Student name:\_\_\_\_\_\_\_\_\_\_

**1)** Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Predictive value** | Information is useful in projecting cash flows. | \_\_\_\_ |
| **2. Relevance** | Pertinent to the decision at hand. | \_\_\_\_ |
| **3. Distribution to owners** | Information is available prior to the decision. | \_\_\_\_ |
| **4. Confirmatory value** | Decrease in equity due to transfers to owners. | \_\_\_\_ |
| **5. Timeliness** | Information confirms expectations. | \_\_\_\_ |

**Question Details**Topic : Conceptual framework--Purpose  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Topic : Concepts--Elements of financial statements  
Topic : GAAP--Underlying assumptions  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Gradable : manual

**2)** Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Gain** | Along with relevance, a fundamental decision-specific quality. | \_\_\_\_ |
| **2. Materiality** | Results if an asset is sold for more than book value. | \_\_\_\_ |
| **3. Completeness** | Contains all information necessary for faithful representation. | \_\_\_\_ |
| **4. Comprehensive income** | The change in equity from nonowner transactions. | \_\_\_\_ |
| **5. Faithful representation** | Concerns the decision-making impact of both the amount and nature of an item. | \_\_\_\_ |

**Question Details**Topic : Conceptual framework--Purpose  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Topic : Concepts--Elements of financial statements  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Gradable : manual

**3)** Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Neutrality** | Important in analysis between firms. | \_\_\_\_ |
| **2. Comparability** | Accounting information should be unbiased. | \_\_\_\_ |
| **3. Consistency** | The decision to include an amount in the financial statements. | \_\_\_\_ |
| **4. Cost-effectiveness** | Applying the same accounting practices over time. | \_\_\_\_ |
| **5. Recognition** | Considers the value of using information relative to cost of providing it. | \_\_\_\_ |

**Question Details**Topic : Conceptual framework--Purpose  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Recognition-Measurement-Disclosure  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Gradable : manual

**4)** Listed below are five terms are followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Monetary unit assumption** | Implies consensus among different observers. | \_\_\_\_ |
| **2. Verifiability** | Assumes all transactions can be identified with a particular entity. | \_\_\_\_ |
| **3. Economic entity assumption** | Assumes an entity will continue to operate indefinitely. | \_\_\_\_ |
| **4. Going concern assumption** | Requires reporting the financial life of an entity in discrete time frames. | \_\_\_\_ |
| **5. Periodicity assumption** | Ignores the possibility of inflation. | \_\_\_\_ |

**Question Details**Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Topic : GAAP--Underlying assumptions  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Gradable : manual

**5)** Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Historical cost** | Basis of measurement for fixed assets. | \_\_\_\_ |
| **2. Materiality** | Discounts future cash flows. | \_\_\_\_ |
| **3. Revenue recognition** | Occurs when goods or services are transferred to the customer. | \_\_\_\_ |
| **4. Full disclosure** | Reporting of all information that could affect decisions. | \_\_\_\_ |
| **5. Present value** | Application of GAAP sometimes avoided under this constraint. | \_\_\_\_ |

**Question Details**Topic : Conceptual framework--Purpose  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Recognition-Measurement-Disclosure  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Gradable : manual

**6)** Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Financial Accounting Standards Board** | Undermines representational faithfulness by being inconsistent with neutrality. | \_\_\_\_ |
| **2. Accounting Principles Board** | It established GAAP before the FASB. | \_\_\_\_ |
| **3. Conservatism** | Its *EITF Issues* are GAAP when entered in the Accounting Standards Codification. | \_\_\_\_ |
| **4. American Institute of CPAs (AICPA)** | It has the authority to set U.S. accounting standards. | \_\_\_\_ |
| **5. Securities and Exchange Commission** | It is the national organization for CPAs in the United States. | \_\_\_\_ |

**Question Details**Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Development of accounting and reporting standards  
Topic : Encouraging high-quality financial reporting  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
AICPA : BB Legal  
Gradable : manual

**7)** Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Expenses** | Net assets. | \_\_\_\_ |
| **2. Equity** | Outflows of resources to generate revenues. | \_\_\_\_ |
| **3. Distributions to owners** | Cash dividends. | \_\_\_\_ |
| **4. Investments by owners** | Claims of creditors against the assets of a business. | \_\_\_\_ |
| **5. Liabilities** | Transfers of resources in exchange for common and preferred stock. | \_\_\_\_ |

**Question Details**Topic : Concepts--Elements of financial statements  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 1 Easy  
Bloom's : Remember  
Gradable : manual

**8)** Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Losses** | Net outflows from peripheral transactions. | \_\_\_\_ |
| **2. Assets** | Increases in equity from the sale of goods and/or services. | \_\_\_\_ |
| **3. Revenues** | Results if an asset is sold for more than book value. | \_\_\_\_ |
| **4. Comprehensive income** | All changes in equity except owner transactions. | \_\_\_\_ |
| **5. Gains** | Probable future economic benefits controlled by an entity. | \_\_\_\_ |

**Question Details**Topic : Concepts--Elements of financial statements  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 1 Easy  
Bloom's : Remember  
Gradable : manual

**9)** Listed below are 10 organizations followed by a list of phrases that describe or characterize the organizations. Match each phrase with the correct organization by placing the number designating the best term in the space provided by the phrase.

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. SEC** | Establishes auditing standards in the U.S. for public companies. | \_\_\_\_ |
| **2. FASB** | Primary national organization of accountants working in industry. | \_\_\_\_ |
| **3. IASB** | Sets accounting standards in the United States. | \_\_\_\_ |
| **4. AICPA** | Provides timely responses to financial reporting issues. | \_\_\_\_ |
| **5. EITF** | The FASB's parent organization. | \_\_\_\_ |
| **6. PCAOB** | Advises the FASB. | \_\_\_\_ |
| **7. IMA** | FASB's predecessor. | \_\_\_\_ |
| **8. FASAC** | Regulates the financial reporting for public companies. | \_\_\_\_ |
| **9. APB** | National organization of certified public accountants. | \_\_\_\_ |
| **10. FAF** | Sets global accounting standards. | \_\_\_\_ |

**Question Details**Difficulty : 2 Medium  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Development of accounting and reporting standards  
Topic : Encouraging high-quality financial reporting  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
AICPA : BB Legal  
Bloom's : Remember  
Gradable : manual

**10)** Compare net income (loss) for the year to net cash flow from operating activities. Why are these amounts different? Briefly explain.

**Question Details**Difficulty : 2 Medium  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Cash versus accrual accounting  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AACSB : Communication  
Gradable : manual

**11)** For each of the following situations, state whether you agree or disagree with the financial reporting practice employed, and briefly explain the reason for your answer.  
1.Cantor Corporation's accountant increased the book value of a patent from its original cost of $1 million to its recently appraised value of $6 million.  
2.Stanton Corporation paid for the personal travel of its chief financial officer and charged travel expense.  
3.At the end of its 2021 fiscal year, Dower, Incorporated, received an order from a customer for $60,000. The merchandise will ship early in 2022. Because the sale was made to a long-time customer and the invoice was paid in 2021, the controller recorded the sale in 2021.  
4.In the middle of its 2021 fiscal year, Sanguinetti, Incorporated paid $12,000 to its insurance company for one-year comprehensive insurance coverage. Sanguinetti recorded the entire expenditure as an expense in 2021.  
5.The Churchill Pharmaceutical Company included a note in its financial statements that described a pending lawsuit against the company.  
6.The Daily Corporation, a company whose securities are publicly traded, prepares monthly, quarterly, and annual financial statements for internal use but disseminates to external users only the annual financial statements.

**Question Details**Difficulty : 2 Medium  
Topic : GAAP--Underlying assumptions  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Bloom's : Analyze  
AACSB : Analytical Thinking  
Gradable : manual

**12)** Identify or define the following terms: economic entity, going concern.

**Question Details**Difficulty : 2 Medium  
Topic : GAAP--Underlying assumptions  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Bloom's : Remember  
Gradable : manual

**13)** List the four financial statements most frequently provided to external users.

**Question Details**AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Difficulty : 1 Easy  
Bloom's : Remember  
Topic : Environment of financial accounting and reporting  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Gradable : manual

**14)** Explain and show an example of how the FASB's conceptual framework is needed in formulating standards on controversial topics.

**Question Details**Topic : Conceptual framework--Purpose  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Bloom's : Understand  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
AACSB : Communication  
Difficulty : 3 Hard  
Gradable : manual

**15)** What is the SEC and how is it involved with accounting standard-setting?

**Question Details**AACSB : Reflective Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Development of accounting and reporting standards  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Difficulty : 1 Easy  
Bloom's : Remember  
Gradable : manual

**16)** What is the EITF and what is its purpose?

**Question Details**Difficulty : 2 Medium  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Development of accounting and reporting standards  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
Bloom's : Remember  
Gradable : manual

**17)** Accounting standard-setting has been characterized as a political process. Discuss this proposition giving an example.

