

Testbank

to accompany

Accounting: Business Reporting for Decision Making 5e

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Chapter 1 – Introduction to Accounting

LEARNING OBJECTIVES

1. Explain the process of accounting and the differences between accounting and bookkeeping
Q1, Q2, Q3, Q4, Q51, Q52
2. Outline the role of accounting in decision making by various users
Q5, Q6, Q7, Q8, Q9, Q10
3. Explain the differences between financial accounting and management accounting
Q11, Q12, Q13, Q14, Q53, Q54
4. Discuss the globalisation of financial reporting
Q15, Q16, Q17, Q18, Q55
5. Identify the sources of company regulation in Australia
Q19, Q20, Q21, Q22, Q23, Q56
6. Explain the current standard setting framework and the role of the professional accounting associations in the standard-setting process
Q24, Q25, Q26, Q27, Q28, Q57, Q58
7. Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements
Q29, Q30, Q31, Q32, Q33, Q34, Q35, Q36, Q37, Q38, Q39, Q40, Q41, Q59, Q60, Q61, Q62
8. Give examples of the limitations of accounting information
Q42, Q43, Q44, Q45, Q63, Q64
9. Provide examples of new and exciting opportunities in the accounting discipline.
Q46, Q47, Q48, Q49, Q50, Q65

Multiple-choice questions

1. Which of the following is not a business transaction?
 - a. Incurring interest on a business loan.
 - b. Purchasing office supplies.
 - c. Receiving fees for services.
 - *d. Offering a job to a new employee.

Correct answer: d

Learning Objective 1.1 ~ Explain the process of accounting and the differences between accounting and bookkeeping

2. Which of the following is not an accounting report?
 - a. Statement of cash flows
 - b. Balance sheet
 - *c. Statement of employee job satisfaction
 - d. Income statement

Correct answer: c

Learning Objective 1.1 ~ Explain the process of accounting and the differences between accounting and bookkeeping

3. The steps in the process of accounting take place in the following order:
 - a. Measuring, identifying, decision making, communicating.
 - b. Identifying, communicating, measuring, decision making.
 - *c. Identifying, measuring, communicating, decision making.
 - d. Identifying, decision making, measuring, communicating.

Correct answer: c

Learning Objective 1.1 ~ Explain the process of accounting and the differences between accounting and bookkeeping

4. Which of these is not likely to be the responsibility of a bookkeeper?
 - a. Calculating and paying wages.
 - b. Checking a customer's credit rating.
 - c. Preparing the bank reconciliations.
 - *d. Selecting an accounting package to be used by the entity.

Correct answer: d

Learning Objective 1.1 ~ Explain the process of accounting and the differences between accounting and bookkeeping

5. The information about a customer that would be of most interest to a supplier is:
- *a. the ability to pay off debts as they fall due.
 - b. annual dividends.
 - c. taxable income.
 - d. compliance with accounting standards.

Correct answer: a

Learning Objective 1.2 ~ Outline the role of accounting in decision making by various users

6. The information that would be of most interest to an organisation's production manager is:
- a. the ability to pay off debts as they fall due.
 - *b. continuity of orders for the factory.
 - c. annual dividends.
 - d. taxable income.

Correct answer: b

Learning Objective 1.2 ~ Outline the role of accounting in decision making by various users

7. An external user of accounting information is the:
- a. purchasing officer.
 - b. director of research and development.
 - c. inventory clerk.
 - *d. customer.

Correct answer: d

Learning Objective 1.2 ~ Outline the role of accounting in decision making by various users

8. The internal user of accounting information is the:
- *a. office manager.
 - b. supplier.
 - c. environmental lobby group.
 - d. auditor from the Australian Tax Office.

Correct answer: a

Learning Objective 1.2 ~ Outline the role of accounting in decision making by various users

9. A bank requesting accounting information is looking for:

- a. future cash flows from dividends paid.
- *b. the ability of the entity to repay a loan.
- c. the amount of tax that should be paid.
- d. environmental aspects of the business.

Correct answer: b

Learning Objective 1.2 ~ Outline the role of accounting in decision making by various users

10. Which of these would not be considered an internal user of accounting information?

- *a. The chairman of ASIC.
- b. The human resources manager.
- c. The chief financial officer.
- d. The production supervisor .

Correct answer: a

Learning Objective 1.2 ~ Outline the role of accounting in decision making by various users

11. The content of management accounting reports is governed by:

- a. the Australian Securities Exchange.
- b. the *Corporations Act 2001*.
- c. CPA Australia and the Institute of Chartered Accountants of Australia.
- *d. there are no specific rules governing the content of management accounting reports.

