

Testbank

to accompany

Financial Accounting 9th edition

by

John Hoggett, Lew Edwards,
John Medlin, Keryn Chalmers, Andreas
Hellmann, Claire Beattie & Jodie Maxfield

Prepared by

Peter Hall

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Chapter 1: Decision making and the role of accounting

Multiple-choice questions

1. The job of the modern accountant is a challenging one. The most critical requirement is:
- a. neatness.
 - b. punctuality.
 - *c. ability to manage change.
 - d. ability to add up.

Correct answer: c

Learning Objective 1.1 ~ outline the dynamic environment in which accountants work

2. Which of the following has been the *most* influential in redefining the role of accountants as analysts and decision makers rather than as mainly number-crunchers?
- a. The collapse of major company groups.
 - b. The trend towards globalisation.
 - *c. Developments in information technology.
 - d. The increase in demand for non-financial information.

Correct answer: c

Learning Objective 1.2 ~ discuss the nature of decisions and the decision-making process

3. There are four steps in the accounting process. Which of the steps is *most* concerned with the classification and summarisation of financial data?
- a. Identification
 - *b. Recording
 - c. Measurement
 - d. Communication

Correct answer: b

Learning Objective 1.2 ~ discuss the nature of decisions and the decision-making process

4. Which of these is *not* an economic decision?
- a. Choosing a utilities provider.
 - b. Taking out a loan.
 - c. Purchasing a mobile phone.
 - *d. Supporting a sports team.

Correct answer: d

Learning Objective 1.3 ~ outline the range of economic decisions made in the marketplace

5. Accounting is defined as the process of identifying, measuring, recording and _____ economic information to permit informed judgements and economic decisions by users of the information.
- a. observing
 - *b. communicating
 - c. processing
 - d. certifying

Correct answer: b

Learning Objective 1.4 ~ explain the nature of accounting and its main functions

6. Accounting is a profession that has evolved in response to society's need for economic information to help people make:
- a. products.
 - b. progress.
 - *c. decisions.
 - d. money.

Correct answer: c

Learning Objective 1.4 ~ explain the nature of accounting and its main functions

7. The term used to describe the economic events which are the inputs of the accounting information system is:
- a. contracts.
 - *b. transactions.
 - c. deals.
 - d. agreements.

Correct answer: b

Learning Objective 1.4 ~ explain the nature of accounting and its main functions

8. The conversion of raw materials into finished products by a manufacturing entity is which of the following?

	Internal transaction	External transaction
a.	Yes	Yes
*b.	Yes	No
c.	No	Yes
d.	No	No

Correct answer: b

Learning Objective 1.4 ~ explain the nature of accounting and its main functions

9. Decision makers who are responsible for planning and controlling the operations of an organisation from within are known as:

- *a. internal decision makers.
- b. external decision makers.
- c. primary decision makers.
- d. general decision makers.

Correct answer: a

Learning Objective 1.5 ~ identify the potential users of accounting information

10. The term 'special purpose financial statements' refers to the fact that the information in the reports is:

- a. available to everybody who requires specialised information.
- b. useful for special purposes but not in making specific decisions.
- *c. prepared for users who have specialised needs and have the authority to obtain the required information.
- d. prepared to provide general information for use by all users.

Correct answer: c

Learning Objective 1.5 ~ identify the potential users of accounting information

11. For HT Computers Ltd how many of the following are internal decision makers: bank manager, production manager, human resource manager, chief executive officer?

- a. 1
- b. 2
- *c. 3
- d. 4

Correct answer: c

Feedback: The production manager, the human resource manager and the chief executive officer are all internal decision makers.

Learning Objective 1.5 ~ identify the potential users of accounting information

12. Who of the following is *not* an external decision maker?
- a. Government regulator
 - b. Shareholder
 - c. Creditor
 - *d. Managing director

Correct answer: d

Feedback: The managing director is an internal not an external decision maker.

Learning Objective 1.5 ~ identify the potential users of accounting information

13. How many of the following decisions would be made by internal as opposed to external decision makers: setting production targets, product pricing, choosing whether to lease or buy assets, and monitoring compliance with company reporting requirements?
- a. 1
 - b. 2
 - *c. 3
 - d. 4

Correct answer: c

Feedback: Setting production targets, product pricing and choosing whether to lease or buy assets are all decisions that would be made by internal decision makers.

Learning Objective 1.5 ~ identify the potential users of accounting information

14. Financial reports intended to serve the diverse needs of a variety of external user groups who are unable to obtain their own accounting information are known as:
- *a. general purpose financial statements.
 - b. external purpose financial statements.
 - c. management reports.
 - d. external user reports.

