**Chapter 01 Accounting: The Language of Business**

# MULTIPLE CHOICE QUESTIONS

1. The purpose of accounting is to provide financial information about an economic or social entity.
   1. True
   2. False
2. An accounting system is designed to accumulate and classify data about a company's financial activities and summarize them in the general journal.
   1. True
   2. False
3. In a sole proprietorship, the owner is NOT responsible for the debts of the business if the company is unable to pay.
   1. True
   2. False
4. Laws passed by Congress in 1933 and 1934 gave the Securities and Exchange Commission (SEC) final say on matters of financial reporting by publicly owned corporations.
   1. True
   2. False
5. Currently, generally accepted accounting principles are developed by the American Institute of Certified Public Accountants (AICPA).
   1. True
   2. False
6. The Securities and Exchange Commission (SEC) requires that publicly owned corporations submit financial statements to it at least one time each year.
   1. True
   2. False
7. Public accounting firms provide three major types of services: auditing, tax accounting, and management advisory services.
   1. True
   2. False
8. The financial statements and the auditor's report must be made available to stockholders of publicly owned corporations.
   1. True
   2. False
9. Anyone can invest in a closely held corporation.
   1. True
   2. False
10. Managerial Accounting is any activity associated with the preparation of tax returns and the audit of those returns.
    1. True
    2. False
11. The separate entity assumption applies only to the corporate form of business.
    1. True
    2. False
12. As the first step in the development of generally accepted accounting principles, the FASB writes a discussion memorandum, which explains the topic being considered.
    1. True
    2. False
13. Public accountants work on the staff of federal, state, or local governmental units.
    1. True
    2. False
14. The SEC uses financial information to determine a company's tax base.
    1. True
    2. False
15. When a partner leaves the company, the partnership is dissolved and a new partnership may be formed with the remaining partners.
    1. True
    2. False
16. Accounting is defined as the process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties.
    1. True
    2. False
17. The owners and managers of a business are the only users of the financial information.
    1. True
    2. False
18. Most owners and managers rely heavily on the accountant's judgment and knowledge when making financial decisions.
    1. True
    2. False
19. Accountants provide financial information to various parties so they can make business decisions.
    1. True
    2. False
20. When a business is organized as a sole proprietorship, the owner should combine his/her personal financial information with the business financial information.
    1. True
    2. False
21. A business partnership consists of two or more owners.
    1. True
    2. False
22. Which of the following is NOT an area in which accountants usually practice?
    1. Managerial (Private) Accounting B) Public Accounting

C) Industrial Accounting D) Governmental Accounting

1. Managerial accountants usually do which of the following?
   1. prepare and audit tax returns
   2. investigate companies for possible violations of law
   3. prepare internal reports for management
   4. audit financial statements
2. Identify which of the following are considered OUTSIDE users of financial accounting information.
   1. managers B) banks C) employees D) owners
3. An example of an economic entity is
   1. a business. B) a town. C) a church. D) a politician.
4. The form of a business organization that is not affected by the withdrawal or death of an owner and can continue indefinitely is the
   1. sole proprietorship. B) nonprofit organization.

C) corporation. D) partnership.

1. Which of the following is NOT a type of information communicated by the financial statements?
   1. whether or not the business is profitable
   2. how long the business has been in operation
   3. how much the business owes others
   4. what types of assets business owns
2. Which of the following is NOT a type of information communicated by the financial statements?
   1. the types of products and services the business provides
   2. the equity, or value, of the business
   3. the amount of revenue earned by the business
   4. the amount spent on costs (expenses) of the business
3. The Financial Accounting Standards Board is responsible for
   1. auditing financial statements.
   2. making recommendations to the Securities and Exchange Commission.
   3. developing generally accepted accounting principles.
   4. establishing accounting systems for businesses.
4. The government agency that has final authority over the financial reporting of publicly owned corporations is the
   1. Financial Accounting Standards Board. B) Internal Revenue Service.