Correct answer: d

Learning Objective 1.3 ~ Explain the differences between financial accounting and management accounting

12. How many of the following are differences between management and financial accounting?

- *Types of reports produced
- *Frequency of reports
- *The format of reports
- *The users of reports.

- a. One
- b. Two
- c. Three
- *d. Four

Correct answer: d

Learning Objective 1.3 ~ Explain the differences between financial accounting and management accounting

13. Management accounting reports are prepared:

- a. based on GAAP and IASB accounting standards.
- b. to provide information for a wide range of stakeholders.
- *c. to provide up-to-date information to managers for decision making.
- d. based only on historical figures.

Correct answer: c

Learning Objective 1.3 ~ Explain the differences between financial accounting and management accounting

14. Select the option that does *not* represent a difference between financial and management reporting.

- a. The level of detail in the reports.
- b. Whether the reports are quantitative only or are both quantitative and qualitative.
- c. How up-to-date the report is.
- *d. Whether the reports are useful for decision making.

Correct answer: d

Learning Objective 1.3 ~ Explain the differences between financial accounting and management accounting

15. The number of countries in which financial reports are prepared using global accounting standards is:
- a. 60.
 - b. 80.
 - c. 100.
 - *d. more than 120.

Correct answer: d

Learning Objective 1.4 ~ Discuss the globalisation of financial reporting

16. Which of the following countries has not fully adopted IFRS?
- a. Germany
 - b. Russia
 - c. Japan
 - *d. USA

Correct answer: d

Learning Objective 1.4 ~ Discuss the globalisation of financial reporting

17. After a ten-year process to converge the USA standards with IFRS the decision is to:
- a. require public USA companies to use IFRS.
 - b. allow public USA companies to use IFRS.
 - *c. no decision has been made.
 - d. continue joint board meetings on convergence.

Correct answer: c

Learning Objective 1.4 ~ Discuss the globalisation of financial reporting

18. Companies operating in Australia and overseas must follow which accounting standards?
- a. Local generally accepted accounting principles only.
 - b. IFRS only.
 - *c. Both IFRS and local GAAP.
 - d. FASB.

Correct answer: c

Learning Objective 1.4 ~ Discuss the globalisation of financial reporting

19. The *Corporations Act 2001* is primarily enforced by the:
- Financial Reporting Council.
 - Australian Securities Exchange.
 - *c. Australian Securities and Investments Commission.
 - Australian Accounting Standards Board.

Correct answer: c

Learning Objective 1.5 ~ Identify the sources of company regulation in Australia

20. Legally enforceable accounting standards that apply to Australian companies are issued by the:
- Financial Reporting Council.
 - Australian Stock Exchange.
 - c. Australian Securities and Investments Commission.
 - *d. Australian Accounting Standards Board.

Correct answer: d

Learning Objective 1.5 ~ Identify the sources of company regulation in Australia

21. Which of the following is not a role of the Australian Securities and Investments Commission?
- To uphold the law uniformly, effectively and quickly.
 - To promote confident and informed participation in the financial system by investors and consumers.
 - *c. To be responsible for ensuring that financial institutions can honour their commitments.
 - To make information about companies and other bodies available to the public.

Correct answer: c

Learning Objective 1.5 ~ Identify the sources of company regulation in Australia

22. The body that oversees the operations of financial institutions such as banks and building societies in Australia is:
- *a. APRA.
 - ASX.
 - ACCC.
 - ATO.

Correct answer: a

Learning Objective 1.5 ~ Identify the sources of company regulation in Australia

23. The ACCC is responsible for administering the:

- a. *Corporations Act 2001.*
- *b. *Trade Practices Act 1974.*
- c. *Australian Securities and Investments Commission Act 2001.*
- d. *ASX Market and Listing Rules.*

Correct answer: b

Learning Objective 1.5 ~ Identify the sources of company regulation in Australia

24. A disclosing entity is an entity that:

- a. *discloses the basis on which their financial reports are prepared.*
- *b. *issues securities that are quoted on a stock market or made available to the public via a prospectus.*
- c. *is exempt under the Corporations Act 2001 from applying the AASB accounting standards.*
- d. *is involved in the accounting standard-setting process.*

Correct answer: b

Learning Objective 1.6 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process

25. The Financial Reporting Council is responsible for:

- a. *developing Australian accounting standards for both the public and private sectors in Australia.*
- b. *issuing Australian accounting standards for both the public and private sectors in Australia.*
- *c. *overseeing the accounting and auditing standard-setting process for both the public and private sectors in Australia.*
- d. *reporting breaches of Australian accounting standards for both the public and private sectors in Australia.*

Correct answer: c

Learning Objective 1.6 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process

26. The first step in issuing an accounting standard is the:
- issue of an exposure draft inviting comment from interested parties.
 - convening of an advisory panel by the AASB.
 - *c. identification by interested parties of a relevant issue.
 - d. preparation of a key decision questionnaire identifying the principal issues raised.