**Question Details**Difficulty : 2 Medium  
Bloom's : Understand  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
AACSB : Communication  
Topic : GAAP--Standard-setting process  
Learning Objective : 01-04 Explain why establishing accounting standards is characterized as a politi  
Gradable : manual

**18)** What are the key provisions of the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002?

**Question Details**Difficulty : 2 Medium  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Encouraging high-quality financial reporting  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
AICPA : BB Legal  
Bloom's : Remember  
AACSB : Communication  
Gradable : manual

**19)** What is the value of a company having financial statements audited by an independent auditor?

**Question Details**Difficulty : 2 Medium  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Encouraging high-quality financial reporting  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Gradable : manual

**20)** What responsibilities do auditors have with respect to reporting critical audit matters (CAMs)?

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Encouraging high-quality financial reporting  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
AICPA : BB Legal  
Difficulty : 1 Easy  
Bloom's : Remember  
AACSB : Communication  
Gradable : manual

**21)** Briefly describe how materiality is featured in the conceptual framework.

**Question Details**Topic : Concepts--Qualitative characteristics  
Bloom's : Understand  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
AACSB : Communication  
Difficulty : 3 Hard  
Gradable : manual

**22)** What are the fundamental qualitative characteristics that are necessary for financial information to be useful, according to the FASB’s conceptual framework? Define each, including their key components or aspects.

**Question Details**Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
AICPA : BB Legal  
Bloom's : Remember  
AACSB : Communication  
Gradable : manual

**23)** Give an example of a violation of the stable monetary unit assumption. How would it affect the quality of financial statement information?

**Question Details**Difficulty : 2 Medium  
Topic : GAAP--Underlying assumptions  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Gradable : manual

**24)** Identify or define the following terms: periodicity, monetary unit.

**Question Details**Topic : GAAP--Underlying assumptions  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Difficulty : 1 Easy  
Bloom's : Remember  
Gradable : manual

**25)** Identify or define the following term: historical cost.

**Question Details**AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Concepts--Recognition-Measurement-Disclosure  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 1 Easy  
Bloom's : Remember  
Gradable : manual

**26)** How does GAAP define fair value?

**Question Details**Difficulty : 2 Medium  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Concepts--Recognition-Measurement-Disclosure  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Bloom's : Remember  
Gradable : manual

**27)** Over time, accounting standards have developed to reflect changes in the business world as well as changes in our ability to account for such changes. Using the example of marking assets and liabilities to their fair value, explain why you would expect accounting standards to change.

**Question Details**Difficulty : 2 Medium  
Bloom's : Understand  
AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Concepts--Recognition-Measurement-Disclosure  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Gradable : manual

**28)** List and briefly describe the five measurement attributes used commonly in current GAAP.

**Question Details**AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Concepts--Recognition-Measurement-Disclosure  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Bloom's : Remember  
Difficulty : 3 Hard  
Gradable : manual

**29)** List and briefly describe the three levels of inputs described in the fair value measurement hierarchy.

**Question Details**AACSB : Reflective Thinking  
AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Topic : Concepts--Recognition-Measurement-Disclosure  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Bloom's : Remember  
Difficulty : 3 Hard  
Gradable : manual

**30)** Contrast the asset/liability and revenue/expense approaches to accounting standard setting.

**Question Details**AICPA : FN Measurement  
AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Bloom's : Remember  
AACSB : Communication  
Difficulty : 3 Hard  
Topic : Evolving GAAP  
Learning Objective : 01-10 Contrast a revenue/expense approach and an asset/liability approach to acc  
Gradable : manual

**31)** Contrast the role of the conceptual framework in U.S. GAAP and IFRS.

**Question Details**AICPA : BB Critical Thinking  
Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Bloom's : Remember  
AACSB : Communication  
Difficulty : 3 Hard  
Topic : International Financial Reporting Standards  
Learning Objective : 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to  
Gradable : manual

**32)** External decision makers would **not** look primarily to financial accounting information to assist them in making decisions relating to:

32) \_\_\_\_\_\_

A) Making loans to the company.   
 B) Compensation of company executives.  
 C) The purchase of stocks and bonds.  
 D) Estimates of the potential for future profits.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Topic : Environment of financial accounting and reporting  
Type : Static  
Bloom's : Understand  
AICPA : BB Resource Management  
Gradable : automatic

**33)** The primary focus for financial accounting information is to provide information useful for:

|  |  |  |
| --- | --- | --- |
|  | **Investing decisions** | **Credit decisions** |
| **a.** | Yes | Yes |
| **b.** | Yes | No |
| **c.** | No | Yes |
| **d.** | No | No |

33) \_\_\_\_\_\_

A) Option a   
 B) Option b  
 C) Option c  
 D) Option d

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Topic : Environment of financial accounting and reporting  
Type : Static  
AICPA : BB Resource Management  
AICPA : FN Risk Analysis  
Gradable : automatic

**34)** Which of the following groups is **not** among the external users for whom financial statements are prepared?

34) \_\_\_\_\_\_

A) Customers   
 B) Suppliers  
 C) Employees  
 D) Customers, suppliers, and employees are all external users of financial statements

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Topic : Environment of financial accounting and reporting  
Type : Static  
AICPA : FN Risk Analysis  
Gradable : automatic

**35)** Which of the following is **not** true about net operating cash flow?

35) \_\_\_\_\_\_

A) It is the difference between cash receipts and cash disbursements from providing goods and services.   
 B) It is a measure used in accrual accounting and is recognized as the best predictor of future operating cash flows.  
 C) Over short periods, it may not be indicative of long-run cash-generating ability.  
 D) It is easy to understand and all information required to measure it is factual.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Difficulty : 2 Medium  
Gradable : automatic

**36)** Which of the following groups is **not** among financial intermediaries?

36) \_\_\_\_\_\_

A) Mutual fund managers   
 B) Financial analysts  
 C) CPAs  
 D) Credit rating organizations

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Topic : Environment of financial accounting and reporting  
Type : Static  
Difficulty : 2 Medium  
Gradable : automatic

**37)** An investor provides a company with $101,000 of cash by purchasing stock at the end of 2022, receives $1,100 of dividends from the company during 2023, and sells the ownership interest at the end of 2023 for $120,100. What is the rate of return that will be generated for 2023?

37) \_\_\_\_\_\_

A) 19%   
 B) 20%  
 C) 1%  
 D) Cannot be determined from the information supplied.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Topic : Environment of financial accounting and reporting  
Difficulty : 2 Medium  
Type : Algorithmic  
Gradable : automatic

**38)** An investor provides a company with $100,000 of cash by purchasing stock at the end of 2022, receives $1,000 of dividends from the company during 2023, and sells the ownership interest at the end of 2023 for $120,000. What is the rate of return that will be generated for 2023?

38) \_\_\_\_\_\_

A) 1%   
 B) 20%  
 C) 21%  
 D) Cannot be determined from the information supplied.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Topic : Environment of financial accounting and reporting  
Type : Static  
Difficulty : 2 Medium  
Gradable : automatic

**39)** Which of the following was the first private-sector entity that set accounting standards in the United States?

39) \_\_\_\_\_\_

A) Accounting Principles Board   
 B) Committee on Accounting Procedure  
 C) Financial Accounting Standards Board  
 D) AICPA

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Difficulty : 2 Medium  
Gradable : automatic

**40)** Which of the following does **not** provide guidance about GAAP for companies that are publicly listed on a stock exchange?

40) \_\_\_\_\_\_

A) FASB   
 B) IASB  
 C) GASB  
 D) EITF

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Gradable : automatic

**41)** Porite Company recognizes revenue in the period in which it records an asset for the related account receivable, rather than in the period in which the account receivable is collected in cash.  
Porite's practice is an example of:

41) \_\_\_\_\_\_

A) Cash basis accounting.   
 B) Accrual accounting.  
 C) The matching principle.  
 D) Economic entity.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Bloom's : Evaluate  
AACSB : Analytical Thinking  
Gradable : automatic

**42)** Which of the following is **not** a potential benefit of accrual accounting, compared to cash-basis accounting?

42) \_\_\_\_\_\_

A) Timeliness   
 B) Better reflecting economic activity  
 C) Periodicity  
 D) Better matching of revenues and expenses

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
Bloom's : Understand  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Gradable : automatic

**43)** In a recent annual report, Apple Computer reported the following in one of its disclosure notes: "Warranty Expense: The Company provides currently for the estimated cost for product warranties at the time the related revenue is recognized." This note exemplifies Apple's use of:

43) \_\_\_\_\_\_

A) Conservatism.   
 B) Matching.  
 C) Revenue recognition.  
 D) Economic entity.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Bloom's : Evaluate  
AACSB : Analytical Thinking  
Topic : GAAP--Underlying assumptions  
Topic : Concepts--Qualitative characteristics  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**44)** GAAP is an abbreviation for:

44) \_\_\_\_\_\_

A) Generally authorized accounting procedures.   
 B) Generally applied accounting procedures.  
 C) Generally accepted auditing practices.  
 D) Generally accepted accounting principles.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Gradable : automatic

**45)** The FASB issues accounting standards in the form of:

45) \_\_\_\_\_\_

A) Accounting Research Bulletins.   
 B) Accounting Standards Updates.  
 C) Financial Accounting Standards.  
 D) Financial Technical Bulletins.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Gradable : automatic

