**Chapter 1**

Introduction to accounting

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

1) Which of the following is the most important function of an accounting system?

A) Provide information for decision-making, planning and control

B) Keep employees from embezzling funds

C) Prepare accounting reports

D) Collect and record data

Answer: A

Difficulty: Moderate

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 8 Application of knowledge

2) The best description of the primary purpose of providing accounting information is:

A) to allow the preparation of a taxation return.

B) to assist users in making informed decisions.

C) to calculate the bank account balance.

D) to enable the financial statements to be prepared.

Answer: B

Difficulty: Basic

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 8 Application of knowledge

3) The stages of an accounting system are:

A) evaluation, processing, output.

B) identification, recording, analysis, reporting.

C) setting objectives, planning, analysis.

D) none of the above.

Answer: B

Difficulty: Complex

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 3 Analytical thinking

4) What are the four key qualities of accounting information?

A) Relevance, reliability, comparability and understandability

B) Identification, analysis, reliability and timeliness

C) Planning, control, comparability and analysis

D) Understandability, identification, analysis and relevance

Answer: A

Difficulty: Complex

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 8 Application of knowledge

5) The best explanation of relevance is:

A) ensuring the benefit of the information is greater than the cost of providing it.

B) ensuring that information is expressed as clearly as possible.

C) ensuring that information is useful for decision-making.

D) ensuring that information is free from bias.

Answer: C

Difficulty: Moderate

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 8 Application of knowledge

6) The quality of accounting information that requires items that are basically the same to be treated in the same manner is:

A) relevance.

B) timeliness.

C) understandability.

D) comparability.

Answer: D

Difficulty: Moderate

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 8 Application of knowledge

7) When accounting information has the potential to change decision-making it is said to be:

A) consistent.

B) understandable.

C) material.

D) comparable.

Answer: C

Difficulty: Moderate

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 3 Analytical thinking

8) Which of these is a reason why achieving the maximum possible profit in a particular year may *not* be in the best interests of a business?

A) Concentrating on the short-term may have detrimental effects in the long-term.

B) It may be achieved by causing environmental problems, which give the business a bad reputation.

C) If it is achieved with high-risk strategies, such as excessive reliance on borrowings, it could lead to disaster in the longer term.

D) All of the above

Answer: D

Difficulty: Moderate

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 3 Analytical thinking

9) Which test determines if an item of accounting information is worthwhile collecting?

A) Cost test

B) Cost/benefit test

C) Worthwhile test

D) Validation test

Answer: B

Difficulty: Moderate

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 3 Analytical thinking

10) The characteristic of accounting information that requires financial reports to be expressed as clearly as possible and to be capable of being understood by those they are addressed to, is known as:

A) understandability.

B) reliability.

C) cost versus benefit test.

D) relevance.

Answer: A

Difficulty: Moderate

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 1 Written and oral communication

11) The statement concerning the key qualities of accounting information that is *untrue* is:

A) the qualities are frequently in conflict.

B) relevant information may help to predict future events or confirm past events.

C) relevant information often contains a degree of subjectivity.

D) None of the statements is untrue, i.e., all are true statements.

Answer: D

Difficulty: Complex

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 3 Analytical thinking

12) Which of these is *not* one of the key qualities of accounting information?

A) Timeliness

B) Reliability

C) Control

D) Relevance

Answer: C

Difficulty: Complex

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 8 Application of knowledge

13) Which statement concerned with establishing the costs and benefits of accounting information is true?

A) It is usually easier to establish the benefits than the costs.

B) It is normally easy to establish both the costs and the benefits.

C) Both the costs and benefits are normally difficult to assess.

D) The costs and benefits should be ignored when deciding on what accounting information should be produced.

Answer: C

Difficulty: Basic

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 3 Analytical thinking

**Write your answer in the space provided or on a separate sheet of paper.**

14) Briefly explain the meaning of each of the four key qualitative characteristics of accounting information: relevance, reliability, comparability and understandability. Also explain how the cost/benefit test acts as a limit on the application of these characteristics.

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Answer:

Relevance means that accounting information should have the ability to influence decision-making. Relevance may refer to helping to confirm past events or assisting in the prediction of future events. If information is not relevant to decision-making, it is not useful and should not be produced.

Reliability means accounting information should be objective and able to be independently verified. For example, transaction-based information is reliable as it is evidenced by documents such as invoices, cheques, credit notes and contracts. Reliable information should be free from bias and material error. Historical cost information is generally regarded as more reliable than alternatives such as estimated market values.