Correct answer: c

Learning Objective 1.6 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process

27. The ICAA and CPA Australia:
- are responsible for developing company regulations.
 - *b. are involved in the enforcement of company regulations through the regulation of their members.
 - c. play no role in setting company regulation and have nothing to do with enforcing company regulation.
 - d. have nothing to do with setting company regulations but have a role in enforcing the regulations.

Correct answer: b

Learning Objective 1.6 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process

28. AASB accounting standards are legally enforceable in Australia under the:
- Trade Practices Act 1974.*
 - Income Tax Assessment Act 2007.*
 - Australian Constitution.
 - *d. *Corporations Act 2001.*

Correct answer: d

Learning Objective 1.6 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process

29. Which statement about the AASB *Conceptual Framework* is *not* true?
- *a. The *Conceptual Framework* applies to all Australian accounting entities.
 - b. It establishes the objectives of financial statements.
 - c. It sets out the qualitative characteristics required of financial information.
 - d. It defines the elements of the financial statements.

Correct answer: a

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

30. Which of these entities is *least* likely to have users dependent on general purpose financial statements?
- a. A company with a large number of shareholders.
 - b. A company listed on the stock exchange.
 - *c. A small company whose shareholders also run the business.
 - d. A government department.

Correct answer: c

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

31. The cost of producing financial information is:
- a. always outweighed by the benefits gained.
 - *b. sometimes outweighed by the benefits gained.
 - c. never outweighed by the benefits gained.
 - d. irrelevant as users will want all the information they can get.

Correct answer: b

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

32. Under the *Conceptual Framework* the four principal qualitative characteristics for general purpose financial statements are:
- a. relevance, reliability, materiality, conservatism.
 - *b. relevance, reliability, comparability, understandability.
 - c. uniformity, consistency, prudence, readability.
 - d. comparability, verifiability, timeliness, understandability.

Correct answer: b

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

33. 'Resources controlled by the entity as a result of past transactions or events and from which future economic benefits are expected to flow to the entity' is the definition of:
- a. equity
 - *b. assets.
 - c. liabilities.
 - d. income.

Correct answer: b

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

34. Which of these is an asset?
- a. Income tax payable
 - b. Revaluation reserve
 - c. Interest earned on investments
 - *d. Investments

Correct answer: d

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

35. 'A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits' is the definition of:
- a. an expense.
 - *b. a liability.
 - c. equity.
 - d. revenue.

Correct answer: b

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

36. Which of the following is an example of a liability?
- a. Allowance for doubtful debts
 - b. Accumulated depreciation
 - *c. Revenue received in advance
 - d. GST paid

Correct answer: c

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

37. 'Decreases in economic benefits in the form of outflows or depletions of assets or incurrences of liabilities that result in a decrease in equity, other than those relating to distributions to equity participants' is the definition of:
- a. liabilities.
 - b. income.
 - *c. expenses.
 - d. equity.

Correct answer: c

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

38. Special purpose financial reports provide information for which group(s)?

	Internal users	External users
I	Yes	Yes
II	Yes	No
III	No	Yes
IV	No	No

- a. I
- *b. II
- c. III
- d. IV

Correct answer: b

Learning Objective 1.7 ~: Conceptual Framework

39. Under the *Conceptual Framework*, the qualitative characteristic of relevance is described as information that:

- *a. is of value to users in decision making.
- b. is understandable.
- c. can be recorded in accounting reports.
- d. can be reliably measured.

Correct answer: a

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

40. The term 'general purpose financial statements' refers to the fact that the information conveyed is:

- a. generally reliable but not perfect.
- b. useful for general purposes but not for making specific decisions.
- *c. potentially valuable for a number of users.
- d. average information from several accounting periods.

Correct answer: c

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

41. Providing accounting reports to external users costs large organisations:
- a. nothing, as all charges are reimbursed by the government.
 - b. very little, as the reports are quite simple to produce.
 - c. varying amounts depending on the year in question.
 - *d. a significant amount.

Correct answer: d

Learning Objective 1.7 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

42. Which of the following is *not* a limitation of accounting information?
- *a. Its objective nature.
 - b. Its subjective nature.
 - c. The use of historical data to predict future events.
 - d. The time delay from when events take place and their reporting.

Correct answer: a

Learning Objective 1.8 ~ Give examples of the limitations of accounting information

43. The normal time delay in Australia in providing the annual report of large companies to external users after the end of the financial year is up to:
- a. two weeks.
 - b. one month.
 - *c. three months.
 - d. two months.

