

Exam

Name \_\_\_\_\_

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Information which by its omission, misstatement or non-disclosure has the potential to influence economic decision-making is regarded as: 1) \_\_\_\_\_  
A) objective. B) reliable. C) true and fair. D) material.

Answer: D

Explanation: A)  
B)  
C)  
D)

- 2) The type of company that has the right to raise money from the general public is a: 2) \_\_\_\_\_  
A) public company. B) private company.  
C) proprietary company. D) all of the above.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 3) Which statement is *untrue* for private (Ltd) companies? 3) \_\_\_\_\_  
A) They are less regulated than public companies.  
B) They tend to be associated with smaller businesses.  
C) There are fewer private companies in Australia than public companies.  
D) The shareholders are often family members.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 4) The structure that would generally have the lowest set-up costs is a: 4) \_\_\_\_\_  
A) private company.  
B) partnership.  
C) public company.  
D) B and C both have equally low set-up costs.

Answer: B

Explanation: A)  
B)  
C)  
D)

5) The most important determinant of the market price of a share in a company listed on the stock exchange is: 5) \_\_\_\_\_

- A) the price at which the share was originally issued.
- B) limited liability.
- C) the company's management.
- D) supply and demand for the shares.

Answer: D

Explanation: A)  
B)  
C)  
D)

6) Which of these is a *disadvantage* of a country adopting international accounting standards compared with the country developing its own standards? 6) \_\_\_\_\_

- A) It will reduce the comparability of different countries' financial reports.
- B) International standards by their nature must be general and involve compromises.
- C) It will increase accounting and reporting costs for multinational companies.
- D) All are disadvantages.

Answer: B

Explanation: A)  
B)  
C)  
D)

7) The company 'Raider Limited' must be: 7) \_\_\_\_\_

- A) a public company.
- B) a private company.
- C) a proprietary company.
- D) none of the above.

Answer: A

Explanation: A)  
B)  
C)  
D)

8) The shareholders that are eligible to vote for the board of directors of a company are: 8) \_\_\_\_\_

- A) all preference shareholders.
- B) all shareholders who attend the annual general meeting.
- C) all shareholders holding voting shares.
- D) all shareholders holding more than 1000 shares.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 9) The level of control in a company that is the highest is: 9) \_\_\_\_\_
- A) executive officer. B) chief financial officer.  
C) chief accountant. D) board of directors.

Answer: D

Explanation: A)  
B)  
C)  
D)

- 10) An advantage of a partnership compared with a sole trader is: 10) \_\_\_\_\_
- A) sharing of profits. B) greater access to funds.  
C) mutual agency. D) B and C

Answer: B

Explanation: A)  
B)  
C)  
D)

- 11) In a company balance sheet, the balance of retained earnings at the end of the period is equal to: 11) \_\_\_\_\_
- A) profit for the period.  
B) retained earnings at the beginning of the period plus profit minus dividends declared.  
C) retained earnings at the beginning of the period plus profit.  
D) profit less losses.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 12) The organisation that is currently the sole standard-setting body in New Zealand is the: 12) \_\_\_\_\_
- A) New Zealand Institute of Chartered Accountants.  
B) Accounting Standards Review Board.  
C) External Reporting Board.  
D) New Zealand Exchange.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 13) The accounting convention that seeks to reduce personal bias in financial reports is the: 13) \_\_\_\_\_
- A) objectivity convention. B) business entity convention.  
C) conservatism convention. D) dual aspect convention.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 14) Which part of shareholders' equity may *not* be used to pay cash dividends? 14) \_\_\_\_\_  
A) retained earnings B) revenue reserves  
C) share capital D) A and B

Answer: C

Explanation: A)  
B)  
C)  
D)