Comparability means that valid comparisons can be made between accounting reports across a number of accounting periods. For comparisons to be valid, items which are basically the same must be consistently measured and presented in the same manner.

Understandability means that to be most useful, accounting reports should be expressed as clearly as possible and should be capable of being understood by the user groups they are prepared for.

The cost/benefit test provides a limit on the production of relevant, reliable comparable and understandable accounting information as, even if the information has all four qualities, it only makes economic sense to produce it if the benefit of its being available is greater than the cost of providing it. A problem of applying the cost/benefit test is that, in practice, both the costs and the benefits of accounting information are difficult to identify with accuracy.

Difficulty: Moderate

Learning Objective: 1.1 Explain the nature and role of accounting.

Topic: Nature and role of accounting

AACSB: 1 Written and oral communication

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

15) Which of these groups is a user of financial information?

A) Managers

B) Lenders

C) Owners

D) All of the above

Answer: D

Difficulty: Basic

Learning Objective: 1.2 List the main groups that use the accounting reports of a business entity, and summarise the different uses that can be made of accounting information.

Topic: Users of accounting information

AACSB: 3 Analytical thinking

16) Which group of users is most likely to require accounting information to assess the ability of a business to pay interest and repay a loan?

A) Employees

B) Customers

C) Creditors

D) Taxation department

Answer: C

Difficulty: Basic

Learning Objective: 1.2 List the main groups that use the accounting reports of a business entity, and summarise the different uses that can be made of accounting information.

Topic: Users of accounting information

AACSB: 3 Analytical thinking

17) The main source of information for shareholders is:

A) departmental reports.

B) management reports.

C) external reports.

D) internal reports.

Answer: C

Difficulty: Basic

Learning Objective: 1.2 List the main groups that use the accounting reports of a business entity, and summarise the different uses that can be made of accounting information.

Topic: Users of accounting information

AACSB: 1 Written and oral communication

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

18) What is the primary goal of management accounting?

A) Provide information that can be quantified in monetary terms

B) Provide information that improves the quality of managers’ decisions

C) Provide information that conforms to the accounting regulations

D) Provide information to shareholders

Answer: B

Difficulty: Basic

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 8 Application of knowledge

19) Which statement is correct?

A) Financial reports are prepared for internal users whereas management reports are prepared for external users.

B) Financial reports are produced at more frequent intervals than management reports.

C) Financial reports reflect past performance whereas management reports are concerned with the future as well as the past.

D) Financial reports provide more forecast data than management reports.

Answer: C

Difficulty: Complex

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 1 Written and oral communication

20) Standardised formats are most relevant to:

A) departmental reports.

B) management reports.

C) external financial reports.

D) internal reports.

Answer: C

Difficulty: Basic

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 1 Written and oral communication

21) Management reports, compared to financial reports, are:

A) prepared less frequently.

B) prepared more frequently.

C) prepared with the same frequency.

D) prepared infrequently.

Answer: B

Difficulty: Basic

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 1 Written and oral communication

22) Management reports, compared to financial reports, are:

A) summarised.

B) aggregated.

C) standardised.

D) detailed.

Answer: D

Difficulty: Basic

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 1 Written and oral communication

23) The statement concerning differences between financial and management accounting which is *false* is:

A) management accounting is less constrained than financial accounting.

B) managers have much more control over the form and content of their reports.

C) there is no overlap between management accounting and financial accounting.

D) the distinction between the two areas, to some extent, reflects differences in access to financial information.

Answer: C

Difficulty: Moderate

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 3 Analytical thinking

24) Which of the following are differences between management and financial accounting?

A) Nature of reports produced

B) Frequency of reports

C) Level of detail in reports

D) All of the above

Answer: D

Difficulty: Moderate

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 1 Written and oral communication

25) Financial accounting reports, compared to management reports, tend to be:

A) general purpose.

B) qualitative.

C) unstructured.

D) detailed.

Answer: A

Difficulty: Complex

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 1 Written and oral communication

26) How frequently is the set of financial reports made available for external publication by an entity typically produced?

A) Fortnightly

B) Yearly

C) Weekly

D) Daily

Answer: B

Difficulty: Basic

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 1 Written and oral communication

27) Management accounting reports are principally used by managers to:

A) report to shareholders.

