

Question 1

Multiple Choice 0 points

Question Exchanges of capital stock and bonds that occur between investors take place in
Answer

- primary markets
- open markets
- ☒ secondary markets
- private markets

Question 2

Multiple Choice 0 points

Question Exchanges of capital stock and bonds between a corporation and investors take place in
Answer

- secondary markets
- ☒ primary markets
- stock exchanges
- tertiary markets

Question 3

Multiple Choice 0 points

Question Creditors' information needs revolve around all of the following decisions, *except*
Answer

- extending credit
- maintaining a credit relationship
- not extending credit
- ☒ investing in credit instruments

Question 4

Multiple Choice 0 points

Question Which of the following is an *internal* user of a company's financial information?
Answer

- ☒ company treasurer
- stockholder in the company
- bank lending to the company
- union

Question 5

Multiple Choice 0 points

Question Which of the following is *not* a decision that external users of a company's financial information would make?

- Answer
- whether or not to extend credit to the company
 - whether or not to hold the company's stock
 - ☒ whether or not the company should add a new product line
 - whether or not to ask for an increase in employees' benefits during union contract negotiations

Question 6

Multiple Choice 0 points

Question Which characteristic applies more to financial accounting than to managerial accounting?

- Answer
- primarily segmented reports
 - ☒ primarily quantitative information
 - Internal-decision focus
 - statement format determined by company information needs

Question 7

Multiple Choice 0 points

Question The primary reason that financial accounting and managerial accounting have somewhat different objectives is because they
Answer

- need information in different formats
- ☒ provide information for different decisions
- need information in different geographic locations
- need information at different times

Question 8

Multiple Choice 0 points

Question Agency theory suggests that managers' behavior

- Answer
- may be to enhance the owners' financial interests at the expense of their self-interests
 - will always follow classic agency law
 - ☒ may not always be in the best interests of the owners (stockholders)
 - as agents will always be in the best interests of the owners (stockholders)

Question 9

Multiple Choice 0 points

Question The four major financial statements of a corporation consist of the

- Answer
- ☒ income statement, balance sheet, statement of cash flows, and statement of changes in stockholders' equity
 - balance sheet, statement of cash flows, statement of retained earnings, and income statement
 - income statement, statement of cash flows, and balance sheet


statement of cash flows, balance sheet, income statement, and statement of capital equity

 [Add Question Here](#)

Question 10

Multiple Choice 0 points

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Question Notes to financial statements provide
Answer  discussions that further explain items shown in the financial statements
comparative financial information with the previous year
management's discussions about plans for the future
the report of the independent auditors

 [Add Question Here](#)

Question 11

Multiple Choice 0 points

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Question Which of the following documents includes all of the accounting standards?
Answer Regulation S-X
The FASB Conceptual Framework
Statements of Financial Accounting Standards
 none of these

 [Add Question Here](#)

Question 12

Multiple Choice 0 points

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Question The organization that presently has the primary responsibility to establish generally accepted accounting principles that are applicable to the financial statements of entities in the U.S. private sector is the
Answer Accounting Principles Board
Securities and Exchange Commission
 Financial Accounting Standards Board
Committee on Accounting Procedure

 [Add Question Here](#)

Question 13

Multiple Choice 0 points

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Question Assume that authoritative support regarding GAAP for a particular transaction is needed. A correct hierarchy of authority to be followed (highest, second, third) would be
Answer FASB Statements, AICPA Accounting Interpretations, FASB Technical Bulletins
FASB Technical Bulletins, AICPA Accounting Interpretations, FASB Statements
AICPA Accounting Interpretations, FASB Technical Bulletins, FASB Statements
 FASB Statements, FASB Technical Bulletins, AICPA Accounting Interpretations

 [Add Question Here](#)

Question 14

Multiple Choice 0 points

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Question Which of the following statements is true?
Answer In order to remain impartial, the FASB discourages public input during development of standards.
FASB accounting standards are the result of clearly defined objectives, an integrated body of theory, and the known consequences of actions.
The FASB deliberates and issues accounting standards only after receiving a formal letter of request from the SEC.
 Accounting standards, which reflect social decisions, are often the result of compromise.