- 15) The factor that would *not* normally be taken into account in determining the profit- and loss-sharing arrangements between partners in a partnership is: 15) \_\_\_\_\_  
A) the capital contributed by each partner.  
B) the age of the partners.  
C) the hours of work of each partner in the business.  
D) None of the above, i.e. all are factors that would be taken into account.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 16) The legal entity is: 16) \_\_\_\_\_  
A) sole trader. B) company.  
C) partnership. D) all of the above.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 17) The accounting assumption that a business will continue to operate into the foreseeable future is the: 17) \_\_\_\_\_  
A) going concern assumption. B) accounting period assumption.  
C) entity assumption. D) historical cost assumption.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 18) Which of these is an accounting entity? 18) \_\_\_\_\_  
A) company B) sole trader C) partnership D) all of the above

Answer: D

Explanation: A)  
B)  
C)  
D)

19) Which of these is *not* a consequence of the status of a company as a separate legal entity? 19) \_\_\_\_\_  
A) the right to enter into contracts in its own name  
B) the right to retain profits  
C) the obligation to pay taxation  
D) None of the above, i.e. all are consequences of the status of a company as a separate legal entity.

Answer: D

Explanation: A)  
B)  
C)  
D)

20) Limited liability means: 20) \_\_\_\_\_  
A) the liability of shareholders for company debts is normally limited to the amount they have paid for their shares.  
B) the liability of directors for company debts is limited.  
C) if the company fails, the creditors may have to bear greater losses than if they were dealing with a non-company.  
D) A and C

Answer: D

Explanation: A)  
B)  
C)  
D)

21) A company issued 300,000 ordinary shares to the public, priced at \$1. The shares were payable as 50 cents on 1 July 2015 with 50 cents uncalled. How much cash was due to the company on 1 July 2015 from the issue? 21) \_\_\_\_\_  
A) \$300,000                      B) \$150,000                      C) \$250,000                      D) \$100,000

Answer: B

Explanation: A)  
B)  
C)  
D)

22) Which business is *not* likely to be organised as a sole trader or partnership? 22) \_\_\_\_\_  
A) architect                      B) carpenter                      C) oil exploration                      D) hot bread shop

Answer: C

Explanation: A)  
B)  
C)  
D)

23) Which item can be a component of shareholders' equity? 23) \_\_\_\_\_  
A) share capital                      B) retained earnings  
C) reserves                      D) all of the above

Answer: D

Explanation: A)  
B)  
C)  
D)

- 24) The statement that is true about the order of repayment for a company in liquidation is: 24) \_\_\_\_\_
- A) creditors rank before ordinary shareholders.
  - B) wages owing to employees rank last.
  - C) ordinary shareholders rank before preference shareholders.
  - D) All of the statements are true.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 25) If a company has a share capital of \$100,000, revenue reserves of \$15,000 and retained earnings of \$30,000, what is the maximum amount it can legally distribute as cash dividends? 25) \_\_\_\_\_
- A) \$45,000                      B) \$30,000                      C) \$145,000                      D) \$130,000

Answer: A

Explanation: A)  
B)  
C)  
D)

- 26) Drawings by a partner or a sole trader from their business may be: 26) \_\_\_\_\_
- A) cash taken out on a regular basis.
  - B) the owner's personal bills paid by the business, e.g. children's school fees.
  - C) goods taken for personal consumption.
  - D) all of the above.

Answer: D

Explanation: A)  
B)  
C)  
D)

- 27) A business that is *not* a legal entity, where there is one owner who is fully liable for all debts, is: 27) \_\_\_\_\_
- A) a sole trader.
  - B) a proprietary company.
  - C) a partnership.
  - D) none of the above.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 28) A share issue where the company gives existing shareholders the first right of refusal of the issue is: 28) \_\_\_\_\_
- A) an ordinary issue.
  - B) a preference issue.
  - C) a rights issue.
  - D) a bonus issue.

