

## Quiz Ch. 8

### Multiple Choice

*Each answer is worth 4 points*

1. Managers, stockholders, employees, and creditors are
  - a) auditors of the health and well-being of a company.
  - b) all employees of a corporation.
  - c) all users of accounting information to assess a company's finances.
  - d) designated by the board of directors to review company documents.
2. Employees would most likely use their employer's accounting information to
  - a) assess dynamic marketplace conditions for employment opportunities.
  - b) develop their personal financial plan.
  - c) calculate their hourly wage rate.
  - d) evaluate the financial performance of the company and make the case for pay raises or bonuses.
3. \_\_\_\_\_ work for local, state, and federal agencies. They prepare government financial statements as well as perform tasks similar to those carried out by their private sector counterparts.
  - a) Fiscal accountants
  - b) Recording accountants
  - c) Comptrollers
  - d) Government accountants
4. Samantha is an accounting major who has been disturbed by all of the recent accounting scandals. She has decided to dedicate her career to catching those involved in embezzlement, securities fraud, money laundering, and other white collar crimes. One way Samantha could achieve this would be to seek training as a(n)
  - a) certified bookkeeper.
  - b) forensic accountant.
  - c) transactional accountant.
  - d) FASB analyst.
5. \_\_\_\_\_ addresses the needs of the external stakeholders, including stockholders, creditors, and government regulators.
  - a) Forensic accounting
  - b) Investigative accounting
  - c) Managerial accounting
  - d) Financial accounting
6. Taken together, the body of principles that guides the financial accounting process used to create financial statements is referred to as
  - a) GRAPE (Generally Reliable Accounting Principles and Ethics).
  - b) GAAP (Generally Accepted Accounting Principles).
  - c) AAASP (American Association of Accountants Standards and Principles).
  - d) GRASP (Guidelines for Reliable Accounting Standards and Procedures).
7. Corporate scandals involving companies such as Enron, Tyco, and WorldCom resulted in a
  - a) surge in the reputation of the accounting profession, because it seemed as if accountants were the only individuals in many organizations who refused to go along with the fraudulent schemes.
  - b) resurgence of investor confidence.
  - c) call for improved ethical training and standards in the accounting profession.
  - d) decision by the government to replace external auditors with government auditors.
8. During the first few years of the 21st century, the accounting profession
  - a) was recognized as the most ethical of all the business professions.
  - b) suffered a loss of jobs as computerized systems did away with the need for professional accountants.
  - c) focused mainly on helping firms improve the quality and accuracy of the financial information provided to stakeholders.
  - d) was embarrassed by a series of scandals

that seemed to suggest a serious decline in accounting standards.

9. To provide external shareholders with relevant, reliable, consistent, and comparable financial information, the accounting profession has adopted \_\_\_\_\_ to guide the practice of financial accounting.
  - a) generally accepted accounting principles (GAAP)
  - b) formal accounting rules and procedures (FARP)
  - c) standardized accounting procedures (SAP)
  - d) general accounting rules for financial statements (GARFS)
10. Recent calls to reform GAAP have focused on the need for the FASB to
  - a) eliminate the necessity for standardization so that small businesses and big businesses will account for earnings in significantly different ways.
  - b) give firms more flexibility in their accounting procedures so that they can present their earnings in the most meaningful way.
  - c) allow CPA firms a greater role in advising the firms that they audit.
  - d) make it more difficult for firms to manipulate results, thus making it easier for investors to compare financial results of different firms.
11. The major output of financial accounting is a set of statements including the
  - a) balance sheet, income statement, and statement of cash flows.
  - b) general journal, cash budget, and capital budget.
  - c) dividend record, auditor's opinion, and master budget.
  - d) annual report, social audit, and balanced scorecard.
12. The income statement shows that
  - a) Owners' Equity - Assets = Liabilities.
  - b) Net Income - Expenses = Revenue.
  - c) Revenue - Expenses = Net Income.
  - d) Assets = Liabilities + Owners' Equity.
13. According to the \_\_\_\_\_ method of accounting, revenues are recognized when they are earned and payment is reasonably assured.
  - a) accrual
  - b) actuarial
  - c) managerial
  - d) LIFO
14. Which of the following items would be listed on an income statement?
  - a) Cost of goods sold.
  - b) Current liabilities.
  - c) Cash flows from operations.
  - d) Accounts receivable.
15. A business has two sources of funds: the owners and the non-owners. The financing provided by owners is represented on the balance sheet as \_\_\_\_\_, and the financing provided by non-owners is represented on the balance sheet as \_\_\_\_\_.
  - a) liabilities; retained earnings
  - b) dividends; interest
  - c) owners' equity; liabilities
  - d) revenues; expenses
16. Publicly traded corporations in the United States must have a CPA firm
  - a) perform standard horizontal, vertical, and ratio analyses.
  - b) perform an annual external audit.
  - c) prepare the financial statements filed with the IRS.
  - d) address the stockholders at their annual meeting.
17. The auditor's \_\_\_\_\_ indicate(s) whether the firm's financial statements are prepared and presented in a way that is likely to fairly represent the firm's financial condition.
  - a) letter to the CEO
  - b) footnotes
  - c) opinion
  - d) certification statement
18. \_\_\_\_\_ expresses each balance sheet or income statement item as a percentage of key values.

- a) Profitability analysis
  - b) Actuarial analysis
  - c) Vertical analysis
  - d) Horizontal analysis
19. \_\_\_\_\_ measure how effectively a firm manages assets to generate revenue.
- a) Liquidity ratios
  - b) Asset management ratios
  - c) Leverage ratios
  - d) Profitability ratios
20. A key goal of the \_\_\_\_\_ was to remove some of the conflicts of interest that undermined the role of external auditors and led to the accounting scandals of the late 1990s and early 21st century.
- a) Financial Accountability Act
  - b) Securities and Exchange Act
  - c) Sarbanes-Oxley Act
  - d) Taft-Hartley Act
21. Which of the following statements does NOT reflect the main purposes of managerial accounting?
- a) Prepares customized reports designed to deal with specific issues.
  - b) Provides information used in the preparation of budgets.
  - c) Presents financial statements on a predetermined schedule.
  - d) Creates reports upon request by management.
22. When managers are looking at different ways to achieve a certain goal, they may perform \_\_\_\_\_ as a means of comparing how the alternative decisions would affect the firm's revenues and costs.
- a) activity-based costing
  - b) incremental analysis
  - c) ratio analysis
  - d) marketing analysis
23. Pierre's Gourmet Foods produces high-quality desserts and appetizers that are distributed by upscale grocery stores. When assigning production costs to its various food products, the costs of ingredients used to make a product are \_\_\_\_\_, the cost of the workers who prepare the product are \_\_\_\_\_, and the cost of the rent and insurance on the building are \_\_\_\_\_.
- a) direct costs, derived costs, fixed costs
  - b) tax-exempt costs, taxable costs, depreciable expenses
  - c) fixed costs, proportional costs, capital costs
  - d) direct materials costs, direct labor costs, overhead costs
24. Preparing a good budget is beneficial because
- a) it fosters better communication and coordination among members of various departments with direct responsibility for producing products and services.
  - b) it provides direction through the identification of goals and plans of action.
  - c) it provides an effective way to monitor progress.
  - d) All of these statements are benefits of budgeting.
25. As a financial manager for his firm, Martin Meyer is worried about possible cash shortages his firm might face over the next few months. The \_\_\_\_\_ budget would help him identify periods when cash might be very tight.
- a) revenue
  - b) sales
  - c) liquidity
  - d) cash