 [Add Question Here](#)

Question 15

Multiple Choice 0 points

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Question The *FASB Accounting Standards Codification* is expected to provide all of the following benefits *except*
Answer reduce the research time necessary to solve an accounting research issue
 codify authoritative support such as results of academic research
provide real-time updates as new standards are issued
improve the usability of the authoritative accounting literature

 [Add Question Here](#)

Question 16

Multiple Choice 0 points

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Question Going from 1938 to the present, which is the correct sequence of accounting rule-making bodies?
Answer APB-CAP-FASB
CAP-FASB-APB
 CAP-APB-FASB
FASB-APB-CAP

 [Add Question Here](#)

Question 17

Multiple Choice 0 points

[Modify](#) [Remove](#)


Question Concerning FASB membership, which statement is *not* true?
Answer Not all members are CPAs from public practice.
All members are full time and fully paid.
 All members are also members of the Financial Accounting Foundation.
All members must sever organizational ties with their previous employer.

 [Add Question Here](#)

Question 18

Multiple Choice 0 points

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Question How many FASB members are there?
Answer  5
7

 [Add Question Here](#)

Question 19



Multiple Choice

0 points

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Question Which pronouncements are *not* issued by the FASB?

- Answer**
- Statements of Financial Accounting Concepts
 - Technical Bulletins
 - ☒ Opinions
 - Interpretations

 [Add Question Here](#)

Question 20



Multiple Choice

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Question Which of the following pronouncements issued by the FASB does *not* provide for the highest level of authoritative support?

- Answer**
- ☒ technical bulletins
 - interpretations
 - statements of financial accounting standards
 - staff positions

 [Add Question Here](#)

Question 21



Multiple Choice

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Question Which organization has the most legal authority?

- Answer**
- Financial Accounting Standards Board
 - Accounting Standards Executive Committee
 - Governmental Accounting Standards Board
 - ☒ Securities and Exchange Commission

 [Add Question Here](#)

Question 22



Multiple Choice

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Question The Securities and Exchange Commission has the legal authority to prescribe accounting principles and reporting practices for

- Answer**
- ☒ all companies issuing publicly traded securities
 - all companies issuing any type of securities
 - all companies
 - all corporations

 [Add Question Here](#)

Question 23



Multiple Choice

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Question Issuance of a new International Accounting Standard requires approval of at least

- Answer**
- 5/7 of the board
 - 2/3 of the board
 - ☒ 3/4 of the board
 - 5/6 of the board

 [Add Question Here](#)

Question 24



Multiple Choice

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Question The FASB Emerging Issues Task Force issues which of the following?

- Answer**
- Statements of Position* to influence the development of principles
 - ☒ *Consensus Positions* on the implementation of standards
 - Financial Reporting Releases* on guidelines for reporting issues
 - Technical Bulletins* on accounting and reporting problems

 [Add Question Here](#)

Question 25



Multiple Choice

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Question While formally the SEC is charged with the responsibility for establishing accounting principles to be followed in the preparation of SEC filings, the impact of the SEC generally has been

- Answer**
- in its assistance to Congress with the development of tax law
 - in guiding the development of stock exchanges
 - ineffective in controlling foreign corporations and investors
 - ☒ its informal review and approval of standards developed in the private sector prior to their release

 [Add Question Here](#)

Question 26



Multiple Choice

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Question Three major organizations in the private and public sector develop U.S. and international GAAP. They include all of the following *except* the

- Answer**
- ☒ EU (European Union)
 - SEC (Securities and Exchange Commission)
 - FASB (Financial Accounting Standards Board)
 - IASB (International Accounting Standards Board)