**46)** Pronouncements issued by the Committee on Accounting Procedures:

46) \_\_\_\_\_\_

A) Dealt with specific accounting and reporting problems.   
 B) Were based on exposure drafts and public comment letters.  
 C) Originated from congressional studies and SEC directives.  
 D) Were the outcome of research studies and a theoretical framework.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Gradable : automatic

**47)** The FASB's standard-setting process includes, in the correct order:

47) \_\_\_\_\_\_

A) Exposure draft, research, discussion paper, Accounting Standards Update.   
 B) Research, exposure draft, discussion paper, Accounting Standards Update.  
 C) Research, discussion paper, exposure draft, Accounting Standards Update.  
 D) Discussion paper, research, exposure draft, Accounting Standards Update.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : BB Legal  
Learning Objective : 01-04 Explain why establishing accounting standards is characterized as a politi  
Topic : GAAP--Standard-setting process  
Gradable : automatic

**48)** Which of the following is **not** a provision of the Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley)? The Act:

48) \_\_\_\_\_\_

A) Requires rotation of the lead partner on an audit every five years.   
 B) Increased accountability of corporate executives.  
 C) Regulates the types of non-audit services that can be performed by auditors for audit clients.  
 D) Changed the entity responsible for setting accounting standards.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Type : Static  
AICPA : BB Legal  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Difficulty : 2 Medium  
Gradable : automatic

**49)** CPAs are licensed by:

49) \_\_\_\_\_\_

A) The AICPA.   
 B) The SEC.  
 C) The federal government.  
 D) State governments.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : BB Legal  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Gradable : automatic

**50)** Which of the following has the statutory authority to set accounting standards in the United States?

50) \_\_\_\_\_\_

A) FASB   
 B) IRS  
 C) SEC  
 D) AICPA

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Gradable : automatic

**51)** When a registrant company submits its annual filing to the SEC, it uses:

51) \_\_\_\_\_\_

A) Form 10-A.   
 B) Form 10-K.  
 C) Form 10-Q.  
 D) Form S-1.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Gradable : automatic

**52)** The most likely important flaw leading to the demise of the APB was the perceived lack of:

52) \_\_\_\_\_\_

A) Confidence.   
 B) Competence.  
 C) Independence.  
 D) Importance.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
Topic : Development of accounting and reporting standards  
Difficulty : 2 Medium  
Gradable : automatic

**53)** Accounting standard-setting has been characterized as:

53) \_\_\_\_\_\_

A) A political process.   
 B) Using the scientific method.  
 C) Pure deductive reasoning.  
 D) Pure inductive reasoning.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-04 Explain why establishing accounting standards is characterized as a politi  
Topic : GAAP--Standard-setting process  
Gradable : automatic

**54)** The International Accounting Standards Board:

54) \_\_\_\_\_\_

A) Was the predecessor to the IASC.   
 B) Can overrule the FASB when their policies disagree.  
 C) Promotes the use of high-quality, understandable global accounting standards.  
 D) Has its headquarters in Geneva.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Learning Objective : 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to  
Topic : International Financial Reporting Standards  
AACSB : Diversity  
AICPA : BB Global  
Gradable : automatic

**55)** Which of the following is **not** a provision of the Public Company Accounting Reform and investor Protection Act of 2002?

55) \_\_\_\_\_\_

A) Corporate executive accountability   
 B) Auditor rotation  
 C) Reporting on adequacy of internal controls  
 D) All of these answer choices are correct.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : BB Legal  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Gradable : automatic

**56)** The primary professional organization for those accountants working in industry is the:

56) \_\_\_\_\_\_

A) AAA.   
 B) AICPA.  
 C) IIA.  
 D) IMA.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Gradable : automatic

**57)** Regarding convergence of accounting standards, the FASB and IASB:

57) \_\_\_\_\_\_

A) Have agreed to combine their organizations to form the BUSYB.   
 B) Have achieved full convergence with respect to financial instruments.  
 C) Do not intend to work together to achieve convergence where possible.  
 D) Are not likely to achieve full convergence of accounting standards in the near future.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
Topic : Development of accounting and reporting standards  
Learning Objective : 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to  
Topic : International Financial Reporting Standards  
AACSB : Diversity  
AICPA : BB Global  
Gradable : automatic

**58)** Which of the following is **not** a concern regarding IFRS adoption by the U.S.?

58) \_\_\_\_\_\_

A) Need for the U.S. to have strong influence on the standard-setting process and ensure that standards meet U.S. needs.   
 B) Geographic dispersion of standard setters makes it unlikely that boards can interact to achieve consensus.  
 C) The high costs to companies of converting to IFRS.  
 D) The fact that many laws, regulations and private contracts reference U.S. GAAP.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
Topic : Development of accounting and reporting standards  
AACSB : Diversity  
AICPA : BB Global  
Gradable : automatic

**59)** The most political issue in the FASB's deliberations and amendments to GAAP with respect to accounting for employee stock options was:

59) \_\_\_\_\_\_

A) The negative effects (especially on the earnings of high-tech companies) if they had to recognize compensation expense in an amount equal to the fair value of the options.   
 B) The negative effects on assets of recognizing options-related compensation expense in equity.  
 C) The disclosure of options-related compensation expense in the notes to the financial statements.  
 D) Accounting for options-related compensation expense relating to options that have not yet been granted to employees.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
Topic : Development of accounting and reporting standards  
Difficulty : 3 Hard  
Gradable : automatic

**60)** The private sector has sometimes been forced to change accounting standards because the:

60) \_\_\_\_\_\_

A) Cost of gathering data to comply with a given standard was prohibitive.   
 B) Difficulties in measurement required by the standard were too great.  
 C) Profit-oriented companies withdrew financial support for the private sector body that set the standards.  
 D) SEC did not agree with a particular standard issued by the private sector.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
Topic : Development of accounting and reporting standards  
Difficulty : 2 Medium  
Gradable : automatic

**61)** The most recent example of the political process at work in standard-setting is the controversy surrounding the:

61) \_\_\_\_\_\_

A) Creation of the FASB.   
 B) Accounting for employee stock options.  
 C) FASB Accounting Standards Codification.  
 D) Implementation of the fair value standard.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
Learning Objective : 01-04 Explain why establishing accounting standards is characterized as a politi  
Difficulty : 2 Medium  
Topic : GAAP--Standard-setting process  
Gradable : automatic

**62)** Independent auditors express an opinion on the:

62) \_\_\_\_\_\_

A) Fairness of financial statements.   
 B) Accuracy of financial statements.  
 C) Soundness of a company's future.  
 D) Quality of a company's management.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Type : Static  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Difficulty : 2 Medium  
AICPA : FN Reporting  
Gradable : automatic

**63)** The possibility that the capital markets' focus on periodic profits may tempt a company's management to bend or even break accounting rules to inflate reported net income is an example of:

63) \_\_\_\_\_\_

A) An ethical dilemma.   
 B) An accounting theory issue.  
 C) A technical accounting issue.  
 D) An auditor's responsibility to inform the SEC.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Type : Static  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
AICPA : BB Resource Management  
AICPA : FN Risk Analysis  
Difficulty : 2 Medium  
Bloom's : Evaluate  
AACSB : Analytical Thinking  
AACSB : Ethics  
Gradable : automatic

**64)** One of the elements that many believe distinguishes a profession from other occupations is the acceptance of responsibility by its members for the interests of those it serves, which is often articulated in:

64) \_\_\_\_\_\_

A) Its conceptual framework.   
 B) Its code of ethics.  
 C) Federal laws.  
 D) State laws.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AICPA : BB Critical Thinking  
Type : Static  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Difficulty : 2 Medium  
AACSB : Ethics  
Gradable : automatic

**65)** The motivation to behave ethically should come from:

65) \_\_\_\_\_\_

A) Within oneself.   
 B) Fear of penalties for violating professional codes.  
 C) Codes of ethics.  
 D) Frameworks for resolving ethical dilemmas.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
AACSB : Ethics  
Gradable : automatic

**66)** *SFAC 8* of the conceptual framework focuses on:

66) \_\_\_\_\_\_

A) Objective and qualitative characteristics.   
 B) Presentation and disclosure.  
 C) Recognition and measurement.  
 D) Elements of financial statements.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Topic : Conceptual framework--Purpose  
Gradable : automatic

**67)** The FASB's conceptual framework's qualitative characteristics of accounting information include:

67) \_\_\_\_\_\_

A) Historical cost.   
 B) Realization.  
 C) Faithful representation.  
 D) Full disclosure.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**68)** The FASB's conceptual framework's qualitative characteristics of accounting information include:

68) \_\_\_\_\_\_

A) Full disclosure.   
 B) Relevance.  
 C) Going concern.  
 D) Historical cost.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**69)** The conceptual framework's qualitative characteristic of relevance includes:

69) \_\_\_\_\_\_

A) Predictive value.   
 B) Verifiability.  
 C) Completeness.  
 D) Neutrality.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**70)** The conceptual framework's qualitative characteristic of faithful representation includes:

70) \_\_\_\_\_\_

A) Predictive value.   
 B) Neutrality.  
 C) Confirmatory value.  
 D) Timeliness.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**71)** *SFAC No.5* focuses on:

71) \_\_\_\_\_\_

A) Objectives of financial reporting.   
 B) Qualitative characteristics of accounting information.  
 C) Recognition and measurement concepts in accounting.  
 D) Elements of financial statements.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Difficulty : 2 Medium  
Topic : Conceptual framework--Purpose  
Gradable : automatic

**72)** The main issue in the debate over accounting for employee stock options was:

72) \_\_\_\_\_\_

A) Which employees should receive options.   
 B) The amount of compensation expense that a company should recognize.  
 C) How many options should be granted to key executives.  
 D) The tax consequences of employee stock options.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-04 Explain why establishing accounting standards is characterized as a politi  
Difficulty : 2 Medium  
Topic : GAAP--Standard-setting process  
Gradable : automatic

**73)** Confirmatory value is central to the concept of “earnings quality” because it:

73) \_\_\_\_\_\_

A) Helps investors predict a company’s future earnings.   
 B) Allows investors to verify or change their prior assessments of a company’s performance.  
 C) Helps investors predict a company’s future cash flows.  
 D) Allows investors to compare the performance of a company over time.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**74)** A firm's comprehensive income always:

74) \_\_\_\_\_\_

A) Is the same as its net income.   
 B) Is greater than its net income.  
 C) Is less than its net income.  
 D) Could be greater than or less than net income.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
Bloom's : Understand  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**75)** Net income equals:

75) \_\_\_\_\_\_

A) Assets minus liabilities.   
 B) Revenues minus cost of goods sold.  
 C) Revenues minus expenses.  
 D) Cash receipts minus cash payments.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**76)** Enhancing qualitative characteristics of accounting information include each of the following **except**:

76) \_\_\_\_\_\_

A) Timeliness.   
 B) Materiality.  
 C) Comparability.  
 D) Verifiability.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**77)** The enhancing qualitative characteristic of understandability means that information should be understood by:

77) \_\_\_\_\_\_

A) Those who are experts in the interpretation of financial information.   
 B) Those who have a reasonable understanding of business and economic activities.  
 C) Financial analysts.  
 D) CPAs.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**78)** Fundamental qualitative characteristics of accounting information are:

78) \_\_\_\_\_\_

A) Relevance and comparability.   
 B) Comparability and consistency.  
 C) Faithful representation and relevance.  
 D) Neutrality and consistency.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**79)** Enhancing qualitative characteristics of accounting information include:

79) \_\_\_\_\_\_

A) Relevance and comparability.   
 B) Comparability and timeliness.  
 C) Understandability and relevance.  
 D) Neutrality and consistency.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**80)** Gains are:

80) \_\_\_\_\_\_

A) Inflows from selling a product or service to a customer.   
 B) Increases in equity resulting from transfers of assets to the company from owners.  
 C) Increases in equity from peripheral transactions of an entity.  
 D) None of these answer choices are correct.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**81)** When there is agreement between a measure or description and the phenomenon it purports to represent, information possesses which characteristic?

81) \_\_\_\_\_\_

A) Verifiability   
 B) Predictive value  
 C) Faithful representation  
 D) Timeliness

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**82)** Surefeet Corporation changed its inventory valuation method. Which characteristic is jeopardized by this change?

82) \_\_\_\_\_\_

A) Comparability   
 B) Representational faithfulness  
 C) Consistency  
 D) Feedback value

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**83)** Elements of financial statements do **not** include:

83) \_\_\_\_\_\_

A) Monetary unit.   
 B) Investments by owners.  
 C) Comprehensive income.  
 D) Losses.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**84)** Which of the following is true regarding equity?

84) \_\_\_\_\_\_

A) It represents how much the owner profits from the business.   
 B) It represents the residual interest in the assets of an entity that remains after deducting its liabilities.  
 C) It represents the owner’s return for investing in the business.  
 D) It represents the accumulated earnings of the business over time.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**85)** Cash dividends are an example of which of the following elements?

85) \_\_\_\_\_\_

A) Distribution to owners   
 B) Expenses  
 C) Equity  
 D) Investment by owners

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**86)** The primary objective of financial accounting information is to provide useful information about economic activity to:

86) \_\_\_\_\_\_

A) Management.   
 B) Capital providers.  
 C) Regulators.  
 D) Academicians.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Difficulty : 2 Medium  
Topic : Conceptual framework--Purpose  
Gradable : automatic

**87)** Of the following, the most important objective for financial reporting is to provide information useful for:

87) \_\_\_\_\_\_

A) Making decisions.   
 B) Determining taxable income.  
 C) Providing accountability.  
 D) Increasing future profits.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**88)** Management has decided to change the estimated useful life of a machinery but fails to disclose this change in the financial statements. This violation of GAAP can cause the information to be misleading because it lacks:

88) \_\_\_\_\_\_

A) Neutrality.   
 B) Timeliness.  
 C) Completeness.  
 D) Confirmatory value.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**89)** Management has recently purchased new equipment but is uncertain about its useful life. For the initial year, management estimated a useful life of 10 years. However, due to a major accident during the first year, management is now uncertain about the equipment’s functionality and has revised its estimate to 5 years and included a description of their uncertainty and of this change in estimated useful life in financial statement disclosures. Which of the following is an accurate statement regarding this approach?

89) \_\_\_\_\_\_

A) Information contains error because management changed its estimates on the useful life of the equipment.   
 B) Information contains error because the useful life of the equipment is uncertain.  
 C) Information is free from error because management has provided enough disclosure regarding the uncertain estimate.  
 D) Information is free from error because management made the correct decision in revising the estimated useful life of the equipment.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**90)** Roy Wilton is a CPA who recently made a poor investment. When researching the investment, Roy examined the financial statements of the firm, but did not read the accompanying footnotes, and therefore didn’t comprehend the broader context underlying those financial statements. Which of the following is true with respect to the enhancing qualitative characteristic of understandability in this case?

90) \_\_\_\_\_\_

A) This demonstrates a violation of understandability, given that Roy did not comprehend all relevant information.   
 B) This does not demonstrate a violation of understandability, as Roy did not bother to read the footnotes but could have understood them if he did so.  
 C) This does not demonstrate a violation of understandability, but rather completeness, as Roy’s understanding was incomplete.  
 D) This demonstrates a violation of understandability, as CPAs should be able to rely on the financial statements alone.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**91)** A constraint on qualitative characteristics of accounting information is:

91) \_\_\_\_\_\_

A) Timeliness.   
 B) Going concern.  
 C) Neutrality.  
 D) Cost-effectiveness.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**92)** According to the conceptual framework, verifiability implies:

92) \_\_\_\_\_\_

A) Legal evidence.   
 B) Logic.  
 C) Consensus.  
 D) Legal verdict.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**93)** Maltec Corporation has started placing its quarterly financial statements on its web page, thereby reducing by 10 days the time to get information to investors and creditors. The qualitative concept improved is:

93) \_\_\_\_\_\_

A) Comparability.   
 B) Consistency.  
 C) Timeliness.  
 D) Faithful representation.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**94)** Recognizing expected losses immediately, but deferring expected gains, is an example of:

94) \_\_\_\_\_\_

A) Materiality.   
 B) Conservatism.  
 C) Cost-effectiveness.  
 D) Timeliness.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**95)** Change in equity from nonowner sources is:

95) \_\_\_\_\_\_

A) Comprehensive income.   
 B) Revenues.  
 C) Expenses.  
 D) Gains and losses.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**96)** Which of the following Statements of Financial Accounting Concepts defines the 10 elements of financial statements?

96) \_\_\_\_\_\_

A) *SFAC 4*   
 B) *SFAC 3*  
 C) *SFAC 5*  
 D) *SFAC 6*

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**97)** Primecoat Corporation could disseminate its annual financial statements two days earlier if it shifted substantial human resources from other operations to the annual report project. Management decided the value of the earlier report was not worth the added commitment of resources. The concept demonstrated is:

97) \_\_\_\_\_\_

A) Timeliness.   
 B) Materiality.  
 C) Relevance.  
 D) Cost-effectiveness.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
Type : Static  
Bloom's : Understand  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
AICPA : BB Resource Management  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**98)** Mega Loan Company has very stringent credit requirements and, accordingly, has negligible losses from uncollectible accounts. The company's independent accountants did not protest when, contrary to GAAP, the company recorded bad debt expense only when specific accounts were determined to be uncollectible, rather than use an allowance for uncollectible accounts. The concept demonstrated is:

98) \_\_\_\_\_\_

A) Comparability.   
 B) Faithful representation.  
 C) Cost-effectiveness.  
 D) Materiality.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**99)** Four different competent accountants independently agree on the amount and method of reporting an economic event. The concept demonstrated is:

99) \_\_\_\_\_\_

A) Reliability.   
 B) Comparability.  
 C) Completeness.  
 D) Verifiability.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Difficulty : 2 Medium  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**100)** An important argument in support of historical cost information is:

100) \_\_\_\_\_\_

A) Relevance.   
 B) Predictive quality for future cash flows.  
 C) Materiality.  
 D) Verifiability.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**101)** The conceptual framework's recognition and measurement concepts recognize which one of the following as an assumption?