C) Federal Trade Commission. D) Securities and Exchange Commission.

1. The financial activities of a business and the financial activities of the owners should be
   1. combined only if the owner wants them to be.
   2. kept totally and completely separate.
   3. combined in the firm's accounting records.
   4. reported in different parts of the firm's accounting records.
2. All financial statements submitted to the SEC by publicly owned corporations must include an auditor's report prepared by
   1. an internal auditor.
   2. an independent certified public accountant.
   3. the firm's managerial accountant.
   4. anyone in the accounting department.
3. The area of accounting that involves the preparation of internal reports for a firm's executives and the analysis of the data in these reports to aid in decision making is known as
   1. managerial accounting. B) cost accounting.

C) financial accounting. D) auditing.

1. The corporations whose stock can be bought and sold on stock exchanges and in over-the-counter markets are referred to as
   1. publicly owned corporations. B) sole proprietorships.

C) closely held corporations. D) privately owned corporations.

1. The group of accounting educators who offer their opinions about proposed FASB statements, after research has been done to determine the possible effects on financial reporting and the economy, is
   1. the FCC. B) the SEC. C) the AAA. D) the AICPA.
2. Owners are not personally responsible for the debts of the business if the form of business organization is a
   1. partnership. B) nonprofit organization.

C) corporation. D) sole proprietorship.

1. Identify the form of business that is considered a separate legal entity.
   1. a sole proprietorship B) a partnership

C) a limited liability partnership D) a corporation

1. Identify the *advantages* of forming a business as an S Corporation.
   1. owner is personally responsible for debts of the business and earnings are reported directly on owner's personal tax return
   2. treated as a separate legal entity and owners avoid double taxation
   3. owners have limited liability and corporation's earnings are tax free
   4. owners avoid double taxation and owners have limited liability
2. A company issues periodic reports called
   1. audits. B) financial statements.

C) tax returns. D) summaries.

1. Which of the following is NOT part of the process of accounting for financial information?
   1. classifying B) communicating C) identifying D) recording
2. Which of the following is a true statement in regards to the International Accounting Standards Board?
   1. The IASB develops all accounting principles to be used in the United States
   2. The IASB has the authority to audit financial statements of all US corporations
   3. The IASB deals with issues caused by the lack of uniform accounting principles existing in different countries
   4. The IASB was created by the American Accounting Association
3. Which of the following is NOT a service of public accounting firms?
   1. management advisory services B) tax accounting

C) investment services D) auditing

1. Tax accounting involves tax compliance and
   1. tax planning. B) tax configuration.

C) tax evaluation. D) tax obfuscation.

1. Tax planning includes
   1. suggesting actions to reduce tax liability. B) preparing tax returns.

C) correcting tax returns. D) auditing tax returns.

1. Managerial accounting is
   1. government accounting. B) private accounting.

C) tax accounting. D) public accounting.

1. The following are all government agencies **except** the
   1. IRS. B) FBI. C) SEC. D) AICPA.
2. An act passed in response to the wave of corporate accounting scandals is the
   1. Sorbine-Oxide Act. B) Sardonic-Oxone Act.

C) Saxon-Ordanly Act. D) Sarbanes-Oxley Act.

1. Owners and managers need financial information in order to
   1. grant loans. B) collect taxes. C) make decisions. D) issue credit.
2. The Sarbanes-Oxley Act includes rules on
   1. auditor rotation. B) auditor reporting.

C) auditor retention. D) auditor reliability.

1. A form of the partnerships business entity is
   1. DBA. B) LLC. C) LLP. D) INP.
2. Which statement below represents what GAAP stands for?
   1. Generally Approved Accounting Practices.
   2. General Accepted Accounting Principles.
   3. Generally Anticipated Accounting Principles.
   4. Generally Accepted Accounting Policies.
3. The review of financial statements to assess their fairness and adherence to GAAP is
   1. compliance. B) preparation. C) auditing. D) accounting.
4. Management advisory services are designed to help
   1. employers. B) government agencies.

