***Intermediate Accounting, 10e* (Spiceland)**

**Chapter 1 Environment and Theoretical Structure of Financial Accounting**

1) The primary function of financial accounting is to provide relevant financial information to parties external to business enterprises.

Answer: TRUE

Difficulty: 1 Easy

Topic: Environment of financial accounting and reporting

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

2) Accrual accounting attempts to measure revenues and expenses that occurred during accounting periods so they equal net operating cash flow.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: FN Measurement

3) The FASB is currently the public-sector organization responsible for setting accounting standards in the United States.

Answer: FALSE

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

4) The FASB's due process invites various interested parties to indicate their opinions about whether financial accounting standards should be changed.

Answer: TRUE

Difficulty: 1 Easy

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

5) Accounting for stock-based compensation is an area in which the FASB has received little political interference.

Answer: FALSE

Difficulty: 1 Easy

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

6) The Public Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) changed the entity responsible for setting standards for auditing public companies in the United States.

Answer: TRUE

Difficulty: 1 Easy

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

7) A rules-based approach to standard-setting stresses professional judgment as opposed to following a list of rules.

Answer: FALSE

Difficulty: 1 Easy

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

8) Under federal securities laws, the SEC has the authority to set accounting standards in the United States.

Answer: TRUE

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

9) The primary responsibility for properly applying GAAP when communicating with investors and creditors through financial statements lies with a firm's auditors.

Answer: FALSE

Difficulty: 1 Easy

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

10) Auditors play an important role in the resource allocation process by adding credibility to financial statements.

Answer: TRUE

Difficulty: 1 Easy

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

11) The purpose of the conceptual framework is to provide a structure and framework for a consistent set of GAAP.

Answer: TRUE

Difficulty: 1 Easy

Topic: Conceptual framework―Purpose

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

12) In the United States, the conceptual framework indicates GAAP when a more specific accounting standard does not apply.

Answer: FALSE

Difficulty: 1 Easy

Topic: Conceptual framework―Purpose

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

13) Materiality can be affected by the dollar amount of an item, the nature of the item, or both.

Answer: TRUE

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

14) According to the FASB's Statements of Financial Accounting Concepts, conservatism is a desired qualitative characteristic of accounting information.

Answer: FALSE

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

15) Equity is a residual amount representing the owner's interest in the assets of the business.

Answer: TRUE

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

16) Revenues are inflows of assets or settlements of liabilities from activities that constitute the entity's ongoing operations.

Answer: TRUE

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

17) Gains or losses result, respectively, from the disposition of business assets for greater than, or less than, their book values.

Answer: TRUE

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

18) Comprehensive income is another term for net income.

Answer: FALSE

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

19) The FASB's conceptual framework lists relevance and timeliness as the two fundamental qualitative characteristics of decision-useful information.

Answer: FALSE

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

20) The monetary unit assumption requires that items in financial statements be measured in a particular monetary unit.

Answer: TRUE

Difficulty: 1 Easy

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

21) The periodicity assumption requires that present value calculations take into account the number of compounding periods in each year.

Answer: FALSE

Difficulty: 1 Easy

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

22) Determining fair value by calculating the present value of future cash flows is a level 1 type of input.

Answer: FALSE

Difficulty: 1 Easy

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

23) The FASB's framework for measuring fair value doesn't change the situations in which fair value is used under current GAAP.

Answer: TRUE

Difficulty: 1 Easy

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

24) The revenue/expense approach emphasizes determining the appropriate amounts of revenue and expense in each reporting period.

Answer: TRUE

Difficulty: 1 Easy

Topic: Evolving GAAP

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

25) The asset/liability approach emphasizes matching to determine what assets and liabilities should be reflected on the balance sheet.

Answer: FALSE

Difficulty: 1 Easy

Topic: Evolving GAAP

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

26) In IFRS, the conceptual framework indicates appropriate accounting when a more specific accounting standard does not apply.

Answer: TRUE

Difficulty: 1 Easy

Topic: International Financial Reporting Standards

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

Blooms: Remember

AACSB: Diversity

AICPA: BB Global

27) Political pressure never affects the IFRS standard-setting process.

Answer: FALSE

Difficulty: 1 Easy

Topic: International Financial Reporting Standards

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

Blooms: Remember

AACSB: Diversity

AICPA: BB Global

AICPA: BB Legal

28) External decision makers would not look primarily to financial accounting information to assist them in making decisions on:

A) Granting credit.

B) Capital budgeting.

C) Selecting stocks.

D) Mergers and acquisitions.

Answer: B

Difficulty: 1 Easy

Topic: Environment of financial accounting and reporting

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Resource management

29) The primary focus for financial accounting information is to provide information useful for:

|  |  |  |
| --- | --- | --- |
|  | Investing decisions | Credit decisions |
| a. | Yes | Yes |
| b. | Yes | No |
| c. | No | Yes |
| d. | No | No |

A) Option a.

B) Option b.

C) Option c.

D) Option d.

Answer: A

Difficulty: 1 Easy

Topic: Environment of financial accounting and reporting

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Resource management

AICPA: FN Risk analysis

30) Which of the following groups is **not** among the external users for whom financial statements are prepared?

A) Customers.

B) Suppliers.

C) Employees.

D) Customers, suppliers, and employees are all external users of financial statements.

Answer: D

Difficulty: 1 Easy

Topic: Environment of financial accounting and reporting

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Risk analysis

31) Which of the following is **not** true about net operating cash flow?

A) It is the difference between cash receipts and cash disbursements from providing goods and services.

B) It is a measure used in accrual accounting and is recognized as the best predictor of future operating cash flows.

C) Over short periods, it may not be indicative of long-run cash-generating ability.

D) It is easy to understand and all information required to measure it is factual.

Answer: B

Difficulty: 2 Medium

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

32) Which of the following groups is **not** among financial intermediaries?

A) Mutual fund managers.

B) Financial analysts.

C) CPAs.

D) Credit rating organizations.

Answer: C

Difficulty: 2 Medium

Topic: Environment of financial accounting and reporting

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

33) Which of the following was the first private-sector entity that set accounting standards in the United States?

A) Accounting Principles Board.

B) Committee on Accounting Procedure.

C) Financial Accounting Standards Board.

D) AICPA.

Answer: B

Difficulty: 2 Medium

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

34) Which of the following does **not** provide guidance about GAAP for companies that are publicly listed on a stock exchange?

A) FASB

B) IASB

C) GASB

D) EITF

Answer: C

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

35) Porite Company recognizes revenue in the period in which it records an asset for the related account receivable, rather than in the period in which the account receivable is collected in cash. Porite's practice is an example of:

A) Cash basis accounting.

B) Accrual accounting.

C) The matching principle.

D) Economic entity.

Answer: B

Difficulty: 1 Easy

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Evaluate

AACSB: Analytical Thinking

AICPA: FN Measurement

36) Which of the following is **not** a potential benefit of accrual accounting, compared to cash-basis accounting?