 [Add Question Here](#)

Question 27



Multiple Choice

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Question Auditors face ethical issues because

- Answer**
- GAAP permits various standards to be used to produce profits
 - ☒ auditors may express an opinion that may cause difficulty to employees of a company

auditors may not discover insider trading
GAAP does not permit fraud

 [Add Question Here](#)

Question 28

Multiple Choice 0 points

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Question The Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (PCAOB). The PCAOB was established to

- Answer**
- bring to justice public companies such as Enron and WorldCom for committing fraud
 - oversee the standards promulgated by the SEC related to public companies
 - ☒ protect the interests of investors by overseeing auditors of public companies
 - establish GAAP for use by public companies

 [Add Question Here](#)

Question 29

Multiple Choice 0 points

[Modify](#) [Remove](#)

Question Critical thinking is most important in which of the following problem-solving steps?

- Answer**
- recognizing a problem
 - identifying alternative solutions
 - ☒ evaluating the alternatives
 - selecting a solution from among the alternatives

 [Add Question Here](#)

Question 30

Multiple Choice 0 points

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Question The purposes of the joint long-term project of the FASB and IASB to converge revenue recognition principles include all of the following *except*

- Answer**
- eliminate inconsistencies in conceptual guidance on revenues
 - ☒ replace principle-based accounting with rule-based accounting for revenues
 - establish a single comprehensive standard on revenue recognition
 - fill voids in revenue recognition guidance

 [Add Question Here](#)

Question 31

Multiple Choice 0 points

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Question Certain U.S. accounting standards have been, and will be, amended to aid in the international convergence process. The process of changing these standards usually involves

- Answer**
- a short deliberation followed by a vote of the U.S. Congress
 - acceptance of the change by the Internal Revenue Service
 - rejecting all existing standards and developing an entirely new concept
 - ☒ selecting the best standard between existing U.S. and international standards

 [Add Question Here](#)

Question 32

Multiple Choice 0 points

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Question Conversion to IFRS reporting by all U.S. companies would be best accomplished with a transition plan for all of the following reasons *except*

- Answer**
- it would have to be a multi-year process
 - it needs to be an orderly process with a minimum of cost and disruption to the participants
 - certain IFRS need further improvement through continued convergence efforts
 - ☒ careful planning would enable maximum manipulation of the IFRS for the financial benefit of the United States.

 [Add Question Here](#)

Question 33

Essay 0 points

[Modify](#) [Remove](#)

Question Listed below are 12 characteristics of accounting, some of which are more closely related to financial accounting, while others are related to managerial accounting.

- _____ a.Focuses on external users.
- _____ b.Uses a present and future timeframe.
- _____ c.Uses qualitative and quantitative data.
- _____ d.Reports are concerned primarily with the total company.
- _____ e.Is governed by GAAP.
- _____ f.Focuses on internal users.
- _____ g.Uses report formats prescribed by GAAP.
- _____ h.Reports are concerned with individual departments.
- _____ i.Uses quantitative data.
- _____ j.Is governed by the internal needs of a company.
- _____ k.Uses report formats best suited for the specific decisions being made.
- _____ l.Uses an historical timeframe.

Required:

Indicate which characteristic is financial and which is managerial by placing an (F) or an (M) in the space provided.

- Answer**
- | | | | | | |
|----|---|----|---|----|---|
| a. | F | e. | F | i. | F |
| b. | M | f. | M | j. | M |
| c. | M | g. | F | k. | M |
| d. | F | h. | M | l. | F |

Question 34

Essay

0 points

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[Remove](#)

Question Listed below are several types of pronouncements that the FASB issues. Following the list is a series of descriptive statements.