Answer: C

Explanation: A)  
B)  
C)  
D)

29) If you were asked to loan money to a company that you feared might be getting into financial difficulties, which of these courses of action would provide you with the most protection from default on the loan? 29) \_\_\_\_\_

- A) rely on the principle of limited liability
- B) require the accounts of the company to be audited
- C) specify a particular accounting method to be used
- D) require a mortgage over a specific asset of the company

Answer: D

Explanation: A)  
B)  
C)  
D)

30) If a company issues 20,000 ordinary shares which are sold at \$4 per share, the effect on the accounting equation is: 30) \_\_\_\_\_

- A) increase in cash \$80,000; increase in liabilities \$80,000.
- B) increase in cash \$80,000; decrease in shareholder's equity \$80,000.
- C) increase in cash \$80,000; increase in shareholder's equity \$80,000.
- D) none of the above.

Answer: C

Explanation: A)  
B)  
C)  
D)

31) The assumption that for reporting purposes the life of a business is divided up into a series of time periods of equal length is known as the: 31) \_\_\_\_\_

- A) accounting period assumption.
- B) entity assumption.
- C) realisation assumption.
- D) matching assumption.

Answer: A

Explanation: A)  
B)  
C)  
D)

32) In comparison with a company, a *disadvantage* of operating as a partnership is: 32) \_\_\_\_\_

- A) limited life.
- B) unlimited liability.
- C) mutual agency.
- D) all of the above.

Answer: D

Explanation: A)  
B)  
C)  
D)

33) A bonus issue of shares by a company will:

33) \_\_\_\_\_

- A) increase total shareholders' equity.
- B) reduce total shareholders' equity.
- C) sometimes increase shareholders' equity and sometimes leave it unchanged.
- D) leave total shareholders' equity unchanged.

Answer: D

Explanation: A)  
B)  
C)  
D)

34) Which of these is an advantage of a private company compared with a partnership?

34) \_\_\_\_\_

- i) perpetual life
- ii) easier transfer of ownership
- iii) mutual agency
- iv) limited liability

A) i, ii, iii

B) i, ii, iv

C) ii, iii, iv

D) i, ii

Answer: B

Explanation: A)  
B)  
C)  
D)

35) Financial accounts prepared by companies under the Financial Reporting Act must meet which general standard of reporting?

35) \_\_\_\_\_

- A) satisfactory
- B) accurate
- C) true and fair
- D) beyond a reasonable doubt

Answer: C

Explanation: A)  
B)  
C)  
D)

36) GAAP, in an accounting context, stands for:

36) \_\_\_\_\_

- A) Good Auditing and Accounting Practices.
- B) General Accepted Accounting Practice.
- C) General Assumptions and Attitudes of Professionals.
- D) none of the above.

Answer: B

Explanation: A)  
B)  
C)  
D)



- 37) If the retained earnings figure in a company balance sheet increases from the beginning of the year to the end of the year, it is most probable that: 37) \_\_\_\_\_
- A) profit for the year is more than dividends declared.
  - B) bonus shares have been issued.
  - C) additional capital has been raised during the year.
  - D) profit for the year is less than dividends declared.
- Answer: A
- Explanation: A)  
B)  
C)  
D)
- 38) The three most common types of structure used by businesses in New Zealand are: 38) \_\_\_\_\_
- A) sole trader, company, co-operative.
  - B) sole trader, partnership, company.
  - C) partnership, private company, trust.
  - D) partnership, company, association.
- Answer: B
- Explanation: A)  
B)  
C)  
D)
- 39) A sole trader *cannot* legally operate which of these businesses? 39) \_\_\_\_\_
- A) engineering consultancy
  - B) chemist
  - C) bank
  - D) service station
- Answer: C
- Explanation: A)  
B)  
C)  
D)
- 40) Which of these accounting concepts conflict with each other? 40) \_\_\_\_\_
- A) monetary basis and historical cost
  - B) prudence and full disclosure
  - C) entity and the accounting period
  - D) accounting period and matching
- Answer: B
- Explanation: A)  
B)  
C)  
D)
- 41) The business most likely to operate as a sole trader is: 41) \_\_\_\_\_
- A) an airline.
  - B) a bank.
  - C) a medical specialist.
  - D) a private hospital.
- Answer: C
- Explanation: A)  
B)  
C)  
D)