A) Timeliness.

B) Better reflecting economic activity.

C) Periodicity.

D) Better matching of revenues and expenses.

Answer: C

Difficulty: 1 Easy

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

37) In a recent annual report, Apple Computer reported the following in one of its disclosure notes: "Warranty Expense: The Company provides currently for the estimated cost for product warranties at the time the related revenue is recognized." This note exemplifies Apple's use of:

A) Conservatism.

B) Matching.

C) Revenue recognition.

D) Economic entity.

Answer: B

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Evaluate

AACSB: Analytical Thinking

AICPA: BB Critical thinking

38) GAAP is an abbreviation for:

A) Generally authorized accounting procedures.

B) Generally applied accounting procedures.

C) Generally accepted auditing practices.

D) Generally accepted accounting principles.

Answer: D

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

39) The FASB issues accounting standards in the form of:

A) Accounting Research Bulletins.

B) Accounting Standards Updates.

C) Financial Accounting Standards.

D) Financial Technical Bulletins.

Answer: B

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

40) Pronouncements issued by the Committee on Accounting Procedures:

A) Dealt with specific accounting and reporting problems.

B) Were based on exposure drafts and public comment letters.

C) Originated from congressional studies and SEC directives.

D) Were the outcome of research studies and a theoretical framework.

Answer: A

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

41) The FASB's standard-setting process includes, in the correct order:

A) Exposure draft, research, discussion paper, Accounting Standards Update.

B) Research, exposure draft, discussion paper, Accounting Standards Update.

C) Research, discussion paper, exposure draft, Accounting Standards Update.

D) Discussion paper, research, exposure draft, Accounting Standards Update.

Answer: C

Difficulty: 1 Easy

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

42) Which of the following is **not** a provision of the Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley)? The Act:

A) Changed the entity responsible for setting auditing standards.

B) Increased corporate executive responsibility for financial statements.

C) Limited nonaudit services that can be performed by auditors for audit clients.

D) Changed the entity responsible for setting accounting standards.

Answer: D

Difficulty: 1 Easy

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

43) CPAs are licensed by:

A) The AICPA.

B) The SEC.

C) The federal government.

D) State governments.

Answer: D

Difficulty: 1 Easy

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

44) Which of the following has the statutory authority to set accounting standards in the United States?

A) FASB.

B) IRS.

C) SEC.

D) AICPA.

Answer: C

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

45) When a registrant company submits its annual filing to the SEC, it uses:

A) Form 10-A.

B) Form 10-K.

C) Form 10-Q.

D) Form S-1.

Answer: B

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

46) The most likely important flaw leading to the demise of the APB was the perceived lack of:

A) Confidence.

B) Competence.

C) Independence.

D) Importance.

Answer: C

Difficulty: 2 Medium

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

47) Accounting standard-setting has been characterized as:

A) A political process.

B) Using the scientific method.

C) Pure deductive reasoning.

D) Pure inductive reasoning.

Answer: A

Difficulty: 1 Easy

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

48) The International Accounting Standards Board:

A) Was the predecessor to the IASC.

B) Can overrule the FASB when their policies disagree.

C) Promotes the use of high-quality, understandable global accounting standards.

D) Has its headquarters in Geneva.

Answer: C

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards; International Financial Reporting Standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.; 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

Blooms: Remember

AACSB: Reflective Thinking

AACSB: Diversity

AICPA: BB Global

AICPA: BB Legal

49) Which of the following is **not** a provision of the Public Company Accounting Reform and Investor Protection Act of 2002?

A) Corporate executive accountability.

B) Auditor rotation.

C) Retention of work papers.

D) All of these answer choices are correct.

Answer: D

Difficulty: 1 Easy

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

50) The primary professional organization for those accountants working in industry is the:

A) AAA.

B) AICPA.

C) IIA.

D) IMA.

Answer: D

Difficulty: 1 Easy

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

51) Regarding convergence of accounting standards, the FASB and IASB:

A) Have agreed to combine their organizations to form the BUSYB.

B) Have achieved full convergence with respect to financial instruments.

C) Do not intend to work together to achieve convergence where possible.

D) Are not likely to achieve full convergence of accounting standards in the near future.

Answer: D

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards; International Financial Reporting Standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.; 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

Blooms: Remember

AACSB: Diversity

AICPA: BB Global

52) Which of the following is **not** a concern regarding IFRS adoption by the U.S.?

A) Need for the U.S. to have strong influence on the standard-setting process and ensure that standards meet U.S. needs.

B) Geographic dispersion of standard setters make it unlikely that boards can interact to achieve consensus.

C) The high costs to companies of converting to IFRS.

D) The fact that many laws, regulations and private contracts reference U.S. GAAP.

Answer: B

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Diversity

AICPA: BB Global

53) The most political issue in the FASB's most recent deliberations and amendments to GAAP on stock options was:

A) The negative effects on earnings of companies in the tech industry if they had to recognize expenses associated with stock compensation.

B) The negative effects on assets of recognizing stock options in equity.

C) The disclosure of stock compensation expense in the notes.

D) Accounting for stock options that have not yet been granted to employees.

Answer: A

Difficulty: 3 Hard

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

54) An important historical reason for the FASB reversing its positions when political pressures occur is:

A) The cost of gathering data was prohibitive.

B) The difficulties in measurement were too great.

C) Companies withdraw financial support for the FASB.

D) The SEC did not support the FASB position.

Answer: D

Difficulty: 2 Medium

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

55) The most recent example of the political process at work in standard-setting is the heated debate that occurred on the issue of:

A) Creation of the FASB.

B) Accounting for stock compensation.

C) Establishing the SEC.

D) Accounting for fair values.

Answer: D

Difficulty: 2 Medium

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

56) Independent auditors express an opinion on the:

A) Fairness of financial statements.

B) Accuracy of financial statements.

C) Soundness of a company's future.

D) Quality of a company's management.

Answer: A

Difficulty: 2 Medium

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: FN Reporting

57) The possibility that the capital markets' focus on periodic profits may tempt a company's management to bend or even break accounting rules to inflate reported net income is an example of:

A) An ethical dilemma.

B) An accounting theory issue.

C) A technical accounting issue.

D) An auditor's responsibility to inform the SEC.

Answer: A

Difficulty: 2 Medium

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Evaluate

AACSB: Analytical Thinking

AACSB: Ethics

AICPA: BB Resource management

AICPA: FN Risk analysis

58) One of the elements that many believe distinguishes a profession from other occupations is the acceptance of responsibility by its members for the interests of those it serves, which is often articulated in:

A) Its conceptual framework.

B) Its code of ethics.

C) Federal laws.

D) State laws.

Answer: B

Difficulty: 2 Medium

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Ethics

AICPA: BB Critical thinking

59) *SFAC* *8* of the conceptual framework focuses on:

A) Objective and qualitative characteristics.

B) Presentation and disclosure.