C) clients. D) creditors.

1. An independent accountant who is licensed by the state and provides accounting services to the public for a fee is a
   1. CMA. B) CIA. C) CFE. D) CPA.
2. The Financial Accounting Standards Board has the authority to develop generally accepted accounting principles. Choose the option below that contains the steps used by the FASB in developing GAAP.
   1. steps include: publishing a notice in the newspaper, seeking public opinion, and issuing a statement of principle.
   2. steps include: issuing a discussion memorandum, filing a legal draft, and notifying the SEC.
   3. steps include: issuing a discussion memorandum, issuing an exposure draft, and issuing a statement of principle.
   4. steps include: filing a complaint with the SEC, issuing an internal report, and issuing a statement of principle.

# SHORT ANSWER QUESTIONS

1. Accounting is often referred to as the language of \_\_\_\_\_\_\_\_.
2. The results of the accounting process are summarized in periodic reports called \_\_\_\_\_\_\_\_.
3. Users of financial information, such as owners, managers and employees, are referred to as

\_\_\_\_\_\_\_\_ users.

1. The three major legal forms of business entity are the sole proprietorship, the partnership, and the

\_\_\_\_\_\_\_\_.

1. A partnership has \_\_\_\_\_\_\_\_ owners.
2. Ownership in a corporation is evidenced by shares of \_\_\_\_\_\_\_\_.
3. The Securities and Exchange Commission (SEC) regulates the accounting methods and financial reporting of \_\_\_\_\_\_\_\_ owned corporations.
4. The financial statements submitted to the SEC by a corporation must be \_\_\_\_\_\_\_\_ by an independent accountant to ensure their fairness and adherence to generally accepted accounting principles.
5. Accountants normally choose to practice in one of three areas: public accounting, managerial accounting, or \_\_\_\_\_\_\_\_ accounting.
6. A form of business entity owned by one person is called a(n) \_\_\_\_\_\_\_\_.
7. A form of business entity owned by two or more people is called a(n) \_\_\_\_\_\_\_\_.
8. The people, companies, or government agencies to whom a firm owes money are called \_\_\_\_\_\_\_\_.
9. The process by which financial information about a business is recorded, classified, summarized, interpreted, and communicated to owners, managers, and other interested parties is called

\_\_\_\_\_\_\_\_.

1. Tax accounting is a service offered by public accounting firms that involves tax \_\_\_\_\_\_\_\_ and tax planning.
2. The \_\_\_\_\_\_\_\_ (GAAP) must be followed by publicly owned companies and are changed and refined in response to changes in the environment in which businesses operate.
3. The owners of a corporation are called \_\_\_\_\_\_\_\_.
4. What is the "language of business?" List three groups who use this financial information.
5. Cullen Company of country X and Shaw Industries of country Y have issued financial statements in compliance with the accounting principles of their respective countries. They would like to work together on a project and need to compare their current financial statements prior to starting the project. However, the accounting principles of the two countries differ. What organization might they turn to regarding this issue? (Give both the full name of the organization and its acronym.) What is the function of this organization?
6. You have just entered college and decide to pursue a career as an accountant. What are the three areas in which an accountant can practice?
7. There are three general services public accountants offer. List and briefly describe each.
8. List at least five activities performed by managerial accountants.
9. Define the following terms: entity, economic entity, and social entity.
10. How do sole proprietorships, partnerships, and corporations differ?
11. List three individuals or groups who use financial information to make decisions about a firm. For each listed, give an example of why they would need the information.
12. List the "Big Four" public accounting firms in the United States.
13. Audited financial statements include an auditor's report. What does this auditor's report contain?
14. List at least three of the provisions of the Sarbanes-Oxley Act.
15. What determines the independence of Certified Public Accountants (CPAs)?
16. What is the definition of Accounting?