Correct answer: c

Learning Objective 1.8 ~ Give examples of the limitations of accounting information

44. When making informed investment decisions, investors are:
- a. only interested in the company's financial situation.
 - b. only interested in the company's market share.
 - c. mainly interested in how long the company has been in existence.
 - *d. interested in the company's financial situation and other relevant business factors as well.

Correct answer: d

Learning Objective 1.8 ~ Give examples of the limitations of accounting information

45. Subjectivity does not apply to the valuation of:

- *a. cash.
- b. inventory.
- c. property, plant and equipment.
- d. net accounts receivable.

Correct answer: a

Learning Objective 1.8 ~ Give examples of the limitations of accounting information

46. The most senior accounting position in a corporation is generally referred to as the:

- a. managing director.
- *b. chief financial officer.
- c. head accountant.
- d. auditor.

Correct answer: b

Learning Objective 1.9 ~ Provide examples of new and exciting opportunities in the accounting discipline

47. Firms of accountants who work for many different clients are known as:

- a. financial accountants.
- b. private accountants.
- *c. public accountants.
- d. company accountants.

Correct answer: c

Learning Objective 1.9 ~ Provide examples of new and exciting opportunities in the accounting discipline

48. Which of the following has *not* been a traditional area of employment for accountants?

- *a. Forensic accounting
- b. Audit and assurance
- c. Management accounting
- d. Tax accounting

Correct answer: a

Learning Objective 1.9 ~ Provide examples of new and exciting opportunities in the accounting discipline

49. Which of the following is *not* likely to be a growth area for the accountants of the future?
- a. Carbon accounting
 - *b. Transaction processing
 - c. Forensic accounting
 - d. Insolvency

Correct answer: b

Learning Objective 1.9 ~ Provide examples of new and exciting opportunities in the accounting discipline

50. The type and nature of work done by accountants that will be most valued in the future will be:
- a. transaction processing.
 - b. financial report preparation.
 - *c. functions that cannot be automated or outsourced.
 - d. auditing.

Correct answer: c

Learning Objective 1.9 ~ Provide examples of new and exciting opportunities in the accounting discipline

Fill the Blanks

51. Accounting is the process of identifying, measuring, and _____ economic information for the purposes of decision-making.

a. communicating

Learning Objective 1.1 The accounting process

52. The work of recording financial transactions is normally carried out by a _____ not an accountant.

a. bookkeeper

Learning Objective 1.1 The accounting process

53. The part of the accounting function within an organisation which includes costing, budgeting and planning is known as _____ accounting.

a. management

Learning Objective 1.3 Financial accounting and management accounting

54. A company's financial statements include the Statement of Comprehensive Income, the Statement of Financial Position and the Statement of _____.

a. cash flows

Learning Objective 1.3 Financial accounting and management accounting

55. More than 120 countries worldwide prepare their financial statements following global accounting standards known as _____.

a. International Financial Reporting Standards (IFRSs)

Learning Objective 1.4 Globalisation of accounting

56. One of ASIC's main roles is to ensure that companies comply with the _____ Act 2001.

a. Corporations

Learning Objective 1.5 Sources of regulation

57. The _____ Reporting Council was established to oversee the AASB.

a. Financial

Learning Objective 1.6 Standard-setting framework

58. Entities that issue securities that are quoted on a stock market or made available to the public via a prospectus are known as _____ entities.

a. disclosing

Learning Objective 1.6 Standard-setting framework

59. Accounting reports prepared for users who have the authority to obtain the information they need are known as _____ purpose financial reports.

a. special

Learning Objective 1.7 Conceptual Framework

60. The two constraints imposed on the preparation of financial information are _____ and costs versus benefits.

a. timeliness

Learning Objective 1.7 Conceptual Framework

61. _____ purpose financial statements meet the information needs of a range of users unable to demand accounting information.

a. General

Learning Objective 1.7 Conceptual Framework

62. The accounting element _____ is defined as involving an inflow or other enhancement of assets, or decrease of liabilities, that result in an increase in equity other than any relating to contributions by equity participants.

a. income

Learning Objective 1.7 Conceptual Framework

63. Corporate _____ principles include appropriate auditing, board independence, corporate responsibility, financial transparency and information disclosure.

a. governance

Learning Objective 1.8 Limitations of accounting information

64. Revenue and profit information provided by an entity could be used against themselves by _____.

a. competitors

Learning Objective 1.8 ~ Give examples of the limitations of accounting information

65. _____ accountants help to solve crimes such as computer hacking and the theft of large amounts of money through hoax schemes on the internet.

a. Forensic

Learning Objective 1.9 Opportunities in accounting