C) Recognition and measurement.

D) Elements of financial statements.

Answer: A

Difficulty: 1 Easy

Topic: Conceptual framework―Purpose

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

60) The FASB's conceptual framework's qualitative characteristics of accounting information include:

A) Historical cost.

B) Realization.

C) Faithful representation.

D) Full disclosure.

Answer: C

Difficulty: 1 Easy

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

61) The FASB's conceptual framework's qualitative characteristics of accounting information include:

A) Full disclosure.

B) Relevance.

C) Going concern.

D) Historical cost.

Answer: B

Difficulty: 1 Easy

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

62) The conceptual framework's qualitative characteristic of relevance includes:

A) Predictive value.

B) Verifiability.

C) Completeness.

D) Neutrality.

Answer: A

Difficulty: 1 Easy

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

63) The conceptual framework's qualitative characteristic of faithful representation includes:

A) Predictive value.

B) Neutrality.

C) Confirmatory value.

D) Timeliness.

Answer: B

Difficulty: 1 Easy

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

64) *SFAC* *No*.*5* focuses on:

A) Objectives of financial reporting.

B) Qualitative characteristics of accounting information.

C) Recognition and measurement concepts in accounting.

D) Elements of financial statements.

Answer: C

Difficulty: 2 Medium

Topic: Conceptual framework―Purpose

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

65) The main issue in the debate over accounting for employee stock options was:

A) Which employees should receive options.

B) The amount of compensation expense that a company should recognize.

C) How many options should be granted to key executives.

D) The tax consequences of employee stock options.

Answer: B

Difficulty: 2 Medium

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

66) Confirmatory value is central to the concept of “earnings quality” because

A) It helps investors predict a company’s future earnings.

B) It allows investors to verify or change their prior assessments of a company’s performance.

C) It helps investors predict a company’s future cash flows.

D) It allows investors to compare the performance of a company over time.

Answer: B

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

67) A firm's comprehensive income always:

A) Is the same as its net income.

B) Is greater than its net income.

C) Is less than its net income.

D) Could be greater than or less than net income.

Answer: D

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

68) Net income equals:

A) Assets minus liabilities.

B) Revenues minus cost of goods sold.

C) Revenues minus expenses.

D) Cash receipts minus cash payments.

Answer: C

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

69) Enhancing qualitative characteristics of accounting information include each of the following **except**:

A) Timeliness.

B) Materiality.

C) Comparability.

D) Verifiability.

Answer: B

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

70) The enhancing qualitative characteristic of understandability means that information should be understood by:

A) Those who are experts in the interpretation of financial information.

B) Those who have a reasonable understanding of business and economic activities.

C) Financial analysts.

D) CPAs.

Answer: B

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

71) Fundamental qualitative characteristics of accounting information are:

A) Relevance and comparability.

B) Comparability and consistency.

C) Faithful representation and relevance.

D) Neutrality and consistency.

Answer: C

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

72) Enhancing qualitative characteristics of accounting information include:

A) Relevance and comparability.

B) Comparability and timeliness.

C) Understandability and relevance.

D) Neutrality and consistency.

Answer: B

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

73) Gains are:

A) Inflows from selling a product or service to a customer.

B) Increases in equity resulting from transfers of assets to the company from owners.

C) Increases in equity from peripheral transactions of an entity.

D) None of these answer choices are correct.

Answer: C

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

74) When there is agreement between a measure or description and the phenomenon it purports to represent, information possesses which characteristic?

A) Verifiability.

B) Predictive value.

C) Faithful representation.

D) Timeliness.

Answer: C

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

75) Surefeet Corporation changed its inventory valuation method. Which characteristic is jeopardized by this change?

A) Comparability.

B) Representational faithfulness.

C) Consistency.

D) Feedback value.

Answer: C

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

76) Elements of financial statements do **not** include:

A) Monetary unit.

B) Investments by owners.

C) Comprehensive income.

D) Losses.

Answer: A

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

77) Which of the following is true regarding equity?

A) It represents how much the owner profits from the business.

B) It represents the owner’s residual interest in the assets of the business.

C) It represents the owner’s return for investing in the business.

D) It represents the accumulated earnings of the business over time.

Answer: B

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Bloom's: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

78) Cash dividends are an example of which of the following elements?

A) Distribution to owners

B) Expenses

C) Equity

D) Investment by owners

Answer: A

Difficulty: 1 Easy

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

79) The primary objective of financial accounting information is to provide useful information to:

A) Management.

B) Capital providers.

C) Regulators.

D) Academicians.

Answer: B

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

80) Of the following, the most important objective for financial reporting is to provide information useful for:

A) Making decisions.

B) Determining taxable income.

C) Providing accountability.

D) Increasing future profits.

Answer: A

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

81) Management has decided to change the estimated useful life of a machinery but fails to disclose this change in the financial statements. This violation of GAAP can cause the information to be misleading because it lacks

A) Neutrality

B) Timeliness

C) Completeness

D) Confirmatory value

Answer: C

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

82) Management has recently purchased new equipment but is uncertain about its useful life. For the initial year, management estimated a useful life of 10 years. However, due to a major accident during the first year, management is now uncertain about the equipment’s functionality and has revised its estimate to 5 years and included a description of their uncertainty and of this change in estimated useful life in financial statement disclosures. Which of the following is an accurate statement regarding this approach?

A) Information contains error because management changed its estimates on the useful life of the equipment.

B) Information contains error because the useful life of the equipment is uncertain.

C) Information is free from error because management has provided enough disclosure regarding the uncertain estimate.

D) Information is free from error because management made the correct decision in revising the estimated useful life of the equipment.

Answer: C

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

83) Roy Wilton is a CPA who recently made a poor investment. When researching the investment, Roy examined the financial statements of the firm, but did not read the accompanying footnotes, and therefore didn’t comprehend the broader context underlying those financial statements. Which of the following is true with respect to the enhancing qualitative characteristic of understandability in this case?

A) This demonstrates a violation of understandability, given that Roy did not comprehend all relevant information.

B) This does not demonstrate a violation of understandability, as Roy did not bother to read the footnotes but could have understood them if he did so.

C) This does not demonstrate a violation of understandability, but rather completeness, as Roy’s understanding was incomplete.

D) This demonstrates a violation of understandability, as CPAs should be able to rely on the financial statements alone.

Answer: B

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Bloom's: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

84) A constraint on qualitative characteristics of accounting information is:

A) Timeliness.

B) Going concern.

C) Neutrality.

D) Cost-effectiveness.

Answer: D

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

85) According to the conceptual framework, verifiability implies:

A) Legal evidence.

B) Logic.

C) Consensus.

D) Legal verdict.

Answer: C

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

86) Maltec Corporation has started placing its quarterly financial statements on its web page, thereby reducing by 10 days the time to get information to investors and creditors. The qualitative concept improved is:

A) Comparability.

B) Consistency.

C) Timeliness.

