

Test Bank

Volume I

to accompany

ACCOUNTING

A BUSINESS PERSPECTIVE

SEVENTH EDITION

Roger H. Hermanson

James Don Edwards

Michael W. Maher



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A Business Perspective

Seventh Edition

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Introduction: The Accounting Environment

TRUE/FALSE QUESTIONS

- I-1 Accounting is likely to be involved wherever economic resources are
T employed.
Easy
LO: 1
- I-2 The primary purpose of accounting is to provide useful information
T about an entity regarding its economic resources and the claims
Easy against, and the changes in, such resources.
LO: 1
- I-3 Most accounting information is nonfinancial in nature.
F
Easy
LO: 1
- I-4 Accounting is primarily concerned with providing financial
T information on the economic activities of an organization.
Easy
LO: 1
- I-5 Accounting can be briefly defined as a process of measurement and
T communication.
Easy
LO: 1
- I-6 In general, the purpose of information is to reduce doubt.
T
Easy
LO: 1
- I-7 A major function of accounting is to place a value on the economic
F resources owned by an entity.
Easy
LO: 2
- I-8 Accounting may be defined as a measuring process.
T
Easy
LO: 2
- I-9 The accountant is an observer and recorder of economic activity.
T
Easy
LO: 2
- I-10 Accounting information is useful in correcting past decisions
F regarding the use of economic resources.
Easy
LO: 2

- I-11
F
Easy
LO: 3
An accountant possessing a CMA is licensed by the federal government to express an expert's opinion on the accuracy of a client's financial statements.
- I-12
T
Easy
LO: 3
A member of the American Accounting Association is most likely to be employed by an educational institution.
- I-13
F
Easy
LO: 3
An accountant designated as a CIA is a member of the Canadian Institute of Accountants.
- I-14
T
Easy
LO: 3
An accountant may be an expert internal auditor and not be a CPA.
- I-15
F
Easy
LO: 3
To become a CPA, an accountant must be an expert in providing management advisory services.
- I-16
T
Easy
LO: 3
A CPA may practice as an independent professional, or may be employed as an accountant by a manufacturing company.
- I-17
F
Easy
LO: 3
A CPA employed by a mining company would be permitted to express a professional opinion on the fairness of that company's financial statements.
- I-18
F
Easy
LO: 3
As part of the management advisory services rendered, a CPA will express a professional opinion on the fairness of the bulk of the managerial accounting information accumulated by a company.
- I-19
F
Easy
LO: 4
Management accounting information generally relates to the whole of an enterprise rather than to some part of it.
- I-20
T
Easy
LO: 4
Financial accounting information is often called general-purpose information because the information needs of different external parties can be satisfied by the same information.

- I-21 Basically, and in very broad general terms, managerial accounting
T information is used internally, while financial accounting
Easy information is used externally.
LO: 4
- I-22 The activities of academic accountants include teaching, research,
T and service.
Easy
LO: 4
- I-23 To accountants, the letters SEC usually mean Stock Exchange
F Center.
Easy
LO: 5
- I-24 The SEC has complete authority over the accounting practices of all
F companies.
Med
LO: 5
- I-25 The FASB is the top nongovernmental authority on generally accepted
T accounting standards.
Easy
LO: 5
- I-26 The AICPA has played a minor role in the development of accounting
F standards over the past half century.
Easy
LO: 5
- I-27 The FEI is an organization whose members are mostly academics.
F
Easy
LO: 5
- I-28 The IMA's primary focus is on external financial reporting.
F
Easy
LO: 5

MULTIPLE CHOICE QUESTIONS

- I-29 By definition, accounting:
B
Easy
LO: 1
- A. is simply a mechanical process that records economic activity.
 - B. involves identifying, measuring, and communicating economic information.
 - C. is an evaluation and decision-making process.
 - D. is applicable only to profit-seeking business organizations.

- I-30 Which of the following activities is not a function of accountants?
C A. Analyze those events considered evidence of economic activity.
Med B. Report on business activity by preparing financial statements.
LO: 2 C. Appraise the assets of an enterprise to provide a proper valuation for financial statements.
D. Interpret financial statements for management and others.
- I-31 Accounting is likely to be concerned with:
D A. auditing.
Easy B. preparation of tax returns.
LO: 3 C. design of an information system.
D. All of the other answers are correct.
- I-32 By law, which of the following services is generally provided only
C by CPAs?
Med A. Auditing
LO: 3 B. Preparation of income tax returns
C. Attesting to the fairness of published financial statements
D. Providing management advisory services
- I-33 An accountant may seek recognition for expertise in management
A accounting by gaining the right to add which of the following
Med letters after his/her name?
LO: 3 A. CMA
B. CPA
C. CIA
D. BMOC
- I-34 Which of the following functions is (are) performed by public
D accountants?
Easy A. Income tax planning
LO: 3 B. Designing information systems
C. Auditing a company that is about to be purchased
D. All of the other answers are correct.
- I-35 Private or industrial accountants:
C A. must possess a CMA.
Med B. render opinions as to the fairness of published financial
LO: 3 statements.
C. are usually employed by a single employer.
D. are outside independent experts rather than employees.
- I-36 Academic accountants:
D A. teach.
Med B. perform research.
LO: 3 C. perform service.
D. All of the other answers are correct.