B) reconcile with the financial accounting reports.

C) calculate the amount of taxation owed to the government.

D) control the operations of an entity on a regular basis.

Answer: D

Difficulty: Basic

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 8 Application of knowledge

28) Financial accounting reports concentrate on:

A) current events.

B) current and future events.

C) past events.

D) future events.

Answer: C

Difficulty: Moderate

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 1 Written and oral communication

29) Management accounting reports tend to contain:

A) both financial and non-financial information.

B) financial information only.

C) information that complies with the accounting standards.

D) non-financial information only.

Answer: A

Difficulty: Moderate

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 3 Analytical thinking

30) Why do businesses tend to resist providing forecast data to those outside the organisation?

A) because it is too costly

B) because it is too difficult

C) because the data is inaccurate

D) because of the fear of the loss of competitive advantage

Answer: D

Difficulty: Complex

Learning Objective: 1.3 Compare and contrast financial and management accounting.

Topic: Financial and management accounting

AACSB: 3 Analytical thinking

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

31) An objective of a business could be:

A) financial survival.

B) maximise profit.

C) maximise sales.

D) all of the above.

Answer: D

Difficulty: Basic

Learning Objective: 1.4 Identify the main purpose of a business (while recognising a range of other influences), and explain the traditional risk-return relationship.

Topic: What is the financial objective of a business?

AACSB: 3 Analytical thinking

32) The goal of business in relation to profit is generally taken as:

A) profit maximisation.

B) profit planning.

C) profit generation.

D) profit stabilisation.

Answer: A

Difficulty: Basic

Learning Objective: 1.4 Identify the main purpose of a business (while recognising a range of other influences), and explain the traditional risk-return relationship.

Topic: What is the financial objective of a business?

AACSB: 8 Application of knowledge

33) The commonly accepted overall financial objective of business can best be summed up as:

A) satisfying everyone within the organisation.

B) promoting good corporate relations.

C) enhancing wealth.

D) stabilising profit.

Answer: C

Difficulty: Moderate

Learning Objective: 1.4 Identify the main purpose of a business (while recognising a range of other influences), and explain the traditional risk-return relationship.

Topic: What is the financial objective of a business?

AACSB: 3 Analytical thinking

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

34) What does a statement of financial position show?

A) The details of how much profit was earned in the period

B) The cash movements that took place over a particular period

C) The financial position at the end of the period

D) The change in financial position over a particular period

Answer: C

Difficulty: Moderate

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 1 Written and oral communication

35) Another name for the statement of comprehensive income is:

A) statement of financial position.

B) balance sheet.

C) statement of change in owners’ equity.

D) statement of financial performance.

Answer: D

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 1 Written and oral communication

36) What is another name commonly used for the balance sheet?

A) Profit and loss statement

B) Statement of financial performance

C) Statement of financial position

D) Statement of change in owners’ equity

Answer: C

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 1 Written and oral communication

37) The accounting report that is specifically designed to answer the question, ‘What cash movements took place over a particular period?’ is:

A) the statement of financial position.

B) the statement of cash flows.

C) the statement of comprehensive income.

D) all of the above.

Answer: B

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 3 Analytical thinking

38) Which accounting report is specifically designed to answer the question, ‘What profit was earned in a particular period?’

A) Statement of comprehensive income

B) Statement of financial position

C) Statement of cash flows

D) All of the above

Answer: A

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 3 Analytical thinking

39) Which accounting report is prepared at a particular point of time rather than over a period of time?

A) Statement of comprehensive income

B) Statement of change in owners’ equity

C) Statement of financial position

D) Both B and C

Answer: C

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 1 Written and oral communication

40) Calculate the cash available at the end of the day if cash at the beginning is $650, receipts from customers are $400 and payments to suppliers are $300.

A) $750

B) $200

C) $750

D) $1 400

Answer: C

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 3 Analytical thinking

41) Calculate the cash available at the beginning of the day if cash at the end is $950, receipts from customers are $360 and payments to suppliers are $425.

A) $150

B) $160

C) $340

D) $885

Answer: D

Difficulty: Moderate

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 3 Analytical thinking

42) Paul commenced business with $150 cash. He purchased goods for $75 that were later sold for $125. The statement of financial position, after the sale, would show a total business wealth of:

A) $150

B) $50

C) $200

D) $100

Answer: C

Difficulty: Complex

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 3 Analytical thinking

43) Which financial reports comprise the ‘final accounts’?

