Chapter 1--Accounting Information: Users and Uses

Student: ____

1. Which of the following is NOT typically true of accounting information?
A. The information is quantitative in nature.
B. The information relates to future time periods.
C. The information relates to specific accounting entities.
D. The information is primarily financial in nature.

2. Which of the following is true about the double-entry system of bookkeeping?
A. It was developed in the 1300s-1400s in France.
B. It was developed in the 1800s in Italy.
C. It was developed in the 1300s-1400s in Italy.
D. It was developed in the 1800s in the United States.

3. Businesses use accounting systems to
A. Analyze transactions
B. Handle routine bookkeeping tasks
C. Evaluate the performance and health of the business
D. All of these are correct

4. Which of the following is the most correct definition of accounting?
A. A system for providing quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.
B. An entity without a profit objective, oriented toward providing services efficiently and effectively.
C. The preservation of a systematic, quantitative record of an activity.
D. The procedures and processes used by a company to analyze transactions and handle routine bookkeeping tasks.

5. Which of the following is NOT a function of accounting?
A. Accumulating economic information about organizations
B. Measuring economic information about organizations
C. Executing sales transactions for organizations
D. Communicating economic information about organizations

6. Which of the following is NOT a key component of the definition of accounting?
A. Financial
B. Qualitative
C. Useful
D. Decision-oriented

7. Which of the following is NOT a step in the decision making process?
A. Identify the issue.
B. Identify alternatives.
C. Select the option that will result in the greatest financial increase.
D. Gather information.

8. Accounting can be best described as a
A. Manufacturing activity
B. Service activity
C. Retailing activity
D. All of these are correct

9. Which of the following is NOT a typical source of monetary resources for a business enterprise?
A. Investors
B. Creditors
C. Business earnings
D. Employees

10. Accountants typically perform what action related to the financial results of business activities?
A. Report the results of business activities
B. Advise on how to structure business activities
C. Both report the results of and advise on how to structure business activities
D. None of these are correct

11. The accounting cycle includes all of the following, EXCEPT:
A. Recording
B. Summarizing
C. Analyzing
D. Interpreting

12. The emphasis in financial accounting is on which of the following external user groups?
A. Management
B. Certified public accountants
C. Investors and creditors
D. Educators

13. The primary internal group that uses accounting information is
A. Government agencies
B. Investors
C. Management
D. Competitors

14. Internal reports are generally used by
A. Management
B. Suppliers
C. Lenders
D. Employees

15. Which of the following is NOT an important aspect of management accounting?
A. Planning
B. Product design
C. Implementing plans
D. Controlling costs

16. The area of accounting that is concerned with providing information for external users is referred to as
A. Financial accounting
B. Governmental accounting
C. Management accounting
D. Not-for-profit accounting

17. Which of the following is NOT one of the three primary financial statements?
A. Statement of cash flows
B. Income statement
C. Statement of retained earnings
D. Balance sheet

18. Which of the following financial statements reports a company's resources, obligations, and owner's equity?
A. Balance sheet
B. Income statement
C. Statement of retained earnings
D. Statement of cash flows

19. Which of the following financial statements reports the excess of a company's revenues over its expenses?
A. Balance sheet
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20. Which of the following financial statements reports the amount of cash collected and paid out by a company?
A. Balance sheet
B. Income statement
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D. Statement of cash flows

21. Which of the following is NOT an external user of financial information?
A. Competitors
B. Employees
C. Management
D. Suppliers

22. Which of the following is NOT one of the factors that influences the accounting environment?
A. International business
B. Technology
C. The development of generally accepted accounting principles (GAAP)
D. Investors

23. Which of the following is NOT true of the Financial Accounting Standards Board (FASB)?
A. It consists of five full-time members
B. It is a government agency
C. It seeks consistency for its proposed standards
D. It has no legal power to enforce the standards it sets

24. Generally accepted accounting principles are
A. Natural laws
B. Based on scientific proofs
C. Developed by accounting rule makers
D. None of these are correct

25. The initials GAAP stand for
A. General Accounting Administration Practices
B. Generally Applied Accounting Procedures
C. Generally Accepted Accounting Principles
D. Generally Accepted Accounting Practices

26. The current standard-setting board for accounting in the private sector is the
A. Financial Accounting Standards Board (FASB)
B. Securities and Exchange Commission (SEC)
C. International Accounting Standards Board (IASB)
D. American Accounting Association (AAA)

27. Which of the following organizations has specific legal authority to establish accounting standards for publicly held companies?
A. Financial Accounting Standards Board (FASB)
B. Securities and Exchange Commission (SEC)
C. Internal Revenue Service (IRS)
D. American Institute of Certified Public Accountants (AICPA)

28. The Sarbanes-Oxley Act created the
A. Financial Accounting Standards Board
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29. The initials CPA stand for
A. Certified Professional Appraiser
B. Certified Professional Accountant
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30. Which of the following is NOT a service typically provided by large public accounting firms?
A. Performing audits
B. Making management decisions
C. Redesigning operating procedures
D. Establishing accounting systems

31. Which of the following is the government agency that stipulates the rules and regulations that govern the collection of taxes in the United States?
A. Securities and Exchange Commission
B. Federal Accounting Standards Board
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32. Accountants are MOST concerned with
A. Foreign companies operating in the US
B. U.S. companies with domestic customers
C. U.S. companies with foreign customers
D. All of these are correct

33. The organization that develops worldwide accounting standards is the
A. International Committee on Accounting Standards (ICAS)
B. International Accounting Standards Board (IASB)
C. International Board of Accounting Standards (IBAS)
D. International Accounting Standards Committee (IASC)