- I-37
D
Med
LO: 4
- As contrasted with financial accounting information, management accounting information is:
- A. forward-looking rather than historical in nature.
 - B. used internally rather than released to outsiders.
 - C. likely to be related to a part, rather than the whole, of an entity.
 - D. All of the other answers are correct.
- I-38
D
Med
LO: 4
- Financial accounting information is likely to be used for which of the following decisions?
- A. Determining whether cash payments to owners can be increased
 - B. Appraising the ability of a company to pay its debts
 - C. Deciding whether an entity should be allowed to purchase goods on a credit basis
 - D. All of the other answers are correct.
- I-39
A
Med
LO: 4
- Financial accounting information:
- A. is primarily historical in nature.
 - B. is intended primarily for internal management use.
 - C. need not conform to GAAP.
 - D. is not concerned with the solvency of a business.
- I-40
C
Med
LO: 5
- The accounting authority widely accepted as the major source of new accounting principles or standards is the:
- A. AICPA.
 - B. SEC.
 - C. FASB.
 - D. FEI.
- I-41
D
Med
LO: 5
- The accounting organization comprised primarily of college instructors of accounting is the:
- A. AICPA.
 - B. IMA.
 - C. FASB.
 - D. AAA.
- I-42
D
Med
LO: 5
- Which of the following statements is TRUE?
- A. Financial accounting is more concerned with the cash basis than with the accrual basis.
 - B. When we use the term "financial statements," we mean only the income statement.
 - C. The SEC does not have authority over the accounting practices of companies required to file financial statements with it.
 - D. The FASB is the top nongovernmental authority on generally accepted accounting standards.
- I-43
C
Med
LO: 5
- According to the text, an accountant's most valuable asset is his or her:
- A. home.
 - B. business.
 - C. reputation.
 - D. money.

Chapter 1: Accounting and Its Use in Business Decisions

TRUE/FALSE QUESTIONS

- 1-1 For accounting purposes, each business has a separate existence from its owner(s).
T
Easy
LO: 1
- 1-2 A single proprietorship is quite difficult to establish because of all the legal formalities.
F
Easy
LO: 1
- 1-3 The owner's personal residence and automobile should not be entered in the books of his or her single proprietorship.
T
Easy
LO: 1
- 1-4 In a single proprietorship, the owner is not held solely responsible for all the debts of the business.
F
Easy
LO: 1
- 1-5 Partnerships may be created by either a verbal or written agreement.
T
Easy
LO: 1
- 1-6 Each partner can be held responsible for all actions of the other partners.
F
Med
LO: 1
- 1-7 A written agreement is desirable when establishing a partnership.
T
Easy
LO: 1
- 1-8 All the terms and conditions of a partnership should be spelled out in the partnership agreement.
T
Easy
LO: 1
- 1-9 Only very large businesses are corporations.
F
Easy
LO: 1

- 1-10 If a corporation fails, the owners can lose everything they have, including their personal assets.
F
Easy
LO: 1
- 1-11 The owners (stockholders) of a corporation directly manage the corporation.
F
Med
LO: 1
- 1-12 The board of directors selects the officers of a corporation, who manage the company.
T
Easy
LO: 1
- 1-13 The "business entity" concept indicates that a business organization is separate from its owner(s).
T
Easy
LO: 1
- 1-14 The corporation is the simplest form of business organization.
F
Easy
LO: 1
- 1-15 A single proprietorship is an incorporated business owned by an individual and often managed by that individual.
F
Easy
LO: 1
- 1-16 The owners of a corporation are called stockholders.
T
Easy
LO: 1
- 1-17 A partnership is an unincorporated business owned by two or more persons associated as partners.
T
Easy
LO: 1
- 1-18 All of the following companies qualify as service companies: CPA firms, law firms, pharmacy stores, and repair shops.
F
Easy
LO: 2
- 1-19 Merchandising companies purchase goods that are ready for sale and sell them to customers.
T
Easy
LO: 2

- 1-20 Manufacturing companies sell only to final customers.
F
Easy
LO: 2
- 1-21 Examples of manufacturing companies include steel mills, clothing factories, automobile factories, and carpet factories.
T
Easy
LO: 2
- 1-22 Examples of merchandising companies include grocery stores, car repair shops, computer stores, and home construction companies.
F
Easy
LO: 2
- 1-23 Merchandising companies buy materials, convert them into products, and sell the products to other companies or to final customers.
F
Easy
LO: 2
- 1-24 The annual report of a company contains a statement showing the financial position of the reporting company.
T
Easy
LO: 3
- 1-25 Companies generally must follow tax regulations in their accounting and reporting to external parties.
F
Easy
LO: 3
- 1-26 The balance sheet shows a company's assets and the interests in these assets as of a specific moment in time.
T
Easy
LO: 3
- 1-27 The balance sheet can be described as a statement that shows a company's resources at a given moment and the sources of these resources.
T
Easy
LO: 3
- 1-28 A company's assets may consist of two major types: (1) cash and claims to cash, and (2) other assets that possess service potential.
T
Easy
LO: 3
- 1-29 A dividend is a payment, usually in cash, to stockholders of a business and is not shown on the income statement.
T
Med
LO: 3