D) Faithful representation.

Answer: C

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

87) Recognizing expected losses immediately, but deferring expected gains, is an example of:

A) Materiality.

B) Conservatism.

C) Cost-effectiveness.

D) Timeliness.

Answer: B

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

88) Change in equity from nonowner sources is:

A) Comprehensive income.

B) Revenues.

C) Expenses.

D) Gains and losses.

Answer: A

Difficulty: 2 Medium

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

89) Which of the following Statements of Financial Accounting Concepts defines the 10 elements of financial statements?

A) *SFAC* *4*.

B) *SFAC* *3*.

C) *SFAC* *5*.

D) *SFAC* *6*.

Answer: D

Difficulty: 2 Medium

Topic: Concepts―Elements of financial statements

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

90) Primecoat Corporation could disseminate its annual financial statements two days earlier if it shifted substantial human resources from other operations to the annual report project. Management decided the value of the earlier report was not worth the added commitment of resources. The concept demonstrated is:

A) Timeliness.

B) Materiality.

C) Relevance.

D) Cost-effectiveness.

Answer: D

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Resource management

91) Mega Loan Company has very stringent credit requirements and, accordingly, has negligible losses from uncollectible accounts. The company's independent accountants did not protest when, contrary to GAAP, the company recorded bad debt expense only when specific accounts were determined to be uncollectible, rather than use an allowance for uncollectible accounts. The concept demonstrated is:

A) Comparability.

B) Faithful representation.

C) Cost-effectiveness.

D) Materiality.

Answer: D

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

92) Four different competent accountants independently agree on the amount and method of reporting an economic event. The concept demonstrated is:

A) Reliability.

B) Comparability.

C) Completeness.

D) Verifiability.

Answer: D

Difficulty: 2 Medium

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

93) An important argument in support of historical cost information is:

A) Relevance.

B) Predictive quality for future cash flows.

C) Materiality.

D) Verifiability.

Answer: D

Difficulty: 1 Easy

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

94) The conceptual framework's recognition and measurement concepts recognize which one of the following as an assumption?

A) Going concern.

B) Historical cost.

C) Full disclosure.

D) Realization.

Answer: A

Difficulty: 1 Easy

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

95) The assumption that in the absence of contrary information a business entity will continue indefinitely is the:

A) Periodicity assumption.

B) Entity assumption.

C) Going concern assumption.

D) Historical cost assumption.

Answer: C

Difficulty: 2 Medium

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

96) If a company has declared bankruptcy, its financial statements likely violate:

A) The fair value measurement approach.

B) The present value measurement approach.

C) The stable monetary unit assumption.

D) The going concern assumption.

Answer: D

Difficulty: 2 Medium

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Create

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

97) Which of the following is typically characterized as a principle, rather than an assumption?

A) Periodicity.

B) Monetary unit.

C) Conservatism.

D) Full disclosure.

Answer: D

Difficulty: 1 Easy

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

98) Which of the following is **not** an identified valuation technique in GAAP regarding fair value measurement?

A) Cost approach.

B) Market approach.

C) Cost-benefit approach.

D) Income approach.

Answer: C

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

99) Disclosure notes to a company's financial statements:

A) Are relatively unimportant facts that don't belong in the basic financial statements.

B) Document the source of financial statement facts, like literary footnotes.

C) Are an integral part of a company's financial statements.

D) Are irrelevant facts that are immaterial in amount.

Answer: C

Difficulty: 1 Easy

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

100) A cause-and-effect relationship is implicit in:

A) Realization.

B) Historical cost.

C) Matching.

D) The going concern assumption.

Answer: C

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

101) The full disclosure principle requires a balance between:

A) Comparability and consistency.

B) Relevance and cost-effectiveness.

C) Reliability and neutrality.

D) Timeliness and predictive value.

Answer: B

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

102) The recognition of which of the following expenses exemplifies the application of matching expenses with the revenues they produced?

A) President's salary.

B) Research and development.

C) Cost of goods sold.

D) Advertising.

Answer: C

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

103) Land was acquired in 2021 for a future building site at a cost of $40,000. The assessed valuation for tax purposes is $27,000, a qualified appraiser placed its value at $48,000, and a recent firm offer for the land was for a cash payment of $46,000. The land should be reported in the financial statements at:

A) $40,000.

B) $27,000.

C) $46,000.

D) $48,000.

Answer: A

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

104) Revenue should not be recognized until:

A) The seller has transferred goods or services to a customer.

B) Contracts have been signed and payment has been received.

C) Work has been performed and customer has been billed.

D) Collection has been made and warrantees have expired.

Answer: A

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

105) Which of the following best demonstrates the full disclosure principle?

A) The multi-step income statement.

B) The auditors' report.

C) The company's tax return.

D) Disclosure notes to financial statements.

Answer: D

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Create

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

106) Matching is:

A) A valuation method.

B) A result of recognizing revenues and expenses that arise from the same transaction.

C) A cash basis reporting principle.

D) An asset classification procedure.

Answer: B

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

107) Which of the following best describes the additional information that companies use to meet the requirements of full disclosure in financial statements?

A) Parenthetical comments or modifying comments placed on the face of the financial statements.

B) Disclosure notes conveying additional insights about company operations, accounting principles, contractual agreements, and pending litigation.

C) Supplemental schedules and tables that report more detailed information than is shown in the primary financial statements.

D) Comments on the face of the financial statements, and schedules, tables, and narrative disclosures in notes to the financial statements.

Answer: D

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: FN Measurement

108) Ford Motor Company purchases services from suppliers on account and sells its products to distributors on short-term credit. As a result, do each of these events affect net income faster than they affect net operating cash flows?

|  |  |  |
| --- | --- | --- |
|  | Purchase Services | Sell Products |
| a. | Yes | Yes |
| b. | Yes | No |
| c. | No | Yes |
| d. | No | No |

A) Option a.

B) Option b.

C) Option c.

D) Option d.

Answer: A

Difficulty: 3 Hard

Topic: Cash versus accrual accounting; Concepts--Recognition-Measurement-Disclosure

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.; 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

109) The revenue/expense approach emphasizes:

A) Recognition of revenues.

B) Recognition of expenses.

C) The income statement.

D) All of these answer choices are correct.

Answer: D

Difficulty: 1 Easy

Topic: Evolving GAAP

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

110) The asset/liability approach emphasizes:

A) Whether amounts on the balance sheet meet the definitions of assets and liabilities.

B) A close relation between the balance sheet and the statement of cash flows.

C) The distinction between net assets and gross assets.

D) All of these answer choices are correct.

Answer: A

Difficulty: 1 Easy

Topic: Evolving GAAP

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

111) Under IFRS, the role of the conceptual framework:

A) Primarily involves guiding standard setters to make sure that standards are consistent with each other.

B) Includes serving as a guide for practitioners when a specific standard does not apply.

C) Is less important than in U.S. GAAP.