A) Statement of cash flows and statement of comprehensive income

B) Statement of comprehensive income and statement of financial position

C) Statement of comprehensive income, statement of financial position, statement of cash flows and statement of change in owners’ equity

D) Statement of financial position, statement of cash flows and statement of comprehensive income

Answer: C

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 1 Written and oral communication

44) Which statement is true?

A) The statement of cash flows explains the changes between the statement of comprehensive income and the statement of financial position.

B) The statement of financial position links two statements of comprehensive income.

C) The statement of cash flows summarises the movements in the bank account over an accounting period.

D) None of the statements is true

Answer: C

Difficulty: Complex

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 1 Written and oral communication

45) Which accounting reports are concerned with measuring flows over a period of time?

A) Statement of comprehensive income and statement of financial position

B) Statement of comprehensive income and statement of cash flows

C) Statement of cash flows and statement of financial position

D) Statement of comprehensive income, statement of cash flows and statement of financial position

Answer: B

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 8 Application of knowledge

46) The financial statement which shows all the changes in the owners’ interest in the net assets of the business is:

A) statement of changes in owners’ equity.

B) statement of cash flows.

C) statement of comprehensive income.

D) None of the above

Answer: A

Difficulty: Basic

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 1 Written and oral communication

**Write your answer in the space provided or on a separate sheet of paper.**

47) Set out the main purpose of each of the three main financial reports — the statement of comprehensive income, the statement of financial position and the statement of cash flows — and briefly explain how each achieves its purpose.

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Answer:

The purpose of the statement of comprehensive income is to show how much profit was generated by the entity from its operating activities during a particular period. This is achieved by recording all the income earned in the period and deducting from it all the expenses incurred in earning that income. If income exceeds expenses, a profit is earned. If income is less than expenses, there is a loss.

The purpose of the statement of financial position is to show the financial position of the entity at the end of an accounting period. This is achieved by listing the assets controlled by the entity on a particular date and deducting all amounts owed to parties other than the owner. Total assets held less liabilities owed is the amount of equity the owner has in the entity. Examples of assets owned are: cash at bank, inventory, land and buildings, equipment, motor vehicles. Examples of liabilities are amounts owing to creditors and lenders.

The purpose of the statement of cash flows is to show the change in the cash position over a particular period and the movements in cash that caused that change. This is achieved by listing all inflows and outflows of cash for the period. If inflows exceed outflows, there has been a net increase in cash. If the opposite is true, then there has been a net outflow of cash.

Difficulty: Complex

Learning Objective: 1.5 Provide an overview of the main financial reports prepared by a business.

Topic: The main financial reports—an overview

AACSB: 1 Written and oral communication

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

48) The most complete description of the planning process for a business is:

A) setting objectives and short-term plans.

B) setting objectives, long-term plans, and short-term plans.

C) setting objectives and detailed budgets.

D) setting long-term objectives and long-term plans.

Answer: B

Difficulty: Basic

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 3 Analytical thinking

49) The planning role within a company is principally undertaken by:

A) consultants.

B) managers.

C) shareholders.

D) lenders.

Answer: B

Difficulty: Basic

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

50) Knowledge of the objectives or mission of a business will be most useful in assisting users of financial reports in understanding:

A) the liquidity position of the business.

B) why it is taking longer than it should to collect money from accounts receivable.

C) the financial reporting cycle.

D) what the business is trying to achieve.

Answer: D

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 3 Analytical thinking

51) Budgets are typically set for:

A) a decade.

B) one year.

C) one month.

D) five years.

Answer: B

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 1 Written and oral communication

52) Control is best defined as:

A) making events conform to plan.

B) making the directors perform according to plan.

C) making the employees work harder.

D) giving orders.

Answer: A

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

53) The planning and control process within an entity means that:

A) business can respond to variances between plans and actual performance.

B) business is only concerned with actual performance.

C) plans are followed rigidly at all times.

D) plans and actual performance do not vary.

Answer: A

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

54) The term that describes differences between actual and budgeted results is:

A) divergence.

B) discrepancy.

C) mistake.

D) variance.

Answer: D

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

55) Which statement is *incorrect*?

A) A budget defines precise targets, e.g., level of sales, levels of inventory.

B) A budget is expressed in monetary terms.

C) A budget is a short-term plan.

D) A budget summarises past information.