- a. Statements of Financial Accounting Standards
- b. Interpretations
- c. Technical Bulletins
- d. Statements of Financial Accounting Concepts
- e. Guide for Implementation

- _____ 1.Establishes a theoretical foundation upon which to base financial accounting and reporting standards.
- _____ 2.Provides clarification of conflicting or unclear issues relating to previously issued pronouncements.
- _____ 3.FASB Q's and A's.
- _____ 4.Establishes generally accepted accounting principles.
- _____ 5.Provides guidance on accounting and reporting problems related to an underlying standard.

Required:

Match each pronouncement with its descriptive statement by placing the appropriate letter in the space provided.

Answer

- 1. d
- 2. b
- 3. e
- 4. a
- 5. c

Question 35

Essay

0 points

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[Remove](#)

Question Listed below are the ten steps the FASB goes through in issuing a new Statement.

- _____ a.Conduct research
- _____ b.Deliberate on findings
- _____ c.Hold public hearings
- _____ d.Identify topic
- _____ e.Issue Discussion Memorandum
- _____ f.Issue Exposure Draft
- _____ g.Issue Statement
- _____ h.Modify Exposure Draft
- _____ i.Vote

Required:

Indicate the proper sequence of these steps.

Answer

- | | | | | | |
|----|---|----|---|----|---|
| a. | 2 | d. | 1 | g. | 9 |
| b. | 5 | e. | 3 | h. | 7 |
| c. | 4 (or 7, and existing 7, 6, & 5 would move up to 6, 5, & 4) | f. | 6 | i. | 8 |

Question 36

Essay

0 points

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Question Assume you are tutoring a beginning accounting student who tells you that the members of the FASB must have a great deal of power because they have the authority to issue standards that dictate accounting procedure.

Required:

Explain why accounting standards are the result of compromise and how such compromises are reached.

Answer In order for a new standard to be issued, a majority of at least a four-to-three vote is necessary. In order for such a vote to occur, the members within the board must negotiate with each other to determine which points are important and which are not. In turn, each board member is influenced by the data and opinions collected from the various interest parties—preparers, users, and auditors—during the multistage process of issuing a standard. This includes discussion memorandums, public hearings, and exposure drafts.

Question 37

Essay

0 points

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Question Your accounting instructor allows you to look at his grade book in order to verify the points you have received to date in the final course taken by all accounting majors. While looking at your points, you notice that your best friend's score on the last exam was recorded incorrectly. He received a 68 on the test but it has been recorded as an 86 in the grade book. Your friend needs a passing grade in this class in order to graduate. If the correct score is recorded, he might not have enough points to pass the course.

Required:

Discuss the steps you should take to deal with this ethical dilemma using three ethical criteria. You need not indicate the ethical action you would take.

Answer Students may answer in a variety of ways, however, their answers should include the following steps: (1) identifying the stakeholders (the student, the friend, and the instructor) and the student's responsibilities (to him/herself, the friend, and the instructor); (2) discussion of the three ethical criteria, (a) utility: what action would be optimal for all stakeholders?, (b) rights: what action respects the rights of all the stakeholders?, (c) justice: what action is fair and just?; (3) identifying any "overwhelming factors" that might justify disregarding one or more of the three ethical criteria; and (4) deciding if the action to be taken is ethical.

Question 38

Essay

0 points

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Question The FASB has undertaken six key initiatives to help attain the goal of convergence of U.S. accounting standards with international accounting standards.

Required:

Identify the FASB initiatives and briefly discuss each of the six initiatives.