D) Has resulted primarily from a convergence with U.S. GAAP.

Answer: B

Difficulty: 1 Easy

Topic: International Financial Reporting Standards

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

Blooms: Remember

AACSB: Diversity

AICPA: BB Global

112) Under IFRS, the conceptual framework:

A) Emphasizes the overarching concept of the financial statements providing a "true and fair representation" of the company.

B) Is not designed to provide guidance to standard setters, but rather only to practitioners.

C) Is not designed to provide guidance to practitioners, but rather only to standard setters.

D) Specifies a set of rules that determine what constitutes a true IFRS standard.

Answer: A

Difficulty: 2 Medium

Topic: International Financial Reporting Standards

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

Blooms: Remember

AACSB: Diversity

AICPA: BB Global

**Matching Pair Questions**

113. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Predictive value | Information is useful in projecting cash flows. | \_\_\_\_ |
| 2. Relevance | Pertinent to the decision at hand. | \_\_\_\_ |
| 3. Distribution to owners | Information is available prior to the decision. | \_\_\_\_ |
| 4. Confirmatory value | Decrease in equity due to transfers to owners. | \_\_\_\_ |
| 5. Timeliness | Information confirms expectations. | \_\_\_\_ |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **TERM** | **PHRASE** | | **Term number that matches the phrase.** |
|  |  |  | |
| 1. Predictive value | Information is useful in projecting cash flows. | **1** | |
| 2. Relevance | Pertinent to the decision at hand. | **2** | |
| 3. Distribution to owners | Information is available prior to the decision. | **5** | |
| 4. Confirmatory value | Decrease in equity due to transfers to owners. | **3** | |
| 5. Timeliness | Information confirms expectations. | **4** | |

Level of Learning: 2 Medium

Learning Objective: 01-06

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area: Conceptual framework―Purpose

Topic Area: Concepts―Qualitative characteristics

Topic Area: Concepts―Elements of financial statements

Topic Area: GAAP―Underlying assumptions

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

114. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Gain | Along with relevance, a fundamental decision-specific quality. | \_\_\_\_ |
| 2. Materiality | Results if an asset is sold for more than book value. | \_\_\_\_ |
| 3. Completeness | Contains all information necessary for faithful representation. | \_\_\_\_ |
| 4. Comprehensive income | The change in equity from nonowner transactions. | \_\_\_\_ |
| 5. Faithful representation | Concerns the decision-making impact of both the amount and nature of an item. | \_\_\_\_ |

Answer:

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
|  |  |  |
| 1. Gain | Along with relevance, a fundamental decision-specific quality. | **5** |
| 2. Materiality | Results if an asset is sold for more than book value. | **1** |
| 3. Completeness | Contains all information necessary for faithful representation. | **3** |
| 4. Comprehensive income | The change in equity from nonowner transactions. | **4** |
| 5. Faithful representation | Concerns the decision-making impact of both the amount and nature of an item. | **2** |

Level of Learning: 2 Medium

Learning Objective: 01-06

Learning Objective: 01-07

Topic Area: Conceptual framework―Purpose

Topic Area: Concepts―Qualitative characteristics

Topic Area: Concepts―Elements of financial statements

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

115. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Neutrality | Important in analysis between firms. | \_\_\_\_ |
| 2. Comparability | Accounting information should be unbiased. | \_\_\_\_ |
| 3. Consistency | The decision to include an amount in the financial statements. | \_\_\_\_ |
| 4. Cost-effectiveness | Applying the same accounting practices over time. | \_\_\_\_ |
| 5. Recognition | Considers the value of using information relative to cost of providing it. | \_\_\_\_ |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **TERM** | **PHRASE** | | **Term number that matches the phrase.** |
|  |  |  | |
| 1. Neutrality | Important in analysis between firms. | **2** | |
| 2. Comparability | Accounting information should be unbiased. | **1** | |
| 3. Consistency | The decision to include an amount in the financial statements. | **5** | |
| 4. Cost-effectiveness | Applying the same accounting practices over time. | **3** | |
| 5. Recognition | Considers the value of using information relative to cost of providing it. | **4** | |

Level of Learning: 2 Medium

Learning Objective: 01-06

Learning Objective: 01-07

Learning Objective: 01-09

Topic Area: Conceptual framework―Purpose

Topic Area: Concepts―Qualitative characteristics

Topic Area: Concepts―Recognition–Measurement–Disclosure

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

116. Listed below are five terms are followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Monetary unit assumption | Implies consensus among different observers. | \_\_\_\_ |
| 2. Verifiability | Assumes all transactions can be identified with a particular entity. | \_\_\_\_ |
| 3. Economic entity assumption | Assumes an entity will continue to operate indefinitely. | \_\_\_\_ |
| 4. Going concern assumption | Requires reporting the financial life of an entity in discrete time frames. | \_\_\_\_ |
| 5. Periodicity assumption | Ignores the possibility of inflation. | \_\_\_\_ |

Answer:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **TERM** | **PHRASE** | | **Term number that matches the phrase.** | |
|  |  |  | |
| 1. Monetary unit assumption | Implies consensus among different observers. | **2** | |
| 2. Verifiability | Assumes all transactions can be identified with a particular entity. | **3** | |
| 3. Economic entity assumption | Assumes an entity will continue to operate indefinitely. | **4** | |
| 4. Going concern assumption | Requires reporting the financial life of an entity in discrete time frames. | **5** | |
| 5. Periodicity assumption | Ignores the possibility of inflation. | **1** | |

Level of Learning: 2 Medium

Learning Objective: 01-07

Learning Objective: 01-08

Topic Area: Concepts―Qualitative characteristics

Topic Area: GAAP―Underlying assumptions

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

117. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Historical cost | Basis of measurement for fixed assets. | \_\_\_\_ |
| 2. Materiality | Discounts future cash flows. | \_\_\_\_ |
| 3. Revenue recognition | Occurs when goods or services are transferred to the customer. | \_\_\_\_ |
| 4. Full disclosure | Reporting of all information that could affect decisions. | \_\_\_\_ |
| 5. Present value | Application of GAAP sometimes avoided under this constraint. | \_\_\_\_ |

Answer:

|  |  |  |  |
| --- | --- | --- | --- |
| **TERM** | **PHRASE** | | **Term number that matches the phrase.** |
|  |  |  | |
| 1. Historical cost | Basis of measurement for fixed assets. | **1** | |
| 2. Materiality | Discounts future cash flows. | **5** | |
| 3. Revenue recognition | Occurs when goods or services are transferred to the customer. | **3** | |
| 4. Full disclosure | Reporting of all information that could affect decisions. | **4** | |
| 5. Present value | Application of GAAP sometimes avoided under this constraint. | **2** | |