Correct answer: a

Learning Objective 1.5 ~ identify the potential users of accounting information

15. External decision makers:
- *a. exist outside the organisation but have an interest in it.
 - b. reside overseas.
 - c. operate from branch locations.
 - d. must be owners.

Correct answer: a

Learning Objective 1.5 ~ identify the potential users of accounting information

16. External decision makers can be divided into four groups. To which of these groups do investors and creditors belong?

- a. Managers and governing bodies
- *b. Resource providers
- c. Financial institutions
- d. Reviewers and overseers

Correct answer: b

Learning Objective 1.5 ~ identify the potential users of accounting information

17. Special purpose financial statements provide information *mainly* for the use of which of these parties?

	Internal decision makers	External decision makers
a.	Yes	Yes
b.	No	Yes
*c.	Yes	No
d.	No	No

Correct answer: c

Learning Objective 1.5 ~ identify the potential users of accounting information

18. How many of the following decisions would be made by external as opposed to internal decision makers: investing funds in the business, assessing an application for a loan, expanding the product range, and hiring staff?

- a. 1
- *b. 2
- c. 3
- d. 4

Correct answer: b

Learning Objective 1.5 ~ identify the potential users of accounting information

19. Which type of information about J Company would be of *most* interest to its production manager?

- *a. Continuity of orders for the factory.
- b. Taxable income.
- c. Annual dividends.
- d. Compliance with accounting standards.

Correct answer: a

Learning Objective 1.5 ~ identify the potential users of accounting information

20. Which of the four stages of the accounting process is considered to require the *most* extensive training, experience and judgement?
- a. Identifying
 - b. Measuring
 - *c. Communicating
 - d. Planning

Correct answer: c

Learning Objective 1.5 ~ identify the potential users of accounting information

21. Which of the following is the true statement?
- a. Accounting information for decision making is concerned with the past.
 - b. Internal and external users of accounting information generally require similar information.
 - c. Non-accounting information is always more important in decision making than accounting information.
 - *d. Accountants are heavily involved in the budgeting process for a business entity.

Correct answer: d

Learning Objective 1.6 ~ apply information to make basic economic decisions

22. Which type of information about J Company would be of *most* interest to the Australian Taxation Office?
- a. Sales.
 - *b. Taxable income.
 - c. Continuity of orders for the factory.
 - d. Compliance with accounting standards.

Correct answer: b

Learning Objective 1.7 ~ describe the role of accounting information in the decision-making process

23. Which type of information about J Company would be of *most* interest to its trade creditors?
- *a. Ability to pay debts as they fall due.
 - b. Annual dividends.
 - c. Taxable income.
 - d. Continuity of orders for the factory.

Correct answer: a

Learning Objective 1.7 ~ describe the role of accounting information in the decision-making process

24. The two broad branches into which accounting is divided are:
- a. cash and accrual.
 - *b. management and financial.
 - c. taxation and financial.
 - d. commercial and non-commercial.

Correct answer: b

Learning Objective 1.8 ~ compare accounting information for management and external users

25. Financial accounting is the area of accounting concerned with providing information to _____ decision makers of the organisation.
- a. advisory
 - *b. external
 - c. important
 - d. internal

Correct answer: b

Learning Objective 1.8 ~ compare accounting information for management and external users

26. 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 1.8 ~ compare accounting information for management and external users

27. Which of these is *not* a characteristic of financial accounting?
- a. Compliance with accounting standards.
 - b. Annual reporting.
 - c. Verification by audit.
 - *d. Format determined by the user.

Correct answer: d

Learning Objective 1.8 ~ compare accounting information for management and external users

28. In the accounting profession the initials CPA stand for:
- a. Complying Practicing Accountant.
 - b. Company Professional Accountant.
 - *c. Certified Practising Accountant.
 - d. Certified Professional Accountant.

Correct answer: c

Learning Objective 1.9 ~ summarise how the accounting profession is organised in Australia

29. One of the major professional accounting bodies in Australia is the:
- a. ICPP.
 - *b. ICAA.
 - c. UFO.
 - d. LLBB.

Correct answer: b

Learning Objective 1.9 ~ summarise how the accounting profession is organised in Australia

30. The initials ICAA stand for:
- *a. Institute of Chartered Accountants in Australia.
 - b. Institute of Certified Accounting Associates.
 - c. International Congregation of Advisory Accountants.
 - d. Institute of Commercially Active Accountants.