- 42) The main government regulator of companies in New Zealand is: 42) \_\_\_\_\_  
A) the External Reporting Board. B) the New Zealand Exchange.  
C) the Financial Markets Authority. D) the Accounting Standards Review Board.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 43) The statement relating to preference shares that is *not* correct is: 43) \_\_\_\_\_  
A) They normally have a fixed rate of dividend attached.  
B) Holders are entitled to receive a dividend before ordinary shareholders.  
C) They are generally more risky for shareholders to own than ordinary shares.  
D) They are often non-voting shares.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 44) The principle whereby each partner is responsible for the business actions of all other partners when the actions are carried out in the normal course of business is known as: 44) \_\_\_\_\_  
A) unlimited liability. B) mutual agency.  
C) perpetual life. D) the rule in Garner versus Murray.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 45) Bonus shares are: 45) \_\_\_\_\_  
A) shares issued to valued customers. B) shares issued at no cost to shareholders.  
C) shares issued to employees. D) shares issued to the board of directors.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 46) A company needs \$1,500,000 for expansion. The directors decide to raise the capital by issuing new shares. How many shares does the company need to sell to raise the amount if the last share issue was at a price of \$1 each, and the current market price for the company's shares is \$1.50 per share? 46) \_\_\_\_\_  
A) 500,000 shares B) 1.5 million shares  
C) 100,000 shares D) 1 million shares

Answer: D

Explanation: A)  
B)  
C)  
D)

- 47) The statement concerning a rights issue that is true is: 47) \_\_\_\_\_
- A) The shares are generally offered at above the current market price of the existing shares.
  - B) The issue is often made to ensure that new shareholders are brought into the company.
  - C) The cost of the issue tends to be less than making a share issue to the general public.
  - D) A and C are true.

Answer: C

Explanation: A)  
B)  
C)  
D)

- 48) Advantages of operating as a sole trader are: 48) \_\_\_\_\_
- A) total control by the owner over all decisions.
  - B) low start-up costs.
  - C) limited liability.
  - D) A and B

Answer: D

Explanation: A)  
B)  
C)  
D)

- 49) The largest source of new finance for New Zealand companies is: 49) \_\_\_\_\_
- A) revaluations.
  - B) retained earnings.
  - C) share issues.
  - D) bank loans.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 50) Which statement in relation to a company is *not* correct? 50) \_\_\_\_\_
- A) If the accounts are required to be audited, the auditors are appointed by the directors.
  - B) The directors are appointed by the shareholders.
  - C) The directors are required to report to the shareholders by means of financial statements.
  - D) None of the above, i.e. all are correct statements.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 51) A shareholder in Company C owns 1,000 shares bought for \$1 each. The company decides to make a bonus issue of one new share for every two existing shares held. How many shares does the shareholder now have in Company C? 51) \_\_\_\_\_
- A) 1,500 shares
  - B) 2,000 shares
  - C) 500 shares
  - D) 1,000 shares

Answer: A

Explanation: A)  
B)  
C)  
D)

- 52) Application of the (prudence) conservatism assumption can produce: 52) \_\_\_\_\_  
A) higher amounts for liabilities. B) higher profits.  
C) lower amounts for expenses. D) higher values for assets.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 53) The report that is specifically designed to provide an assessment of the credibility and reliability of the financial statements a company issues for external use, is the: 53) \_\_\_\_\_  
A) trustee statement. B) audit report.  
C) director's statement. D) director's report.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 54) The feature that is *not* a characteristic of a company is: 54) \_\_\_\_\_  
A) perpetual life.  
B) less government regulation than other types of entities.  
C) limited liability.  
D) legal entity.