Level of Learning: 2 Medium

Learning Objective: 01-06

Learning Objective: 01-07

Learning Objective: 01-09

Topic Area: Conceptual framework―Purpose

Topic Area: Concepts―Qualitative characteristics

Topic Area: Concepts―Recognition–Measurement–Disclosure

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

118. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
|  |  |  |
| 1. Financial Accounting  Standards Board | Undermines representational faithfulness by being inconsistent with neutrality. | \_\_\_\_ |
| 2. Accounting Principles Board | It established GAAP before the FASB. | \_\_\_\_ |
| 3. Conservatism | Its *EITF Issues* are GAAP when entered in the Accounting Standards Codification. | \_\_\_\_ |
| 4. American Institute of CPAs (AICPA) | It has the authority to set U.S. accounting standards. | \_\_\_\_ |
| 5. Securities and Exchange  Commission | It is the national organization for CPAs in the United States. | \_\_\_\_ |

Answer:

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
|  |  |  |
| 1. Financial Accounting  Standards Board | Undermines representational faithfulness by being inconsistent with neutrality. | **3** |
| 2. Accounting Principles Board | It established GAAP before the FASB. | **2** |
| 3. Conservatism | Its *EITF Issues* are GAAP when entered in the Accounting Standards Codification. | **1** |
| 4. American Institute of CPAs (AICPA) | It has the authority to set U.S. accounting standards. | **5** |
| 5. Securities and Exchange  Commission | It is the national organization for CPAs in the United States. | **4** |

Level of Learning: 2 Medium

Learning Objective: 01-03

Learning Objective: 01-05

Learning Objective: 01-07

Topic Area: Development of accounting and reporting standards

Topic Area: Encouraging high-quality financial reporting

Topic Area: Concepts―Qualitative characteristics

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: BB Legal

119. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Expenses | Net assets. | \_\_\_\_ |
| 2. Equity | Outflows of resources to generate revenues. | \_\_\_\_ |
| 3. Distributions to owners | Cash dividends. | \_\_\_\_ |
| 4. Investments by owners | Claims of creditors against the assets of a business. | \_\_\_\_ |
| 5. Liabilities | Transfers of resources in exchange for common and preferred stock. | \_\_\_\_ |

Answer:

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Expenses | Net assets. | **2** |
| 2. Equity | Outflows of resources to generate revenues. | **1** |
| 3. Distributions to owners | Cash dividends. | **3** |
| 4. Investments by owners | Claims of creditors against the assets of a business. | **5** |
| 5. Liabilities | Transfers of resources in exchange for common and preferred stock. | **4** |

Level of Learning: 1 Easy

Learning Objective: 01-07

Topic Area: Concepts―Elements of financial statements

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

120. Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Losses | Net outflows from peripheral transactions. | \_\_\_\_ |
| 2. Assets | Increases in equity from the sale of goods and/or services. | \_\_\_\_ |
| 3. Revenues | Results if an asset is sold for more than book value. | \_\_\_\_ |
| 4. Comprehensive income | All changes in equity except owner transactions. | \_\_\_\_ |
| 5. Gains | Probable future economic benefits controlled by an entity. | \_\_\_\_ |

Answer:

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. Losses | Net outflows from peripheral transactions. | **1** |
| 2. Assets | Increases in equity from the sale of goods and/or services. | **3** |
| 3. Revenues | Results if an asset is sold for more than book value. | **5** |
| 4. Comprehensive income | All changes in equity except owner transactions. | **4** |
| 5. Gains | Probable future economic benefits controlled by an entity. | **2** |

Level of Learning: 1 Easy

Learning Objective: 01-07

Topic Area: Concepts―Elements of financial statements

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

121. Listed below are 10 organizations followed by a list of phrases that describe or characterize the organizations. Match each phrase with the correct organization by placing the number designating the best term in the space provided by the phrase.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. SEC | Establishes auditing standards in the U.S for public companies. | \_\_\_\_ |
| 2. FASB | Primary national organization of accountants working in industry. | \_\_\_\_ |
| 3. IASB | Sets accounting standards in the United States. | \_\_\_\_ |
| 4. AICPA | Provides timely responses to financial reporting issues. | \_\_\_\_ |
| 5. EITF | The FASB's parent organization. | \_\_\_\_ |
| 6. PCAOB | Advises the FASB. | \_\_\_\_ |
| 7. IMA | FASB's predecessor. | \_\_\_\_ |
| 8. FASAC | Regulates the financial reporting for public companies. | \_\_\_\_ |
| 9. APB | National organization of certified public accountants. | \_\_\_\_ |
| 10. FAF | Sets global accounting standards. | \_\_\_\_ |

Answer:

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| 1. SEC | Establishes auditing standards in the U.S for public companies. | **6** |
| 2. FASB | Primary national organization of accountants working in industry. | **7** |
| 3. IASB | Sets accounting standards in the United States. | **2** |
| 4. AICPA | Provides timely responses to financial reporting issues. | **5** |
| 5. EITF | The FASB's parent organization. | **10** |
| 6. PCAOB | Advises the FASB. | **8** |
| 7. IMA | FASB's predecessor. | **9** |
| 8. FASAC | Regulates the financial reporting for public companies. | **1** |
| 9. APB | National organization of certified public accountants. | **4** |
| 10. FAF | Sets global accounting standards. | **3** |

Level of Learning: 2 Medium

Learning Objective: 01-03

Learning Objective: 01-05

Topic Area: Development of accounting and reporting standards

Topic Area: Encouraging high-quality financial reporting

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

AICPA: BB Legal

**Use this information to answer the following questions**:

Reference: Ch01-Ref01

Alpaca Corporation had revenues of $200,000 in its first year of operations. The company has not collected on $20,000 of its sales and still owes $25,000 on $70,000 of merchandise it purchased. The company had no inventory on hand at the end of the year. The company paid $15,000 in salaries. Owners invested $20,000 in the business and $20,000 was borrowed on a five-year note. The company paid $2,000 in interest that was the amount owed for the year, and paid $6,000 for a two-year insurance policy on the first day of business. Alpaca has an effective income tax rate of 40%.

122) Compute net income for the first year for Alpaca Corporation.

Answer:

Revenues $200,000

Expenses:

Cost of goods sold 70,000

Salaries 15,000

Interest 2,000

Insurance 3,000 90,000

Income before tax 110,000

Income tax at 40% 44,000

Net income $ 66,000

Difficulty: 3 Hard

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

123) Compute the cash balance at the end of the first year for Alpaca Corporation.

Answer:

Cash receipts:

Sales revenue $200,000

Less: Accounts receivable 20,000 $180,000

Owners' investments 20,000

Note payable 20,000

Total receipts 220,000

Cash disbursements:

Purchases 70,000

Less: Accounts payable 25,000 $ 45,000

Salaries paid 15,000

Interest paid 2,000

Insurance paid 6,000

Estimated taxes paid 44,000

Total cash disbursements 112,000

Ending cash balance $108,000

Difficulty: 2 Medium

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

**Use this information to answer the following questions**:

Reference: Ch01-Ref02

Tri Fecta, a partnership, had revenues of $360,000 in its first year of operations. The partnership has not collected on $35,000 of its sales and still owes $40,000 on $150,000 of merchandise it purchased. There was no inventory on hand at the end of the year. The partnership paid $25,000 in salaries. The partners invested $40,000 in the business and $25,000 was borrowed on a five-year note. The partnership paid $3,000 in interest that was the amount owed for the year and paid $8,000 for a two-year insurance policy on the first day of business.

