

# Accounting questions and answers flashcard



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The primary purpose of accounting is to determine whether the business entity is profitable or unprofitable in its operations. A) True B) False This is the correct answer. Feedback: The primary purpose of accounting is to provide information that is useful for decision-making purposes. Accounting is 'not an end', but rather it is a 'means to an end'.

' LO 1 2 Costs, prices, sales volume, profits, and return on investment are all accounting measurements. A) True This is the correct answer.

B) False Feedback: A clear understanding of accounting terms and concepts is required of those who have a financial interest in an enterprise if they are to understand and communicate about the enterprise. Accounting is sometimes referred to as the 'language of business.' LO 1 3 The types of accounting information are limited.

A) True B) False This is the correct answer. Feedback: There are many types of accounting information, including financial accounting, managerial accounting, and tax accounting. Accountants use the term financial position to describe an entity's activities during the year. A) True B) False This is the correct answer.

Feedback: Financial position refers to an entity's financial resources and obligations at one point in time. The term 'results of operations' is used to describe an entity's financial activities during the year. 5 Financial accounting information is designed primarily to assist investors and creditors in deciding where to place their scarce investment resources. This is the correct answer. A) True This is the correct answer.

B) False Feedback: Such decisions are important to society, as they determine which companies and industries will receive the financial resources necessary for growth, and which will not. 6 Management accounting involves the development and interpretation of accounting information intended specifically to aid management in acquiring investment resources. A) True B) False This is the correct answer. Feedback:

Management accounting involves the development and interpretation of accounting information intended specifically to aid management in running the business.

Management accounting information is used in virtually all types of managerial decisions.

7 The most challenging aspect of tax accounting is in the preparation of the many forms required for an entity's tax return. A) True B) False This is the correct answer. Feedback: Tax planning is the most challenging aspect of tax accounting. The fields of financial, management, and tax accounting are closely related.

Decisions affecting financial and/or management accounting will most likely have an affect on tax accounting. An accounting system consists of personnel, procedures, devices, and records used by an organization to develop accounting information and to communicate this information to decision makers. A) True This is the correct answer. B) False Feedback: The design and capabilities of accounting systems vary greatly from one organization to the next, but in every case the basic purpose of the accounting system remains the same: to meet the organization's needs for

accounting information as efficiently as possible. 9 The cost of producing the types of accounting reports required by law is always cost-effective.

A) True B) False This is the correct answer.

Feedback: Accounting systems should be cost-effective. The value of the information produced should exceed the cost of producing it. The cost of producing accounting reports required by law is not always cost-effective since the information is not always of value to the entity. 10 External users of financial accounting information are the same users of management accounting information.

A) True B) False This is the correct answer. Feedback: Management accounting information is usually not available to external users.

External users of financial accounting information include owners, creditors, government agencies, customers, vendors, and the general public. Note that owners are external users. LO 3 11 Return of investment and return on investment refer to the same thing—the amount returned at the end of the investment period.

A) True B) False This is the correct answer. Feedback: Return of investment refers to a return of the initial investment at the end of the investment period. Return on investment refers to receiving an excess over the initial investment at the end of the investment period.

LO 3 12 If you invest \$50, 000 and receive \$52, 500 at the end of the investment period, the return on your investment is 5 percent. A) True This is the correct answer.

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B) False Feedback:  $\$2,500 / \$50,000 = 0.05 = 5\%$ . 13 The primary financial statements are an income statement and a balance sheet. A) True B) False This is the correct answer.

Feedback: The primary financial statements include: (1) a balance sheet, (2) an income statement, and (3) a statement of cash flows. LO 3 14 One financial statement that covers a specific period of time is the balance sheet.

A) True B) False This is the correct answer. Feedback: The balance sheet is a position statement that shows where the company stands in financial terms at a specific date, not for a specific time period. LO 3 15 Externally reported financial information and financial statements are primarily historical in nature.

A) True This is the correct answer. B) False Feedback: One of the weaknesses of external reports is timing. Such reports show what has happened in the past and do not address current issues or anticipated future events.

LO 3 16 Management accounting is the preparation and use of accounting information systems to achieve the organization's objectives by supporting decision makers outside the enterprise. A) True B) False This is the correct answer. Feedback: Management accounting is the preparation and use of accounting information systems to achieve the organization's objectives by supporting decision makers inside the enterprise.

LO 4 17 Plant managers are internal users of accounting information systems. A) True This is the correct answer. B) False

Feedback: Internal users of accounting information systems include boards of directors, chief executive officers, business unit managers, plant managers, store managers, and line supervisors. LO 4 18 The management accounting information created and used primarily by internal users is intended above all for planning and control decisions. A) True This is the correct answer.