- Answer**
- 1. Conducting long-term joint projects with IASB.** These major joint projects involve complex issues that the Boards are addressing in a coordinated manner. The processes involve the sharing of staff resources, while (to the extent possible) maintaining a similar time schedule.
 - 2. Participating in the short-term convergence project.** These joint projects are limited to resolving differences between U.S. GAAP and IFRS in which convergence of a high-quality standard appears achievable in the short run.
 - 3. Monitoring of IASB projects.** The FASB monitors IASB projects involving topics that are of great interest to the FASB. These projects may be important to the FASB because they (1) have potentially significant implications for convergence, (2) relate to a topic for which there is no U.S. standards (or the standards are deemed to be less than optimal), or (3) address issues that are fundamental to the U.S. reporting model.
 - 4. Conducting a convergence research project.** The FASB staff is currently working on a research project related to the convergence of accounting standards. The project involves identifying all of the significant differences between U.S. GAAP and IFRS, and then categorizing these differences according to the Board's strategy for resolving them. Of particular importance are those topics where an accounting practice or procedure is permissible under either an FASB or IASB standard, but not permissible under both Boards' standards.
 - 5. Explicitly considering the convergence potential in all of the Board's agenda decisions.** When setting its agenda of issues to address, the FASB considers (1) the possibility that resolution of the issue would increase convergence, (2) the opportunities an issue presents for cooperation with other standard-setting bodies, and (3) whether sufficient resources are available for a joint or other cooperative effort.
 - 6. Having a liaison IASB member on site at the FASB offices.** The liaison's role is to facilitate information exchange and increased cooperation between the FASB and the IASB.

 [Add Question Here](#)

Question 39

Essay

0 points

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Question The SEC has several reporting choices. It can require that U.S. companies use U.S. GAAP in their financial statement filings. Alternatively, the SEC can require or allow U.S. companies to use IFRS in their financial statement filings. Many issues and complexities surround the use of IFRS.

Required:

Identify and discuss five of the issues to be considered by the SEC in deliberating this proposal.

Answer Note: Twelve issues are discussed below. Five should be selected and discussed.

- Many U.S. companies (particularly smaller ones) filing with the SEC do not operate globally, so they would not see any advantage to using IFRS. If IFRS were required, it would likely be very costly for them to switch from U.S. GAAP to IFRS, thereby affecting their profitability during the conversion period.
- If IFRS were allowed rather than required and some regulated companies did not switch to IFRS, then there would be differences in the financial statements of regulated companies that used U.S. GAAP and those that used IFRS. These differences potentially affect the ability of external users in U.S. capital markets to compare different companies' operating performances.
- More than 99% of U.S. corporations do not issue publicly traded securities and therefore are not regulated by the SEC. These corporations use U.S. GAAP in preparing their financial statements. A switch to IFRS for regulated U.S. companies would create a "dual-GAAP" system in the United States.
- Investors, creditors, financial analysts, and other external users would have to "retrain" to be able to evaluate the financial statements of companies using IFRS. Also, those external users who have more resources to learn about analyses under IFRS may be at a competitive advantage.
- High-quality, international auditing standards and practices would have to be developed to ensure that the IFRS are rigorously interpreted and applied.
- Accountants and auditors would have to be trained and/or retrained to understand the impact of IFRS on the preparation of financial statements and the related audits of companies using IFRS. Larger auditing firms with more resources for training may be at a competitive advantage over small auditing firms.
- The United States is a litigious society. Some mechanism would need to be established to protect companies and auditors acting in good faith during the transition to using IFRS in the preparation and auditing of financial statements.
- Many companies which have borrowed money have "debt covenants" based on U.S. GAAP that restrict their financing activities. Modifications in existing IFRS may have to be made to maintain (or modify) these debt covenants.
- Some accounting issues (e.g., related to extractive industries) are not covered by IFRS. New high-quality IFRS would have to be established to address these issues.
- If financial reporting under IFRS were required or allowed, it is unclear whether/how the "convergence projects" would proceed, and what would be the role of the FASB (and the SEC) in the standard-setting (and enforcement) process.
- The IASB is currently funded primarily by voluntary contributions by companies, accounting firms, central banks, and other organizations. With the increased dependence on the establishment of IFRS, a higher level of staffing and funding on a mandatory basis would be necessary.
- If U.S. companies used IFRS, then they may be subject not only to SEC regulations but also to the rules of foreign regulatory bodies.

 [Add Question Here](#)