34. Standards established by the International Accounting Standards Board are referred to as
A. Generally Accepted Accounting Standards
B. International Auditing Standards
C. International Financial Reporting Standards
D. International Financial Accounting Standards

35. In 2008, the SEC began to
A. Allow U.S. companies trading on the U.S. stock exchange to issue their financial reports using IASB standards
B. Require U.S. companies trading on the U.S. stock exchange to issue their financial reports using IASB standards
C. Require non-U.S. companies trading on the U.S. stock exchange to issue their financial reports using IASB standards
D. Allow non-U.S. companies trading on the U.S. stock exchange to issue their financial reports using IASB standards

36. Ethics are especially important in accounting because
A. Independent accountants represent the public interest
B. Accountants can steal money more easily than other employees
C. Accountants have historically committed more company thefts than other employees
D. The accounting profession does not have a code of professional conduct

37. Which of the following is NOT one of the ways that technology has changed the way accounting is done?
A. Technology easily allows companies to collect large amounts of data about transactions
B. Technology allows greater access to a company's financial statements and other financial information
C. Technology is able to perform the mechanics of accounting therefore, people are not required to understand the mechanics
D. Technology allows for large amounts of data to be compiled quickly and accurately

38. Which of the following is a reason that you may need to understand accounting information in the future?
A. To evaluate an employer's short and long-term potential
B. To perform a personal budget
C. To perform responsibilities in future employment
D. All of these are reasons to study accounting

39. Identify and describe the functions of an accounting system.

40. The definition of accounting is a system for providing "quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions." List and explain the key components of this definition.

41. List the four steps in the decision making process.

42. Identify the three primary financial statements and discuss the content of each.

43. List six users of accounting information and indicate whether they are an internal or an external user.

44. Lenders, investors, and management are three potential users of external financial statements. Discuss how the information found in external financial statements can benefit each of these external users.

45. Describe the major difference between internal reports and external reports.

46. It is often said that companies must keep two sets of books. Isn't this dishonest? Explain.

47. FASB, GAAP, SEC, CPA, AICPA, IRS, IASB, IFRS are all acronyms used in accounting. For the preceding list of acronyms, state what the acronym stands for and then give a definition of each acronym.

Chapter 1--Accounting Information: Users and Uses Key

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C. To perform responsibilities in future employment
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39. Identify and describe the functions of an accounting system.

The functions of an accounting system are analysis, bookkeeping, and evaluation. Analysis involves analyzing business transactions to determine what information should be captured by the accounting system. Bookkeeping is tracking activities on a day-to-day basis. Evaluation uses summary information to evaluate the financial health and performance of a business.

40. The definition of accounting is a system for providing "quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions." List and explain the key components of this definition.

Quantitative	Accounting relates to numbers.
Financial	The health and performance of a company are affected and reflected in many dimensions but accounting focuses only on the financial aspect.
Useful	Accounting exists only because it is useful.
Decisions	Accounting is only useful as the past information can be used to impact future decisions.

41. List the four steps in the decision making process.

1. Identify the issue.
2. Gather information.
3. Identify alternatives.
4. Select the option that will most likely result in the desired objective.

42. Identify the three primary financial statements and discuss the content of each.

The balance sheet reports the assets, liabilities, and owners' equity of a business.

The income statement reports the net income or net loss of a company, which represents the difference between revenues and expenses.

The statement of cash flows reports the cash inflows and outflows from operating, investing, and financing activities.

43. List six users of accounting information and indicate whether they are an internal or an external user.

Management	internal
Creditors (Lenders)	external
Investors	external
Suppliers	external
Customers	external
Employees	external
Competitors	external
Government agencies	external
The press	external

44. Lenders, investors, and management are three potential users of external financial statements. Discuss how the information found in external financial statements can benefit each of these external users.

Lenders want to be repaid. External financial statements help lenders predict the future ability of the borrower to repay the loan.

Investors want to be able to estimate how much cash they will receive in the future if they invest in a company now. Financial statements, along with knowledge of business plans, market forecasts, and character of management, can help investors to assess future cash flows.

Management can use the information found in external financial statements to state goals, calculate management bonuses, and analyze the company in order to pinpoint weaknesses.

45. Describe the major difference between internal reports and external reports.

Internal reports are dynamic and created to meet the needs of management. These reports may vary greatly among companies.

External reports generally consist of general-purpose financial statements and must follow certain standards or guidelines. These reports are more uniform among companies.

46. It is often said that companies must keep two sets of books. Isn't this dishonest? Explain.

No, it is not dishonest. Companies are subject to both the rules governing financial accounting and those governing tax accounting. One set of books must be maintained according to GAAP from which the company's financial statements are prepared. The other set of books is maintained in compliance with income tax regulations, from which the company's tax return is prepared.

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FASB:	Financial Accounting Standards Board. The private organization responsible for establishing the standards for financial accounting and reporting in the United States.
GAAP:	Generally Accepted Accounting Principles. Authoritative guidelines that define accounting practice at a particular time.
SEC:	Securities and Exchange Commission. The government body responsible for regulating the financial reporting practices of most publicly owned corporations in connection with the buying and selling of stocks and bonds.
CPA:	Certified Public Accountant. A special designation given to an accountant who has passed a national uniform examination and has met other certifying requirements.
AICPA:	American Institute of Certified Public Accountants. The national organization of CPAs in the United States.
IRS:	Internal Revenue Service. A government agency that prescribes the rules and regulations that govern the collection of tax revenues in the United States.
IASB:	International Accounting Standards Board. The committee formed in 1973 to develop worldwide accounting standards.
IFRS:	International Financial Reporting Standards. The accounting standards produced by the IASB and envisioned to be a set of standards that can be used by all companies regardless of where the company is based.