124) Compute net income for the first year for Tri Fecta.

Answer:

Revenues $360,000

Expenses:

Cost of goods sold $150,000

Salaries expense 25,000

Interest expense 3,000

Insurance expense 4,000 182,000

Net income $178,000

Difficulty: 3 Hard

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

125) Compute the cash balance at the end of the first year for Tri Fecta.

Answer:

Cash receipts:

Sales revenue $360,000

Less: Accounts receivable 35,000 $325,000

Owners' investments 40,000

Notes payable 25,000

Total receipts 390,000

Cash disbursements:

Purchases 150,000

Less: Accounts payable 40,000 110,000

Salaries paid 25,000

Interest paid 3,000

Insurance paid 8,000

Total cash disbursements 146,000

Ending cash balance $244,000

Difficulty: 2 Medium

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

**Use this information to answer the following questions**:

Reference Ch01-Ref03

The following information ($ in millions) comes from a recent annual report of Amazon.com, Inc.:

Net sales $10,711

Total assets 4,363

End of year balance in cash 1,022

Total stockholders' equity 431

Gross profit (Sales – Cost of Sales) 2,456

Net increase in cash for the year 9

Operating expenses 2,067

Net operating cash flow 702

Other income (expense), net (12)

126) Compute Amazon's balance in cash at the beginning of the year.

Answer: Beginning balance in Cash + Net increase in Cash = Ending balance in Cash

Therefore, Beginning balance in Cash = Ending balance in Cash – Net increase in Cash

= $1,022 – 9 = $1,013

Difficulty: 2 Medium

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

127) Compute Amazon's total liabilities at the end of the year.

Answer: Total assets = Total liabilities + Total stockholders' equity

Therefore, Total liabilities = Total assets – Total stockholders' equity =

$4,363 – 431 = $3,932

Difficulty: 1 Easy

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

128) Compute Amazon's cost of goods sold for the year.

Answer: Gross profit = Net sales – Cost of goods sold

Therefore, Cost of goods sold = Net sales – Gross profit

= $10,711 – 2,456 = $8,255

Difficulty: 1 Easy

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Apply

AACSB: Knowledge Application

AICPA: BB Critical thinking

AICPA: FN Measurement

129) Compute the income before income tax for Amazon.

Answer: Net income = Gross profit – Operating expenses + Other income (expense), net

= $2,456 – 2,067 + (12) = $377

Difficulty: 1 Easy

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Apply

AICPA: BB Critical thinking

AICPA: FN Measurement

130) Compare net income (loss) for the year to net cash flow from operating activities. Why are these amounts different? Briefly explain.

Answer: These amounts are different because of the differences between cash and accrual accounting. As opposed to cash flows from operations, net income includes both revenues and expenses the timing of which differs from the timing of certain cash receipts and payments. Examples would be credit sales in which the revenues are recorded before the collection of cash and cost of goods sold in which the expense often is recorded later than the cash payment to the supplier for the merchandise.

Difficulty: 2 Medium

Topic: Cash versus accrual accounting

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

Blooms: Understand

AACSB: Reflective Thinking

AACSB: Communication

AICPA: FN Measurement

131) For each of the following situations, state whether you agree or disagree with the financial reporting practice employed, and briefly explain the reason for your answer.

1. Cantor Corporation's accountant increased the book value of a patent from its original cost of $1 million to its recently appraised value of $6 million.

2. Stanton Corporation paid for the personal travel of its chief financial officer and charged travel expense.

3. At the end of its 2021 fiscal year, Dower, Inc., received an order from a customer for $60,000. The merchandise will ship early in 2022. Because the sale was made to a long-time customer and the invoice was paid in 2021, the controller recorded the sale in 2021.

4. In the middle of its 2021 fiscal year, Sanguinetti, Inc. paid $12,000 to its insurance company for one-year comprehensive insurance coverage. Sanguinetti recorded the entire expenditure as an expense in 2021.

5. The Churchill Pharmaceutical Company included a note in its financial statements that described a pending lawsuit against the company.

6. The Daily Corporation, a company whose securities are publicly traded, prepares monthly, quarterly, and annual financial statements for internal use but disseminates to external users only the annual financial statements.

Answer:

1. Disagree. This is a violation of the historical cost (original transaction value) principle.

2. Disagree. This is a violation of the economic entity assumption.

3. Disagree. The seller has not satisfied its obligation to deliver goods.

4. Disagree. This is a violation of matching.

5. Agree. The company is conforming to the full disclosure principle.

6. Disagree. This is a violation of the periodicity assumption.

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Analyze

AACSB: Analytical Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

132) Identify or define the following terms: economic entity, going concern.

Answer: Economic entity: All economic events can be identified with a particular economic entity.

Going concern: In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely.

Difficulty: 2 Medium

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

133) List the four financial statements most frequently provided to external users.

Answer: Balance sheet, Income statement, Statement of cash flows, Statement of shareholders' equity.

Difficulty: 1 Easy

Topic: Cash versus accrual accounting

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

134) Explain and show an example of how the FASB's conceptual framework is needed in formulating standards on controversial topics.

Answer: In order to provide consistency, a conceptual framework (a map clearly defining beliefs or structure) must be provided. This is the foundation for a strong, logical, and fair system. For example, in debating accounting for stock-based compensation, the FASB's conceptual framework explains the rationale for treating stock options as an expense. By relating the accounting for such compensation to the purpose of financial statements and their qualitative characteristics, the FASB can defend its positions without the bias inherent in such controversial issues.

Difficulty: 3 Hard

Topic: Conceptual framework―Purpose

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

Blooms: Understand

AACSB: Communication

AICPA: BB Critical thinking

135) What is the SEC and how is it involved with accounting standard-setting?

Answer: The Securities and Exchange Commission is a federal agency that has the authority to set accounting standards. However, the SEC has always relied on a private-sector body, such as the current FASB, to accomplish that task.

Difficulty: 1 Easy

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Legal

136) What is the EITF and what is its purpose?

Answer: The Emerging Issues Task Force (EITF) acts as a filter for the FASB. It includes 15 individuals from public accounting and private industry along with a representative from the FASB and an SEC observer. The task force focuses on emerging issues and attempts to reach a consensus, speeding up the standard-setting process.

Difficulty: 2 Medium

Topic: Development of accounting and reporting standards

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

137) Accounting standard-setting has been characterized as a political process. Discuss this proposition giving an example.