101) \_\_\_\_\_\_

A) Going concern   
 B) Historical cost  
 C) Full disclosure  
 D) Realization

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Topic : GAAP--Underlying assumptions  
Gradable : automatic

**102)** The assumption that in the absence of contrary information a business entity will continue indefinitely is the:

102) \_\_\_\_\_\_

A) Periodicity assumption.   
 B) Entity assumption.  
 C) Going concern assumption.  
 D) Historical cost assumption.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Difficulty : 2 Medium  
Topic : GAAP--Underlying assumptions  
Gradable : automatic

**103)** Long-lived, revenue-producing assets are measured at:

103) \_\_\_\_\_\_

A) Depreciation (or amortized) cost.   
 B) Fair value.  
 C) Current cost.  
 D) Present value.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Topic : GAAP--Underlying assumptions  
Gradable : automatic

**104)** If a company has declared bankruptcy, its financial statements likely violate the:

104) \_\_\_\_\_\_

A) Fair value measurement approach.   
 B) Present value measurement approach.  
 C) Stable monetary unit assumption.  
 D) Going concern assumption.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Difficulty : 2 Medium  
Bloom's : Create  
Topic : GAAP--Underlying assumptions  
Gradable : automatic

**105)** Which of the following is typically characterized as a principle, rather than an assumption?

105) \_\_\_\_\_\_

A) Periodicity   
 B) Monetary unit  
 C) Conservatism  
 D) Full disclosure

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Topic : GAAP--Underlying assumptions  
Gradable : automatic

**106)** Which of the following is **not** an identified valuation technique in GAAP regarding fair value measurement?

106) \_\_\_\_\_\_

A) Cost approach   
 B) Market approach  
 C) Cost-benefit approach  
 D) Income approach

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**107)** Disclosure notes to a company's financial statements:

107) \_\_\_\_\_\_

A) Are relatively unimportant facts that don't belong in the basic financial statements.   
 B) Document the source of financial statement facts, like literary footnotes.  
 C) Are an integral part of a company's financial statements.  
 D) Are irrelevant facts that are immaterial in amount.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**108)** A cause-and-effect relationship is implicit in:

108) \_\_\_\_\_\_

A) Realization.   
 B) Historical cost.  
 C) Matching.  
 D) The going concern assumption.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**109)** The full disclosure principle requires a balance between:

109) \_\_\_\_\_\_

A) Comparability and consistency.   
 B) Relevance and cost-effectiveness.  
 C) Reliability and neutrality.  
 D) Timeliness and predictive value.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**110)** The recognition of which of the following expenses exemplifies the application of matching expenses with the revenues they produced?

110) \_\_\_\_\_\_

A) President's salary   
 B) Research and development  
 C) Cost of goods sold  
 D) Advertising

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
Bloom's : Understand  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**111)** Land was acquired in 2024 for a future building site at a cost of $40,100. The assessed valuation for tax purposes is $29,000, a qualified appraiser placed its value at $49,200, and a recent firm offer for the land was for a cash payment of $44,300. The land should be reported in the financial statements at:

111) \_\_\_\_\_\_

A) $49,200.   
 B) $44,300.  
 C) $40,100.  
 D) $29,000.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Bloom's : Apply  
AACSB : Knowledge Application  
Type : Algorithmic  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**112)** Land was acquired in 2024 for a future building site at a cost of $40,000. The assessed valuation for tax purposes is $27,000, a qualified appraiser placed its value at $48,000, and a recent firm offer for the land was for a cash payment of $46,000. The land should be reported in the financial statements at:

112) \_\_\_\_\_\_

A) $40,000.   
 B) $27,000.  
 C) $46,000.  
 D) $48,000.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Bloom's : Apply  
AACSB : Knowledge Application  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**113)** Revenue should not be recognized until:

113) \_\_\_\_\_\_

A) The seller has transferred goods or services to a customer.   
 B) Contracts have been signed and payment has been received.  
 C) Work has been performed and customer has been billed.  
 D) Collection has been made and warrantees have expired.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**114)** Which of the following best demonstrates the full disclosure principle?

114) \_\_\_\_\_\_

A) The multi-step income statement   
 B) The auditors' report  
 C) The company's tax return  
 D) Disclosure notes to financial statements

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Bloom's : Create  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**115)** Matching is a(n):

115) \_\_\_\_\_\_

A) Valuation method.   
 B) Result of recognizing revenues and expenses that arise from the same transaction.  
 C) Cash basis reporting principle.  
 D) Asset classification procedure.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**116)** Which of the following best describes the additional information that companies use to meet the requirements of full disclosure in financial statements?

116) \_\_\_\_\_\_

A) Parenthetical comments or modifying comments placed on the face of the financial statements   
 B) Disclosure notes conveying additional insights about company operations, accounting principles, contractual agreements, and pending litigation  
 C) Supplemental schedules and tables that report more detailed information than is shown in the primary financial statements  
 D) Comments on the face of the financial statements, and schedules, tables, and narrative disclosures in notes to the financial statements

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Difficulty : 2 Medium  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**117)** Ford Motor Company purchases services from suppliers on account and sells its products to distributors on short-term credit. As a result, do each of these events affect net income faster than they affect net operating cash flows?

|  |  |  |
| --- | --- | --- |
|  | **Purchase Services** | **Sell Products** |
| **a.** | Yes | Yes |
| **b.** | Yes | No |
| **c.** | No | Yes |
| **d.** | No | No |

117) \_\_\_\_\_\_

A) Option a   
 B) Option b  
 C) Option c  
 D) Option d

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Type : Static  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
AACSB : Analytical Thinking  
Difficulty : 3 Hard  
Bloom's : Analyze  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**118)** The revenue/expense approach emphasizes:

118) \_\_\_\_\_\_

A) Recognition of revenues.   
 B) Recognition of expenses.  
 C) The income statement.  
 D) All of these answer choices are correct.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-10 Contrast a revenue/expense approach and an asset/liability approach to acc  
Topic : Evolving GAAP  
Gradable : automatic

**119)** The asset/liability approach emphasizes:

119) \_\_\_\_\_\_

A) Whether amounts on the balance sheet meet the definitions of assets and liabilities.   
 B) A close relation between the balance sheet and the statement of cash flows.  
 C) The distinction between net assets and gross assets.  
 D) All of these answer choices are correct.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-10 Contrast a revenue/expense approach and an asset/liability approach to acc  
Topic : Evolving GAAP  
Gradable : automatic

**120)** Under IFRS, the role of the conceptual framework:

120) \_\_\_\_\_\_

A) Primarily involves guiding standard setters to make sure that standards are consistent with each other.   
 B) Includes serving as a guide for practitioners when a specific standard does not apply.  
 C) Is less important than in U.S. GAAP.  
 D) Has resulted primarily from a convergence with U.S. GAAP.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to  
Topic : International Financial Reporting Standards  
AACSB : Diversity  
AICPA : BB Global  
Gradable : automatic

**121)** Under IFRS, the conceptual framework:

121) \_\_\_\_\_\_

A) Emphasizes the overarching concept of the financial statements providing a "true and fair representation" of the company.   
 B) Is not designed to provide guidance to standard setters, but rather only to practitioners.  
 C) Is not designed to provide guidance to practitioners, but rather only to standard setters.  
 D) Specifies a set of rules that determine what constitutes a true IFRS standard.

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Type : Static  
Learning Objective : 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to  
Topic : International Financial Reporting Standards  
AACSB : Diversity  
AICPA : BB Global  
Difficulty : 2 Medium  
Gradable : automatic

**122)** Alpaca Corporation had revenues of $250,000 in its first year of operations. The company has not collected on $18,900 of its sales and still owes $26,600 on $90,000 of merchandise it purchased. The company had no inventory on hand at the end of the year. The company paid $12,500 in salaries. Owners invested $24,000 in the business and $24,000 was borrowed on a five-year note. The company paid $2,700 in interest that was the amount owed for the year, and paid $7,300 for a two-year insurance policy on the first day of business. Alpaca has an effective income tax rate of 40%.  
Compute net income for the first year for Alpaca Corporation.

122) \_\_\_\_\_\_

A) $160,000   
 B) $141,150  
 C) $84,690  
 D) $95,000

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Difficulty : 3 Hard  
Bloom's : Apply  
AACSB : Knowledge Application  
Type : Algorithmic  
Gradable : automatic

**123)** Alpaca Corporation had revenues of $305,000 in its first year of operations. The company has not collected on $20,000 of its sales and still owes $28,100 on $96,500 of merchandise it purchased. The company had no inventory on hand at the end of the year. The company paid $13,800 in salaries. Owners invested $19,500 in the business and $19,500 was borrowed on a five-year note. The company paid $4,700 in interest that was the amount owed for the year, and paid $8,700 for a two-year insurance policy on the first day of business. Alpaca has an effective income tax rate of 40%. (Assume taxes are paid in the same year).  
Compute the cash balance at the end of the first year for Alpaca Corporation.