Answer: B

Explanation: A)  
B)  
C)  
D)

- 55) Which of these is a reason why companies are more heavily regulated than sole traders or partnerships? 55) \_\_\_\_\_  
A) The owners (shareholders) are often removed from the day-to-day running of the business.  
B) As companies have limited liability, there is a greater need to protect creditors from financial loss.  
C) The members of a company operate under the mutual agency principle.  
D) A and B

Answer: D

Explanation: A)  
B)  
C)  
D)

- 56) In 2007 New Zealand adopted which set of accounting standards? 56) \_\_\_\_\_  
A) US standards  
B) Financial Reporting Standards  
C) GAAP  
D) International Financial Reporting Standards  
Answer: D  
Explanation: A)  
B)  
C)  
D)
- 57) An investor invests in Canta Ltd by purchasing 1,000 shares for \$2.50 each. In the following year the company distributes a 1 for 1 share dividend (bonus issue). After the issue the number of shares held by the investor: 57) \_\_\_\_\_  
A) will increase by 1000 and the market price of the shares will rise.  
B) will increase by 1000 and the market price of the shares will remain the same.  
C) will increase by 100 and the market price of the shares will fall.  
D) will increase by 1000 and the market price of the shares will fall.  
Answer: D  
Explanation: A)  
B)  
C)  
D)
- 58) The accounting convention that means that accountants ignore inflation when preparing accounting reports is the: 58) \_\_\_\_\_  
A) realisation convention. B) dual aspect convention.  
C) reliability convention. D) stable monetary unit convention.  
Answer: D  
Explanation: A)  
B)  
C)  
D)
- 59) The assumption that means accountants ignore inflation is: 59) \_\_\_\_\_  
A) the prudence assumption. B) the stable monetary unit assumption.  
C) the going concern assumption. D) the monetary assumption.  
Answer: B  
Explanation: A)  
B)  
C)  
D)
- 60) A company issued 100,000, fully paid, 5% preference shares priced at \$2 each. The dividend to be paid on the shares for a financial year is: 60) \_\_\_\_\_  
A) \$20,000 B) \$5,000 C) \$15,000 D) \$10,000  
Answer: D  
Explanation: A)  
B)  
C)  
D)

- 61) The harmonisation of accounting standards in New Zealand refers to: 61) \_\_\_\_\_
- A) the process of adapting international accounting standards for use in New Zealand.
  - B) the modification of accounting standards to meet the concerns of business.
  - C) the blending of company accounting standards and standards for other entities.
  - D) the development of a conceptual framework for accounting standards.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 62) An audit report that contains the opinion that the financial statements are true and fair and comply with the accounting standards is described as: 62) \_\_\_\_\_
- A) an unqualified report.
  - B) an authorised report.
  - C) a quantified report.
  - D) a qualified report.

Answer: A

Explanation: A)  
B)  
C)  
D)

- 63) Organised stock exchanges provide which of the following benefits? 63) \_\_\_\_\_
- A) a facility for companies to raise new capital
  - B) allow shareholders to easily sell their shares
  - C) increase the amount of regulation for the listed company
  - D) A and B

Answer: D

Explanation: A)  
B)  
C)  
D)

Answer Key  
Testname: C2

- 1) D
- 2) A
- 3) C
- 4) B
- 5) D
- 6) B
- 7) A
- 8) C
- 9) D
- 10) B
- 11) B
- 12) C
- 13) A
- 14) C
- 15) B
- 16) B
- 17) A
- 18) D
- 19) D
- 20) D
- 21) B
- 22) C
- 23) D
- 24) A
- 25) A
- 26) D
- 27) A
- 28) C
- 29) D
- 30) C
- 31) A
- 32) D
- 33) D
- 34) B
- 35) C
- 36) B
- 37) A
- 38) B
- 39) C
- 40) B
- 41) C
- 42) C
- 43) C
- 44) B
- 45) B
- 46) D
- 47) C
- 48) D
- 49) B
- 50) A

Answer Key

Testname: C2

- 51) A
- 52) A
- 53) B
- 54) B
- 55) D
- 56) D
- 57) D
- 58) D
- 59) B
- 60) D
- 61) A
- 62) A
- 63) D