Answer: Changes in GAAP can have significant differential effects on companies, investors, creditors, and other interest groups. The FASB must gauge the economic consequences of a change in accounting standards. The process by which financial accounting standards are created includes public comment and sometimes hearings. Ultimately, a vote must be taken to pass a proposed change in GAAP. Accounting for stock-based compensations (options) and postretirement health care benefits are examples where accounting practices have been affected by political influences on GAAP.

Difficulty: 2 Medium

Topic: GAAP―Standard-setting process

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

Blooms: Understand

AACSB: Communication

AICPA: BB Critical thinking

138) What are the key provisions of the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002?

Answer: The Act requires the regulation of auditors and the types of services they furnish to clients, increases accountability of corporate executives, addresses conflicts of interest for auditors and securities analysts, and requires that companies document and assess their internal controls. It also requires auditors to express an opinion on management's assessment of internal controls, and the auditors must also express their own opinion on company internal controls.

Difficulty: 2 Medium

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Communication

AICPA: BB Legal

139) What is the value of a company having financial statements audited by an independent auditor?

Answer: Outside auditors add credibility to financial statements, increasing the confidence of capital market participants who rely on financial statements in making investment and credit decisions and recommendations.

Difficulty: 2 Medium

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

140) What provisions did the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002 make for performance of nonaudit services by an audit firm?

Answer: The law makes it unlawful for the auditors of public companies to perform a variety of nonaudit services for audit clients. Prohibited services include bookkeeping, internal audit outsourcing, appraisal or valuation services, and various other consulting services. Other nonaudit services, including tax services, require preapproval by the audit committee of the company being audited.

Difficulty: 2 Medium

Topic: Encouraging high-quality financial reporting

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

Blooms: Remember

AACSB: Ethics

AICPA: BB Legal

141) Briefly describe how materiality is featured in the conceptual framework.

Answer: Materiality—Information is material if it can have an effect on a decision made by a user. Thus, materiality is an aspect of relevance. If an item is not material, GAAP need not be followed. For example, if a large corporation purchased a water cooler for one of its common areas for $120, the amount could be expensed rather than recorded as an asset even though the cooler will be useful for several years. Materiality is a judgment call. Materiality is concerned with both the dollar amount of an item and/or the nature of an item. It would probably be material if Microsoft received $1,000,000 in bribes from a Chinese company for its technology. A $1,000,000 write-off of old equipment would probably be immaterial for Microsoft.

Difficulty: 3 Hard

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information, and the elements of financial statements.

Blooms: Understand

AACSB: Communication

AICPA: BB Critical thinking

AICPA: FN Measurement

142) Give an example of a violation of the stable monetary unit assumption. How would it affect the quality of financial statement information?

Answer: If a country experiences severe inflation, this would violate the assumption that dollar amounts are constantly valued. This would limit the usefulness of adding numbers in financial statements, because (for instance) costs at different times are not comparable without adjusting for changes in purchasing power.

Difficulty: 2 Medium

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

143) Identify or define the following terms: periodicity, monetary unit.

Answer: Periodicity—The life of a company can be divided into artificial periods to provide timely information to external users.

Monetary unit—In the United States, financial statement elements should be measured in terms of the U.S. dollar. It assumes that the value of a dollar is stable over time.

Difficulty: 1 Easy

Topic: GAAP―Underlying assumptions

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

144) Identify or define the following term: historical cost.

Answer: Historical cost—A measurement attribute under which asset and liability measurements are based on the amount given or received in an exchange transaction.

Difficulty: 1 Easy

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

145) How does GAAP define fair value?

Answer: Fair value is defined as the price that would be received to sell assets or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

146) Over time, accounting standards have developed to reflect changes in the business world as well as changes in our ability to account for such changes. Using the example of marking assets and liabilities to their fair value, explain why you would expect accounting standards to change.

Answer: Historically, financial accounting relied on transaction amounts (historical cost) as the fundamental measurement approach for reporting assets and liabilities. As markets have matured, it is more relevant and feasible to report some assets and liabilities at their fair values, particularly if such items have a ready market that is active.

Difficulty: 2 Medium

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Understand

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

147) List and briefly describe the five measurement attributes used commonly in current GAAP.

Answer:

a. Historical cost: the amount given or received in an exchange transaction.

b. Net realizable value: the net amount of cash into which an asset is expected to be converted in the ordinary course of business.

c. Current cost: the cost that would be incurred to purchase or reproduce an asset.

d. Present value: the sum of future cash flows discounted for the time value of money.

e. Fair value: the price that would be received to sell assets or transfer liabilities in an orderly market transaction.

Difficulty: 3 Hard

Topic: Concepts―Recognition - Measurement - Disclosure

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

148) List and briefly describe the three levels of inputs described in the fair-value measurement hierarchy.

Answer:

a. Quoted market prices in active markets for identical assets or liabilities.

b. Inputs other than quoted prices that can be observed for the asset or liability. These inputs include quoted prices for similar assets or liabilities in active or inactive markets and inputs that are derived principally from or corroborated by market data that can be observed.

c. Inputs that cannot be observed that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Difficulty: 3 Hard

Topic: Concepts―Qualitative characteristics

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Blooms: Remember

AACSB: Reflective Thinking

AICPA: BB Critical thinking

AICPA: FN Measurement

149) Contrast the asset/liability and revenue/expense approaches to accounting standard setting.

Answer: Under the revenue/expense approach, we emphasize principles for recognizing revenues and expenses, with some assets and liabilities recognized as necessary to make the balance sheet reconcile with the income statement. Much of our accounting for revenues and expenses follows this revenue/expense approach.

Under the asset/liability approach, on the other hand, we first recognize and measure the assets and liabilities that exist at a balance sheet date and, secondly, recognize and measure the revenues, expenses, gains and losses needed to account for the changes in these assets and liabilities from the previous measurement date. Therefore, we should try to recognize and measure assets and liabilities appropriately, and as a result will also capture their inflows and outflows in a manner that provides relevant and representationally faithful information about revenues and expenses.

Difficulty: 3 Hard

Topic: Evolving GAAP

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

Blooms: Remember

AACSB: Communication

AICPA: BB Critical thinking

AICPA: FN Measurement

150) Contrast the role of the conceptual framework in U.S. GAAP and IFRS.

Answer: The conceptual frameworks in U.S. GAAP and IFRS are very similar and are converging even more with ongoing efforts by the FASB and IASB. However, in U.S. GAAP, the conceptual framework primarily provides guidance to standard setters to help them develop high-quality standards. In IFRS the conceptual framework guides standard setting, but in addition it is supposed to provide a basis for practitioners to make accounting judgments when another IFRS standard does not apply. Also, IFRS emphasizes the overarching concept of the financial statements providing a "true and fair representation" of the company. U.S. GAAP does not include a similar requirement, but U.S. auditing standards require this consideration.

Difficulty: 3 Hard

Topic: International Financial Reporting Standards―IFRS

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

Blooms: Remember

AACSB: Communication

AICPA: BB Critical thinking