Correct answer: a

Learning Objective 1.9 ~ summarise how the accounting profession is organised in Australia

31. The address of the website of the Institute of Chartered Accountants in Australia is:
- a. www.icaa.com.au.
 - *b. www.icaa.org.au.
 - c. www.charteredaccountants.com.au.
 - d. www.ICA.org.au.

Correct answer: b

Learning Objective 1.9 ~ summarise how the accounting profession is organised in Australia

32. Which of these is *not* a requirement for full membership of either of the major Australian professional accounting bodies?
- a. A recognised degree.
 - b. Completion of the professional body's graduate program.
 - *c. Government registration.
 - d. At least three years of supervised work experience.

Correct answer: c

Learning Objective 1.9 ~ summarise how the accounting profession is organised in Australia

33. Which of these is *not* one of the four areas in which public accountants tend to specialise?
- a. External audit
 - b. Taxation services
 - c. Insolvency
 - *d. Cost accounting

Correct answer: d

Feedback: Cost accounting is not one of the four areas in which public accountants tend to specialise as it is an area of management accounting which occurs within an organisation, rather than being supplied by an external accounting firm.

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

34. Accounting work involving the independent examination and verification of financial reports is known as:
- a. consulting.
 - b. budgeting.
 - *c. auditing.
 - d. advising.

Correct answer: c

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

35. Accountants who administer or wind-up businesses unable to pay debts specialise in the area of:
- a. accounting systems.
 - b. taxation.
 - *c. insolvency.
 - d. general accounting.

Correct answer: c

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

36. The area of accounting that deals with the collection, allocation and control of costs is called:
- a. public accounting.
 - *b. cost accounting.
 - c. internal auditing.
 - d. general accounting.

Correct answer: b

Feedback: The area of accounting that deals with the collection, allocation and control of costs is called cost accounting. Cost accounting is part of the management accounting function.

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

37. The distinguishing feature of accounting for not-for-profit organisations is the absence of:
- *a. the profit motive.
 - b. accounting systems.
 - c. revenue.
 - d. paid employees.

Correct answer: a

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

38. In the accounting profession what do the initials CFO stand for?
- *a. Chief financial officer
 - b. Cosmic flying object
 - c. Certified financial officer
 - d. Company financial organiser

Correct answer: a

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

39. Accounting work with the primary purpose of verifying the financial statements is called:
- a. financial accounting.
 - *b. auditing.
 - c. cross-check accounting.
 - d. management accounting.

Correct answer: b

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

40. The area of accounting that deals with the preparation of plans and forecasts of future operations is called:
- a. auditing.
 - b. costing.
 - *c. budgeting.
 - d. liquidating.

Correct answer: c

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

41. Which statement is *incorrect*?
- a. An audit committee acts as a corporate governance device.
 - b. An audit committee helps to ensure the independence of the internal audit process.
 - *c. In Australia large companies must have an audit committee.
 - d. The audit committee should strive to ensure continual improvement in accountability.

Correct answer: c

Learning Objective 1.10 ~ identify the different areas of the economy in which accountants work

42. Which statement relating to ethics is *not* correct?
- a. A high standard of ethical behaviour is in the long-term interest of businesses.
 - b. The accounting professional bodies have set down rules of professional conduct for their members.
 - c. Ethics is concerned with whether human actions are proper or improper.
 - *d. Ethical decisions are always easy to make.

Correct answer: d

Learning Objective 1.11~ identify the importance of ethics in business and accounting and how to recognise and handle ethical dilemmas as part of the decision-making process

43. The type of behaviour that would be regarded as ethical is:
- a. blaming others for your own mistakes.
 - *b. accepting a pay rise.
 - c. manipulating the financial statements.
 - d. using confidential information for personal gain.

Correct answer: b

Learning Objective 1.11~ identify the importance of ethics in business and accounting and how to recognise and handle ethical dilemmas as part of the decision-making process

44. Behaviour which conforms to established professional standards is said to be:
- a. good.
 - *b. ethical.
 - c. standard.
 - d. complying.

Correct answer: b

Learning Objective 1.11~ identify the importance of ethics in business and accounting and how to recognise and handle ethical dilemmas as part of the decision-making process

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45. The rules set down by the professional accounting bodies which establish standards of conduct for their members are known as:
- *a. a code of professional conduct.
 - b. a code of criminal conduct.
 - c. a code of competence.
 - d. accounting standards.

Correct answer: a

Learning Objective 1.11~ identify the importance of ethics in business and accounting and how to recognise and handle ethical dilemmas as part of the decision-making process