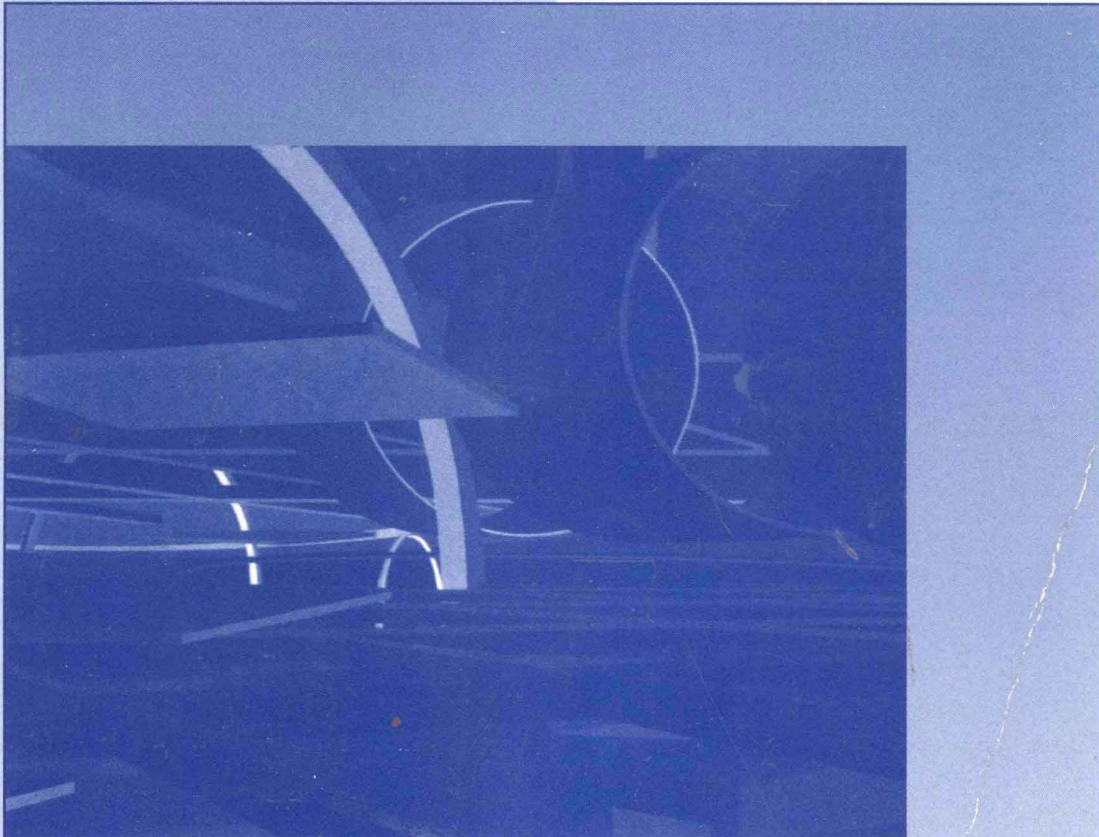


# Test Bank

Volume I, Chapters 1-13

to accompany



SIXTH EDITION

## **ACCOUNTING** A BUSINESS PERSPECTIVE

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ROGER H. HERMANSON

JAMES DON EDWARDS

MICHAEL W. MAHER

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## ACCOUNTING

### A BUSINESS PERSPECTIVE

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Sixth Edition

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*Georgia State University*

**James Don Edwards**

*University of Georgia*

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*University of California - Davis*

**IRWIN**

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Chapter(s) \_\_\_\_\_ Total Number of Questions \_\_\_\_\_

Number of Questions

Level of Difficulty

(Easy, medium, difficult, easy and medium, medium and difficult, any difficulty)

True-False \_\_\_\_\_

Multiple Choice \_\_\_\_\_

Essay \_\_\_\_\_

(Example: Chapter 1-3, 60 Total, 25 T/F any, 25 M/C medium, 10 essay difficult)

## **SPECIFIC QUESTION SELECTION**

CHAPTER NUMBER	QUESTION NUMBER	QUESTION NUMBER	QUESTION NUMBER	QUESTION NUMBER	QUESTION NUMBER	QUESTION NUMBER	QUESTION NUMBER	QUESTION NUMBER	QUESTION NUMBER	QUESTION NUMBER
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
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TOTAL QUESTIONS \_\_\_\_\_

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

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

I-29

B

Easy

LO: 1

### MULTIPLE CHOICE QUESTIONS

By definition, accounting:

- 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

C

Med

LO: 2

Which of the following activities is not a function of accountants?

- A. Analyze those events considered evidence of economic activity.
- B. Report on business activity by preparing financial statements.
- 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

D

Easy

LO: 3

Accounting is likely to be concerned with:

- A. auditing.
- B. preparation of tax returns.
- C. design of an information system.
- D. All of the other answers are correct.

I-32

C

Med

LO: 3

By law, which of the following services is generally provided only by CPAs?

- A. Auditing
- B. Preparation of income tax returns
- C. Attesting to the fairness of published financial statements
- D. Providing management advisory services

I-33

A

Med

LO: 3

An accountant may seek recognition for expertise in management accounting by gaining the right to add which of the following letters after his/her name?

- A. CMA
- B. CPA
- C. CIA
- D. BMOG

I-34

D

Easy

LO: 3

Which of the following functions is (are) performed by public accountants?

- A. Income tax planning
- B. Designing information systems
- C. Auditing a company that is about to be purchased
- D. All of the other answers are correct.

I-35

C

Med

LO: 3

Private or industrial accountants:

- A. must possess a CMA.
- B. render opinions as to the fairness of published financial 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 As contrasted with financial accounting information, management  
D accounting information is:  
Med A. forward-looking rather than historical in nature.  
LO: 4 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 Financial accounting information is likely to be used for which of  
D the following decisions?  
Med A. Determining whether cash payments to owners can be increased  
LO: 4 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 Financial accounting information:  
A A. is primarily historical in nature.  
Med B. is intended primarily for internal management use.  
LO: 4 C. need not conform to GAAP.  
D. is not concerned with the solvency of a business.
- I-40 The accounting authority widely accepted as the major source of new  
C accounting principles or standards is the:  
Med A. AICPA.  
LO: 5 B. SEC.  
C. FASB.  
D. FEI.
- I-41 The accounting organization comprised primarily of college  
D instructors of accounting is the:  
Med A. AICPA.  
LO: 5 B. IMA.  
C. FASB.  
D. AAA.
- I-42 Which of the following statements is TRUE?  
D A. Financial accounting is more concerned with the cash basis than  
Med with the accrual basis.  
LO: 5 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,  
F including their personal assets.  
Easy  
LO: 1
- 1-11 The owners (stockholders) of a corporation directly manage the  
F corporation.  
Med  
LO: 1
- 1-12 The board of directors selects the officers of a corporation, who  
T manage the company.  
Easy  
LO: 1
- 1-13 The "business entity" concept indicates that a business organization  
T is separate from its owner(s).  
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  
F individual and often managed by that individual.  
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  
T persons associated as partners.  
Easy  
LO: 1
- 1-18 All of the following companies qualify as service companies: CPA  
F firms, law firms, pharmacy stores, and repair shops.  
Easy  
LO: 2
- 1-19 Merchandising companies purchase goods that are ready for sale and  
T sell them to customers.  
Easy  
LO: 2