123) \_\_\_\_\_\_

A) $221,835   
 B) $154,140  
 C) $189,835  
 D) $200,835

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Difficulty : 2 Medium  
Bloom's : Apply  
AACSB : Knowledge Application  
Type : Algorithmic  
Gradable : automatic

**124)** Tri Fecta, a partnership, had revenues of $369,000 in its first year of operations. The partnership has not collected on $46,600 of its sales and still owes $39,500 on $170,000 of merchandise it purchased. There was no inventory on hand at the end of the year. The partnership paid $27,200 in salaries. The partners invested $46,000 in the business and $21,000 was borrowed on a five-year note. The partnership paid $1,890 in interest that was the amount owed for the year and paid $8,500 for a two-year insurance policy on the first day of business.  
Compute net income for the first year for Tri Fecta.

124) \_\_\_\_\_\_

A) $165,660   
 B) $236,590  
 C) $199,000  
 D) $170,000

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Difficulty : 3 Hard  
Bloom's : Apply  
AACSB : Knowledge Application  
Type : Algorithmic  
Gradable : automatic

**125)** Tri Fecta, a partnership, had revenues of $375,000 in its first year of operations. The partnership has not collected on $45,900 of its sales and still owes $39,400 on $195,000 of merchandise it purchased. There was no inventory on hand at the end of the year. The partnership paid $27,500 in salaries. The partners invested $41,000 in the business and $30,000 was borrowed on a five-year note. The partnership paid $3,600 in interest that was the amount owed for the year and paid $9,600 for a two-year insurance policy on the first day of business. Ignore income taxes.  
Compute the cash balance at the end of the first year for Tri Fecta.

125) \_\_\_\_\_\_

A) $208,600   
 B) $215,100  
 C) $203,800  
 D) $210,300

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Difficulty : 2 Medium  
Bloom's : Apply  
AACSB : Knowledge Application  
Type : Algorithmic  
Gradable : automatic

**126)** The following information ($ in millions) comes from a recent annual report of Orinoco.com, Incorporated:

|  |  |
| --- | --- |
| **Net sales** | $ 10,778 |
| **Total assets** | 4,414 |
| **End of year balance in cash** | 1,122 |
| **Total stockholders' equity** | 343 |
| **Gross profit (Sales − Cost of Sales)** | 2,474 |
| **Net increase in cash for the year** | 12 |
| **Operating expenses** | 2,057 |
| **Net operating cash flow** | 711 |
| **Other income (expense), net** | $ (15) |

Compute Orinoco's balance in cash at the beginning of the year.

126) \_\_\_\_\_\_

A) $1,778   
 B) $1,122  
 C) $1,110  
 D) $754

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Difficulty : 2 Medium  
Bloom's : Apply  
AACSB : Knowledge Application  
Type : Algorithmic  
Gradable : automatic

**127)** The following information ($ in millions) comes from a recent annual report of Orinoco.com, Incorporated:

|  |  |
| --- | --- |
| **Net sales** | $ 10,808 |
| **Total assets** | 4,552 |
| **End of year balance in cash** | 1,163 |
| **Total stockholders' equity** | 453 |
| **Gross profit (Sales − Cost of Sales)** | 2,570 |
| **Net increase in cash for the year** | 11 |
| **Operating expenses** | 2,048 |
| **Net operating cash flow** | 726 |
| **Other income (expense), net** | (21) |

Compute Orinoco's total liabilities at the end of the year.

127) \_\_\_\_\_\_

A) $3,211   
 B) $2,342  
 C) $4,552  
 D) $4,099

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Bloom's : Apply  
AACSB : Knowledge Application  
Type : Algorithmic  
Gradable : automatic

**128)** The following information ($ in millions) comes from a recent annual report of Orinoco.com, Incorporated:

|  |  |
| --- | --- |
| **Net sales** | $ 10,835 |
| **Total assets** | 4,533 |
| **End of year balance in cash** | 1,150 |
| **Total stockholders' equity** | 395 |
| **Gross profit (Sales − Cost of Sales)** | 2,503 |
| **Net increase in cash for the year** | 29 |
| **Operating expenses** | 2,051 |
| **Net operating cash flow** | 724 |
| **Other income (expense), net** | (31) |

Compute Orinoco's cost of goods sold for the year.

128) \_\_\_\_\_\_

A) $8,332   
 B) $4,407  
 C) $5,257  
 D) $7,308

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Bloom's : Apply  
AACSB : Knowledge Application  
Type : Algorithmic  
Gradable : automatic

**129)** The following information ($ in millions) comes from a recent annual report of Orinoco.com, Incorporated:

|  |  |
| --- | --- |
| **Net sales** | $ 10,791 |
| **Total assets** | 4,486 |
| **End of year balance in cash** | 1,038 |
| **Total stockholders' equity** | 482 |
| **Gross profit (Sales − Cost of Sales)** | 2,543 |
| **Net increase in cash for the year** | 15 |
| **Operating expenses** | 2,065 |
| **Net operating cash flow** | 748 |
| **Other income (expense), net** | (29) |

Compute the income before income tax for Orinoco.

129) \_\_\_\_\_\_

A) $449   
 B) $529  
 C) $569  
 D) $369

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Bloom's : Apply  
Type : Algorithmic  
Gradable : automatic

**130)** The primary focus of financial accounting is on the financial information provided to present and potential investors and creditors.

130) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Topic : Environment of financial accounting and reporting  
Type : Static  
Gradable : automatic

**131)** Financial reporting refers to the process of proving information to internal and external users.

131) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Topic : Environment of financial accounting and reporting  
Type : Static  
Gradable : automatic

**132)** The capital markets provide a mechanism to help our economy allocate resources efficiently and are comprised of all investors and creditors.

132) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Topic : Environment of financial accounting and reporting  
Type : Static  
Gradable : automatic

**133)** The rate of return generated on the purchase of stock is calculated as the sum of the dividends and share price appreciation divided by the amount of the initial investment.

133) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Learning Objective : 01-01 Describe the function and primary focus of financial accounting.  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Topic : Environment of financial accounting and reporting  
Type : Static  
Gradable : automatic

**134)** Accrual accounting attempts to measure revenues and expenses that occurred during accounting periods so they equal net operating cash flow.

134) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-02 Explain the difference between cash and accrual accounting.  
Bloom's : Understand  
AICPA : FN Measurement  
Topic : Cash versus accrual accounting  
Gradable : automatic

**135)** The FASB is currently the public-sector organization responsible for setting accounting standards in the United States.

135) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Gradable : automatic

**136)** The FASB’s due process invites various interested parties to indicate their opinions about whether financial accounting standards should be changed.

136) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : BB Legal  
Learning Objective : 01-04 Explain why establishing accounting standards is characterized as a politi  
Topic : GAAP--Standard-setting process  
Gradable : automatic

**137)** Accounting for stock-based compensation is an area in which the FASB has received little political interference.

137) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : BB Legal  
Learning Objective : 01-04 Explain why establishing accounting standards is characterized as a politi  
Topic : GAAP--Standard-setting process  
Gradable : automatic

**138)** The Public Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) changed the entity responsible for regulating auditors and the types of non-audit services they furnish to clients.

138) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : BB Legal  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Gradable : automatic

**139)** A rules-based approach to standard-setting stresses professional judgment as opposed to following a list of rules.

139) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Gradable : automatic

**140)** Under federal securities laws, the SEC has the authority to set accounting standards in the United States.

140) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-03 Define generally accepted accounting principles (GAAP) and discuss the his  
AICPA : BB Legal  
Topic : Development of accounting and reporting standards  
Gradable : automatic

**141)** The primary responsibility for properly applying GAAP when communicating with investors and creditors through financial statements lies with a firm's auditors.

141) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Gradable : automatic

**142)** Auditors play an important role in the resource allocation process by adding credibility to financial statements.

142) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Bloom's : Understand  
Learning Objective : 01-05 Explain factors that encourage high-quality financial reporting.  
Topic : Encouraging high-quality financial reporting  
Gradable : automatic

**143)** The purpose of the conceptual framework is to provide a structure and framework for a consistent set of GAAP.

143) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Topic : Conceptual framework--Purpose  
Gradable : automatic

**144)** In the United States, the conceptual framework indicates GAAP when a more specific accounting standard does not apply.

144) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-06 Explain the purpose of the conceptual framework.  
Topic : Conceptual framework--Purpose  
Gradable : automatic

**145)** Materiality can be affected by the dollar amount of an item, the nature of the item, or both.

145) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**146)** According to the FASB's Statements of Financial Accounting Concepts, conservatism is a desired qualitative characteristic of accounting information.

146) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**147)** Equity is the residual interest in the assets of an entity that remains after deducting its liabilities.

147) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**148)** Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities during a period from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations.

148) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**149)** Gains or losses result, respectively, from the disposition of business assets for greater than, or less than, their book values.

149) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**150)** Comprehensive income is another term for net income.

150) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Elements of financial statements  
Gradable : automatic

**151)** The FASB's conceptual framework lists relevance and timeliness as the two fundamental qualitative characteristics of decision-useful information.

151) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-07 Identify the objective and qualitative characteristics of financial report  
Topic : Concepts--Qualitative characteristics  
Gradable : automatic

**152)** The monetary unit assumption requires that items in financial statements be measured in a particular monetary unit.

152) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Topic : GAAP--Underlying assumptions  
Gradable : automatic

**153)** The periodicity assumption requires that present value calculations take into account the number of compounding periods in each year.

153) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-08 Describe the four basic assumptions underlying GAAP.  
Topic : GAAP--Underlying assumptions  
Gradable : automatic

**154)** Determining fair value by calculating the present value of future cash flows is a level 1 type of input.

154) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**155)** Current cost is **not** one of the measurement attributes employed in GAAP.

155) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**156)** The FASB's framework for measuring fair value doesn't change the situations in which fair value is used under current GAAP.

156) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-09 Describe the recognition, measurement, and disclosure concepts that guide  
Topic : Concepts--Recognition-Measurement-Disclosure  
Gradable : automatic

**157)** The revenue/expense approach emphasizes determining the appropriate amounts of revenue and expense in each reporting period.

157) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-10 Contrast a revenue/expense approach and an asset/liability approach to acc  
Topic : Evolving GAAP  
Gradable : automatic

**158)** The asset/liability approach emphasizes matching to determine what assets and liabilities should be reflected on the balance sheet.

158) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
AACSB : Reflective Thinking  
AICPA : BB Critical Thinking  
Difficulty : 1 Easy  
Type : Static  
AICPA : FN Measurement  
Learning Objective : 01-10 Contrast a revenue/expense approach and an asset/liability approach to acc  
Topic : Evolving GAAP  
Gradable : automatic

**159)** In IFRS, the conceptual framework indicates appropriate accounting when a more specific accounting standard does not apply.

159) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Type : Static  
Learning Objective : 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to  
Topic : International Financial Reporting Standards  
AACSB : Diversity  
AICPA : BB Global  
Gradable : automatic

**160)** Political pressure never affects the IFRS standard-setting process.

160) \_\_\_\_\_\_

⊚ true  
 ⊚ false

**Question Details**Accessibility : Keyboard Navigation  
Accessibility : Screen Reader Compatible  
Bloom's : Remember  
Difficulty : 1 Easy  
Type : Static  
AICPA : BB Legal  
Learning Objective : 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to  
Topic : International Financial Reporting Standards  
AACSB : Diversity  
AICPA : BB Global  
Gradable : automatic

**Answer Key**Test name: chapter 1

1)

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Predictive value** | Information is useful in projecting cash flows. | 1 |
| **2. Relevance** | Pertinent to the decision at hand. | 2 |
| **3. Distribution to owners** | Information is available prior to the decision. | 5 |
| **4. Confirmatory value** | Decrease in equity due to transfers to owners. | 3 |
| **5. Timeliness** | Information confirms expectations. | 4 |

2)

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Gain** | Along with relevance, a fundamental decision-specific quality. | 5 |
| **2. Materiality** | Results if an asset is sold for more than book value. | 1 |
| **3. Completeness** | Contains all information necessary for faithful representation. | 3 |
| **4. Comprehensive income** | The change in equity from nonowner transactions. | 4 |
| **5. Faithful representation** | Concerns the decision-making impact of both the amount and nature of an item. | 2 |

3)

|  |  |  |
| --- | --- | --- |
| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Neutrality** | Important in analysis between firms. | 2 |
| **2. Comparability** | Accounting information should be unbiased. | 1 |
| **3. Consistency** | The decision to include an amount in the financial statements. | 5 |
| **4. Cost-effectiveness** | Applying the same accounting practices over time. | 3 |
| **5. Recognition** | Considers the value of using information relative to cost of providing it. | 4 |

4)

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| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Monetary unit assumption** | Implies consensus among different observers. | 2 |
| **2. Verifiability** | Assumes all transactions can be identified with a particular entity. | 3 |
| **3. Economic entity assumption** | Assumes an entity will continue to operate indefinitely. | 4 |
| **4. Going concern assumption** | Requires reporting the financial life of an entity in discrete time frames. | 5 |
| **5. Periodicity assumption** | Ignores the possibility of inflation. | 1 |

5)

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| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Historical cost** | Basis of measurement for fixed assets. | 1 |
| **2. Materiality** | Discounts future cash flows. | 5 |
| **3. Revenue recognition** | Occurs when goods or services are transferred to the customer. | 3 |
| **4. Full disclosure** | Reporting of all information that could affect decisions. | 4 |
| **5. Present value** | Application of GAAP sometimes avoided under this constraint. | 2 |

6)

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| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Financial Accounting Standards Board** | Undermines representational faithfulness by being inconsistent with neutrality. | 3 |
| **2. Accounting Principles Board** | It established GAAP before the FASB. | 2 |
| **3. Conservatism** | Its *EITF Issues* are GAAP when entered in the Accounting Standards Codification. | 1 |
| **4. American Institute of CPAs (AICPA)** | It has the authority to set U.S. accounting standards. | 5 |
| **5. Securities and Exchange Commission** | It is the national organization for CPAs in the United States. | 4 |

7)

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| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Expenses** | Net assets. | 2 |
| **2. Equity** | Outflows of resources to generate revenues. | 1 |
| **3. Distributions to owners** | Cash dividends. | 3 |
| **4. Investments by owners** | Claims of creditors against the assets of a business. | 5 |
| **5. Liabilities** | Transfers of resources in exchange for common and preferred stock. | 4 |

8)

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| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. Losses** | Net outflows from peripheral transactions. | 1 |
| **2. Assets** | Increases in equity from the sale of goods and/or services. | 3 |
| **3. Revenues** | Results if an asset is sold for more than book value. | 5 |
| **4. Comprehensive income** | All changes in equity except owner transactions. | 4 |
| **5. Gains** | Probable future economic benefits controlled by an entity. | 2 |

9)

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| **TERM** | **PHRASE** | **Term number that matches the phrase.** |
| **1. SEC** | Establishes auditing standards in the U.S. for public companies. | 6 |
| **2. FASB** | Primary national organization of accountants working in industry. | 7 |
| **3. IASB** | Sets accounting standards in the United States. | 2 |
| **4. AICPA** | Provides timely responses to financial reporting issues. | 5 |
| **5. EITF** | The FASB's parent organization. | 10 |
| **6. PCAOB** | Advises the FASB. | 8 |
| **7. IMA** | FASB's predecessor. | 9 |
| **8. FASAC** | Regulates the financial reporting for public companies. | 1 |
| **9. APB** | National organization of certified public accountants. | 4 |
| **10. FAF** | Sets global accounting standards. | 3 |

10) These amounts are different because of the differences between cash and accrual accounting. As opposed to cash flows from operations, net income includes both revenues and expenses the timing of which differs from the timing of certain cash receipts and payments. Examples would be credit sales in which the revenues are recorded before the collection of cash and cost of goods sold in which the expense often is recorded later than the cash payment to the supplier for the merchandise.

11)1.Disagree. This is a violation of the historical cost (original transaction value) principle.  
2.Disagree. This is a violation of the economic entity assumption.  
3.Disagree. The seller has not satisfied its obligation to deliver goods.  
4.Disagree. This is a violation of matching.  
5.Agree. The company is conforming to the full disclosure principle.  
6.Disagree. This is a violation of the periodicity assumption.

12)Economic entity: All economic events can be identified with a particular economic entity.  
Going concern: In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely.

13)Balance sheet, Income statement, Statement of cash flows, Statement of shareholders' equity.

14)In order to provide consistency, a conceptual framework (a map clearly defining beliefs or structure) must be provided. This is the foundation for a strong, logical, and fair system. For example, in debating accounting for stock-based compensation, the FASB's conceptual framework explains the rationale for treating stock options as an expense. By relating the accounting for such compensation to the purpose of financial statements and their qualitative characteristics, the FASB can defend its positions without the bias inherent in such controversial issues.

15)The Securities and Exchange Commission is a federal agency that has the authority to set accounting standards. However, the SEC has always relied on a private-sector body, such as the current FASB, to accomplish that task.

16)The Emerging Issues Task Force (EITF) acts as a filter for the FASB. It includes 15 individuals from public accounting and private industry along with a representative from the FASB and an SEC observer. The task force focuses on emerging issues and attempts to reach a consensus, speeding up the standard-setting process.

17)Changes in GAAP can have significant differential effects on companies, investors, creditors, and other interest groups. The FASB must gauge the economic consequences of a change in accounting standards. The process by which financial accounting standards are created includes public comment and sometimes hearings. Ultimately, a vote must be taken to pass a proposed change in GAAP. Accounting for stock-based compensations (options) and postretirement health care benefits are examples where accounting practices have been affected by political influences on GAAP.

18)The Act requires the regulation of auditors and the types of services they furnish to clients, increases accountability of corporate executives, addresses conflicts of interest for auditors and securities analysts, and requires that companies document and report on the adequacy of their internal controls. It also requires auditors to express an opinion on management's assessment of internal controls, and the auditors must also express their own opinion on company internal controls.