Answer: D

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 1 Written and oral communication

56) The three most common types of structures used by businesses in Australia are:

A) partnership, limited company, association.

B) sole proprietor, partnership, limited company.

C) partnership, private company, trust.

D) sole proprietor, limited company, co-operative.

Answer: B

Difficulty: Basic

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

57) A business that is *not* a legal entity, where there is one owner who is fully liable for all debts, is:

A) a proprietary company.

B) a partnership.

C) a sole proprietorship.

D) None of the above

Answer: C

Difficulty: Basic

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

58) Advantages of operating as a sole proprietor are:

A) total control by the owner over all decisions.

B) low start-up costs.

C) limited liability.

D) Both A and B

Answer: D

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

59) Which of these is an accounting entity?

A) Sole proprietor

B) Partnership

C) Company

D) All of the above

Answer: D

Difficulty: Basic

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

60) The business most likely to operate as a sole proprietorship is:

A) private hospital.

B) medical specialist.

C) bank.

D) airline.

Answer: B

Difficulty: Basic

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

61) The principle whereby each partner is responsible for the business actions of all other partners when the actions are carried out in the normal course of business, is known as:

A) the rule in Garner versus Murray.

B) unlimited liability.

C) mutual agency.

D) perpetual life.

Answer: C

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

62) An advantage of a partnership compared to a sole proprietorship is:

A) mutual agency.

B) sharing of profits.

C) greater access to funds.

D) Both B and C.

Answer: C

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

63) In comparison to a company, a *disadvantage* of operating as a partnership is:

A) unlimited liability.

B) limited life.

C) mutual agency.

D) all of the above.

Answer: D

Difficulty: Moderate

Learning Objective: 1.6 Outline the main types of business ownership, describe the way in which a business is typically organised and managed, and explain the importance of accounting in a business context.

Topic: Business and accounting

AACSB: 8 Application of knowledge

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

64) A common aspect of questionable figures in financial reports is:

A) overstating figures for income and assets.

B) overstating figures for income and understating figures for assets.

C) understating figures for income and expenses.

D) overstating figures for expenses and liabilities.

Answer: A

Difficulty: Complex

Learning Objective: 1.7 Identify ways in which business and accounting have been changing, together with some current issues confronting businesses and their associated reporting, including current thinking on ethics and business.

Topic: The changing face of business and accounting

AACSB: 2 Ethical understanding and reasoning

65) Sustainability reporting focuses on:

A) financial aspects.

B) environmental and social factors.

C) customer satisfaction.

D) Both A and C.

Answer: B

Difficulty: Moderate

Learning Objective: 1.7 Identify ways in which business and accounting have been changing, together with some current issues confronting businesses and their associated reporting, including current thinking on ethics and business.

Topic: The changing face of business and accounting

AACSB: 2 Ethical understanding and reasoning

66) Which of these is *not* generally regarded as a reason for the spate of dubious accounting practices by public companies which led to the enactment of the Sarbanes-Oxley Act in the USA and similar legislation in other jurisdictions?

A) Pressure on managers to meet investors’ unrealistic expectations for continually rising profits

B) Greed by executives

C) Lack of accounting standards

D) Too rapid growth financed by borrowing, which leads to a liquidity crisis

Answer: C

Difficulty: Complex

Learning Objective: 1.7 Identify ways in which business and accounting have been changing, together with some current issues confronting businesses and their associated reporting, including current thinking on ethics and business.

Topic: The changing face of business and accounting

AACSB: 2 Ethical understanding and reasoning

67) Which of the following in *not* one of the reasons for the increasing turbulence in the business environment?

A) The deregulation of domestic markets

B) Rapidly changing technology

C) Increasing volatility of financial markets

D) The development of a more global economy

Answer: A

Difficulty: Basic

Learning Objective: 1.7 Identify ways in which business and accounting have been changing, together with some current issues confronting businesses and their associated reporting, including current thinking on ethics and business.

Topic: The changing face of business and accounting

AACSB: 3 Analytical thinking

68) As a result of increased globalisation:

A) there has been less harmonisation of accounting rules across countries.

B) accounting rules have a more international reach.

C) users of accounting information are more likely to be based in the same county as the business has its base.

D) accountants need less familiarity with accounting rules of other countries.

Answer: B

Difficulty: Moderate

Learning Objective: 1.7 Identify ways in which business and accounting have been changing, together with some current issues confronting businesses and their associated reporting, including current thinking on ethics and business.

