Institute of Certified Public Accountants includes requirements in which of the following areas?
A. The Public Interest.
B. Objectivity.
C. Independence.
D. All of the above.