B) False Feedback: Managerial accounting is oriented towards the future, measures efficiency and effectiveness, and is a means to end, not an end in itself.

LO 4 19 One of the specific purposes of management accounting system is to provide information useful to help the enterprise achieve its goals, objectives, and mission. A) True This is the correct answer. B) False Feedback: The specific purpose of management accounting is to provide information for decision-making authority, for decision-making support, and evaluating and rewarding decision-making performance. LO 4 20 Standards adopted and used as a guide in measuring, recording, and reporting the financial affairs and activities of a business are known as accounting concepts.

A) True

B) False This is the correct answer. Feedback: These standards are called generally accepted accounting principles (GAAP) that include detailed rules that are used by professional accountants in preparing accounting information and reports. LO 5 21 Today, the most authoritative source of generally accepted accounting principles is the Financial Accounting

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Standards Board (FASB). A) True This is the correct answer. B) False

Feedback: The FASB is an independent rule-making body, consisting of seven members from the accounting profession, industry, government, and accounting education.

The FASB is supported with an advisory council and a large research staff.

LO 5 22 The primary purpose of the conceptual framework for financial reporting is to provide guidance to the FASB in developing new accounting standards. A) True This is the correct answer. B) False Feedback: The conceptual framework sets forth FASB's views as to the objectives of financial reporting, desired characteristics of accounting information, elements of financial statements, criteria for deciding what information to include in financial statements, and valuation concepts relating to financial statement amounts.

LO 5 23 The Securities and Exchange Commission is a governmental agency with the legal power to establish accounting principles and financial reporting requirements for publicly owned corporations. A) True This is the correct answer. B) False Feedback: In the past, the SEC has generally adopted the recommendations of the FASB, rather than develop its own set of accounting principles.

Accounting principles developed in the private sector are given the force of law when adopted by the SEC.

LO 5 24 The main purpose of the internal control structure is to detect fraud. A) True B) False This is the correct answer. Feedback: The internal control

structure includes all measures used by an organization to guard against errors, waste, and fraud; to assure the reliability of accounting information; to promote compliance with management policies; and to evaluate the level of performance in all divisions of the company. LO 5 25 Uncovering fraud is the primary purpose of an audit. A) True

B) False This is the correct answer.

Feedback: The primary purpose of an audit is to determine whether the financial statements are a 'fair' representation of the financial condition of the firm, and that they are reliable and complete, conform to generally accepted accounting principles, and are not misleading. 26 The major purpose of an audit is to uncover theft and fraud so that the users of the financial statements can have a high level of assurance that all money is accounted for properly. A) True

B) False This is the correct answer. Feedback: An audit is designed to determine whether the statements fairly reflect the company's financial position and operating results in accordance with generally accepted accounting principles (GAAP); and to add credibility to the information in the statements.

27 The American Institute of Certified Public Accountants licenses certified public accountants. A) True B) False This is the correct answer. Feedback: The various states license certified public accountants.

The AICPA participates in the establishment of auditing standards, conducts research and works closely with the FASB in the establishment and



interpretation of generally accepted accounting principles. 28 Whichever career in accounting you choose, public, management, financial forecasting, cost accounting, internal auditing, government accounting, or accounting education, it is your obligation as a professional to serve the public's best interest, even at the sacrifice of personal advantage.

A) True This is the correct answer. B) False

Feedback: Integrity is of utmost importance to the accounting professional, in every aspect of job performance. 29 The American Institute of Certified Public Accountants issues the Certificate of Management Accounting (CMA).

A) True B) False This is the correct answer. Feedback: The Institute of Management Accountants issues the CMA.

30 The code of ethics of the Institute of Management Accountants (IMA) includes the requirements of competency, confidentiality, integrity, and subjectivity. A) True B) False This is the correct answer.

Feedback: The code of ethics of the Institute of Management Accountants (IMA) includes the requirements of competency, confidentiality, integrity, and OBJECTIVITY. 31 Which of the following provides information about the financial resources, obligations, and activities of an economic entity that is intended for use primarily by external decision makers? A) Financial accounting This is the correct answer. B) Management accounting C) Tax accounting D) Cost accounting E) Bookkeeping Feedback: Cost accounting is used to determine the cost of certain business activities and interpreting cost information.

2 Which of the following provides information that is intended primarily for use by internal management in decision making required to run the business? A) Financial accounting B) Management accounting This is the correct answer.