Topic: The changing face of business and accounting

AACSB: 8 Application of knowledge

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

69) Which of the following is *not* an aspect of accounting and finance potential managers need to understand?

A) Reading and interpreting financial reports

B) The design of the accounting information system

C) How investment decisions are made

D) How businesses are financed

Answer: B

Difficulty: Basic

Learning Objective: 1.8 Explain why accounting information is generally considered to be useful, and why you need to know the basics of accounting.

Topic: How useful is accounting information?

AACSB: 7 Reflective thinking

70) Which of the following is *not* a use of accounting information?

A) It helps uses make decisions relating to the business.

B) It reduces uncertainty about the business’s financial position.

C) It helps answer questions about availability of funds to meet the business’s obligations.

D) It can accurately predict future profits.

Answer: D

Difficulty: Moderate Learning Objective: 1.8 Explain why accounting information is generally considered to be useful, and why you need to know the basics of accounting.

Topic: How useful is accounting information?

AACSB: 7 Reflective thinking

71) Business managers, even if not accountants, need familiarity with basic accounting information to help with decisions about:

A) what products to sell.

B) whether or not to invest in certain projects.

C) whether to expand or cease operations.

D) All of the above are correct

Answer: D

Difficulty: Basic

Learning Objective: 1.8 Explain why accounting information is generally considered to be useful, and why you need to know the basics of accounting.

Topic: How useful is accounting information?

AACSB: 8 Application of knowledge

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

72) The ALTC’s Learning and Teaching Academic Standards Statement for Accounting does NOT include which of the following threshold learning outcomes?

A) Independence

B) Judgement

C) Knowledge

D) Application skills

Answer: A

Difficulty: Basic

Learning Objective: 1.9 Identify the learning outcomes associated with the Australian Learning and Teaching Council`s Academic Standards Statement for Accounting: namely judgement; knowledge; application skill; communication and teamwork; and self-management; and examine how these compare with characteristics of successful business people.

Topic: The ALTC’S Academic Standards for Accounting

AACSB: 8 Application of knowledge

73) Standards are written from the perspective of:

A) the accounting profession.

B) the taxation authority.

C) securities regulators.

D) corporation law.

Answer: A

Difficulty: Basic

Learning Objective: 1.9 Identify the learning outcomes associated with the Australian Learning and Teaching Council`s Academic Standards Statement for Accounting: namely judgement; knowledge; application skill; communication and teamwork; and self-management; and examine how these compare with characteristics of successful business people.

Topic: The ALTC’S Academic Standards for Accounting

AACSB: 8 Application of knowledge

74) The two threshold learning objectives that this book emphasises most are:

A) knowledge and application skills.

B) judgement and self-management.

C) teamwork and communication, and self-management.

D) knowledge and judgement.

Answer: A

Difficulty: Moderate

Learning Objective: 1.9 Identify the learning outcomes associated with the Australian Learning and Teaching Council`s Academic Standards Statement for Accounting: namely judgement; knowledge; application skill; communication and teamwork; and self-management; and examine how these compare with characteristics of successful business people.

Topic: The ALTC’S Academic Standards for Accounting

AACSB: 7 Reflective thinking

75) Which of the following is false?

A) Accounting is conducted in isolation from other disciplines.

B) Accounting can be applied at different levels.

C) Accounting is concerned with the provision of information.

D) Topics included in the body of accounting knowledge include auditing and assurance, taxation law and economics.

Answer: A

Difficulty: Basic

Learning Objective: 1.9 Identify the learning outcomes associated with the Australian Learning and Teaching Council`s Academic Standards Statement for Accounting: namely judgement; knowledge; application skill; communication and teamwork; and self-management; and examine how these compare with characteristics of successful business people.

Topic: The ALTC’S Academic Standards for Accounting

AACSB: 8 Application of knowledge

76) Which of the following does NOT inform the body of accounting knowledge?

A) Taxation law

B) Relevant research

C) Professional practice

D) Application

Answer: A

Difficulty: Basic

Learning Objective: 1.9 Identify the learning outcomes associated with the Australian Learning and Teaching Council`s Academic Standards Statement for Accounting: namely judgement; knowledge; application skill; communication and teamwork; and self-management; and examine how these compare with characteristics of successful business people.

Topic: The ALTC’S Academic Standards for Accounting

AACSB: 8 Application of knowledge