19)Outside auditors add credibility to financial statements, increasing the confidence of capital market participants who rely on financial statements in making investment and credit decisions and recommendations.

20)Starting in 2019, audit reports include descriptions of Critical audit matters (CAMs), including discussion of how the CAM was addressed in the audit.

21)Materiality—Information is material if it can have an effect on a decision made by a user. Thus, materiality is an aspect of relevance. If an item is not material, GAAP need not be followed. For example, if a large corporation purchased a water cooler for one of its common areas for $120, the amount could be expensed rather than recorded as an asset even though the cooler will be useful for several years. Materiality is a judgment call. Materiality is concerned with both the dollar amount of an item and/or the nature of an item. It would probably be material if Microsoft received $1,000,000 in bribes from a Chinese company for its technology. A $1,000,000 write-off of old equipment would probably be immaterial for Microsoft.

22)Relevance and Faithful Representation. Relevance requires that information have predictive and confirmatory value, and that it be material. Faithful representation requires that there is agreement between a measure and a real-world phenomenon that the measure is supposed to represent. It requires that the information be complete, neutral, and free from error.

23)If a country experiences severe inflation, this would violate the assumption that dollar amounts are constantly valued. This would limit the usefulness of adding numbers in financial statements, because (for instance) costs at different times are not comparable without adjusting for changes in purchasing power.

24)Periodicity—The life of a company can be divided into artificial periods to provide timely information to external users.  
Monetary unit—In the United States, financial statement elements should be measured in terms of the U.S. dollar. It assumes that the value of a dollar is stable over time.

25)Historical cost—A measurement attribute under which asset and liability measurements are based on the amount given or received in an exchange transaction.

26)Fair value is defined as the price that would be received to sell assets or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

27)Historically, financial accounting relied on transaction amounts (historical cost) as the fundamental measurement approach for reporting assets and liabilities. As markets have matured, it is more relevant and feasible to report some assets and liabilities at their fair values, particularly if such items have a ready market that is active.

28)a.Historical cost: the amount given or received in an exchange transaction.  
b.Net realizable value: the net amount of cash into which an asset is expected to be converted in the ordinary course of business.  
c.Current cost: the cost that would be incurred to purchase or reproduce an asset.  
d.Present value: the sum of future cash flows discounted for the time value of money.  
e.Fair value: the price that would be received to sell assets or transfer liabilities in an orderly market transaction.

29)a.Quoted market prices in active markets for identical assets or liabilities.  
b.Inputs other than quoted prices that are observable for the asset or liability. These inputs include quoted prices for similar assets or liabilities in active or inactive markets and inputs that are derived principally from or corroborated by observable related market data.  
c.Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

30)Under the revenue/expense approach, we emphasize principles for recognizing revenues and expenses, with some assets and liabilities recognized as necessary to make the balance sheet reconcile with the income statement. Much of our accounting for revenues and expenses follows this revenue/expense approach.  
Under the asset/liability approach, on the other hand, we first recognize and measure the assets and liabilities that exist at a balance sheet date and, secondly, recognize and measure the revenues, expenses, gains, and losses needed to account for the changes in these assets and liabilities from the previous measurement date. Therefore, we should try to recognize and measure assets and liabilities appropriately, and as a result will also capture their inflows and outflows in a manner that provides relevant and representationally faithful information about revenues and expenses.

31)The conceptual frameworks in U.S. GAAP and IFRS are very similar and are converging even more with ongoing efforts by the FASB and IASB. However, in U.S. GAAP, the conceptual framework primarily provides guidance to standard setters to help them develop high-quality standards. In IFRS the conceptual framework guides standard setting, but in addition it is supposed to provide a basis for practitioners to make accounting judgments when another IFRS standard does not apply. Also, IFRS emphasizes the overarching concept of the financial statements providing a "true and fair representation" of the company. U.S. GAAP does not include a similar requirement, but U.S. auditing standards require this consideration.

32) B

33) A

34) D

35) B

36) C

37) B

Share price appreciation = $120,100 − $101,000 = $19,100  
Rate of return = ($1,100 dividends + $19,100 share price appreciation) ÷ $101,000 initial investment = 20%

38) C

Share price appreciation = $120,000 − $100,000 = $20,000  
Rate of return = ($1,000 dividends + $20,000 share price appreciation) ÷ $100,000 initial investment = 21%

39) B

40) C

41) B

42) C

43) B

44) D

45) B

46) A

47) C

48) D

49) D

50) C

51) B

52) C

53) A

54) C

55) D

56) D

57) D

58) B

59) A

60) D

61) D

62) A

63) A

64) B

65) A

66) A

67) C

68) B

69) A

70) B

71) C

72) B

73) B

74) D

75) C

76) B

77) B

78) C

79) B

80) C

81) C

82) C

83) A

84) B

85) A

86) B

87) A

88) C

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92) C

93) C

94) B

95) A

96) D

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99) D

100) D

101) A

102) C

103) A

104) D

105) D

106) C

107) C

108) C

109) B

110) C

111) C

112) A

113) A

114) D

115) B

116) D

117) A

118) D

119) A

120) B

121) A

122) C

|  |  |  |
| --- | --- | --- |
| **Revenues** |  | $ 250,000 |
| **Expenses:** |  |  |
| **Cost of goods sold** | $ 90,000 |  |
| **Salaries** | 12,500 |  |
| **Interest** | 2,700 |  |
| **Insurance** | 3,650 | 108,850 |
| **Income before tax** |  | 141,150 |
| **Income tax at 40%** |  | 56,460 |
| **Net income** |  | $ 84,690 |

123) B

|  |  |  |
| --- | --- | --- |
| **Cash receipts:** |  |  |
| **Sales revenue** | $ 305,000 |  |
| **Less: Accounts receivable** | 20,000 | $ 285,000 |
| **Owners' investments** |  | 19,500 |
| **Note payable** |  | 19,500 |
| **Total receipts** |  | 324,000 |
| **Cash disbursements:** |  |  |
| **Purchases** | 96,500 |  |
| **Less: Accounts payable** | 28,100 | $ 68,400 |
| **Salaries paid** |  | 13,800 |
| **Interest paid** |  | 4,700 |
| **Insurance paid** |  | 8,700 |
| **Estimated taxes paid** |  | 74,260 |
| **Total cash disbursements** |  | 169,860 |
| **Ending cash balance** |  | $ 154,140 |

Estimated taxes paid = Revenues of $305,000 less Cost of goods sold of $96,500 less $13,800 in salaries less $4,700 interest less $4,350 for insurance ($8,700/2) equals $185,650. Taxes at 40% are $74,260.

124) A

|  |  |  |
| --- | --- | --- |
| **Revenues** |  | $ 369,000 |
| **Expenses:** |  |  |
| **Cost of goods sold** | $ 170,000 |  |
| **Salaries expense** | 27,200 |  |
| **Interest expense** | 1,890 |  |
| **Insurance expense** | 4,250 | 203,340 |
| **Net income** |  | $ 165,660 |

125) C

|  |  |  |
| --- | --- | --- |
| **Cash receipts:** |  |  |
| **Sales revenue** | $ 375,000 |  |
| **Less: Accounts receivable** | 45,900 | $ 329,100 |
| **Owners' investments** |  | 41,000 |
| **Notes payable** |  | 30,000 |
| **Total receipts** |  | 400,100 |
| **Cash disbursements:** |  |  |
| **Purchases** | 195,000 |  |
| **Less: Accounts payable** | 39,400 | 155,600 |
| **Salaries paid** |  | 27,500 |
| **Interest paid** |  | 3,600 |
| **Insurance paid** |  | 9,600 |
| **Total cash disbursements** |  | 196,300 |
| **Ending cash balance** |  | $ 203,800 |

126) C

Beginning balance in Cash + Net increase in Cash = Ending balance in Cash  
Therefore, beginning balance in Cash = Ending balance in Cash − Net increase in Cash  
= $1,122 − $12 = $1,110

127) D

Total assets = Total liabilities + Total Stockholders' equity  
Therefore, Total liabilities = Total assets − Total Stockholders' equity  
= $4,552 − $453 = $4,099

128) A

Gross profit = Net sales − Cost of goods sold  
Therefore, Cost of goods sold = Net sales − Gross profit  
Cost of goods sold = $10,835 − $2,503 = $8,332

129) A

Net income = Gross profit − Operating expenses + Other income (expense), net  
= $2,543 − $2,065 + $(29) = $449

130) TRUE

131) FALSE

132) FALSE

133) TRUE

134) FALSE

135) FALSE

136) TRUE

137) FALSE

138) TRUE

139) FALSE

140) TRUE

141) FALSE

142) TRUE

143) TRUE

144) FALSE

145) TRUE

146) FALSE

147) TRUE

148) TRUE

149) TRUE

150) FALSE

151) FALSE

152) TRUE

153) FALSE

154) FALSE

155) FALSE

156) TRUE

157) TRUE

158) FALSE

159) TRUE

160) FALSE