ACCOUNTING 201

CHAPTER 7

TRUE-FALSE STATEMENTS

1. In order to compare the financial statements of different companies, it would be desirable to have each company develop its own set of accounting rules and practices.

2. Pronouncements of the Financial Accounting Standards Board are considered to have "substantial authoritative support."

3. The SEC is a governmental agency that was established in 1933 to regulate U.S. securities markets.

4. The FASB and the SEC are standard-setting bodies responsible for making GAAP.

5. An advantage of developing accounting principles on a problem-by-problem basis is that it results in consistent rules and practices over time.

6. The FASB concluded that the last level in developing the conceptual framework was to determine the objectives of financial reporting.

7. The FASB conceptual framework identifies providing information useful to those making investment and credit decisions as an objective of financial reporting.

8. An objective of financial reporting is to provide information that is helpful in assessing future cash flows.

9. Accounting information is reliable if it makes a difference in a decision.

10. The elements of financial statements include assets, liabilities, equity, revenues, and expenses.

Multiple Choice Questions

11. The standards and rules that are recognized as a general guide for financial reporting are called
    a. generally accepted accounting standards.
    b. generally accepted accounting principles.
    c. operating guidelines.
    d. standards of financial reporting

12. The conceptual framework developed by the Financial Accounting Standards Board
    a. was approved by a vote of all accountants.
    b. are rules that all accountants must follow.
    c. is viewed as providing a constitution for setting accounting standards for financial reporting.
    d. is legally binding on all accountants.

13. The SEC is a governmental agency that
    a. was established in 1934.
    b. administers the laws and regulations relating to the exchange of securities and the publication of financial information.
    c. has no authority to mandate accounting principles.
    d. regulates the accounting profession.

14. Which of the following is *not* a goal of financial reporting?
    a. To provide information that is useful to those making investment decisions
    b. To provide information that is useful to those making credit decisions
    c. To provide information that is useful in understanding everything about the company
    d. To provide information that identifies changes in resources and claims

15. Which one of the following is *not* a qualitative characteristic of useful accounting information?
    a. Relevance
    b. Reliability
    c. Conservatism
    d. Comparability

16. In order for accounting information to be relevant, it must
    a. have very little cost.
    b. have predictive or feedback value.
    c. not be reported to the public.
    d. be used by a lot of different firms.

17. Accounting information should be verifiable in order to enhance
    a. comparability.
    b. reliability.
    c. consistency.
    d. feedback value.

18. The assumption that states that the activities of each company be kept separate from the activities of its owners and all other companies is the
    a. economic entity assumption.
    b. going concern assumption.
    c. monetary unit assumption.
    d. time period assumption.

19. The economic entity assumption states that
    a. the economic life of a business can be divided into artificial time periods.
    b. economic events can be identified with a particular entity.
    c. the accounting period should not exceed one year.
    d. it is assumed that the business will operate indefinitely.

20. The going concern assumption assumes that the business
    a. will be liquidated in the near future.
    b. will be purchased by another business.
    c. is in a growth industry.
    d. will continue in operation long enough to carry out its existing objectives and commitments.

21. The time period assumption states that the economic life of a business can be divided into
    a. equal time periods.
    b. cyclical time periods.
    c. artificial time periods.
    d. perpetual time periods.

22. The basic principles of accounting include each of the following *except* the
    a. cost principle.
    b. full disclosure principle.
    c. going concern principle.
    d. matching principle.

23. The revenue recognition principle
    a. states that revenue should be recognized in the period when received.
    b. states that expense recognition is tied to revenue recognition.
    c. requires that revenue be recognized in the accounting period when it is earned.
    d. requires that events which make a difference to financial statement users be disclosed.

24. The principle that dictates that expense be matched with revenues in the period in which efforts are made to generate revenues is the
    a. revenue recognition principle.
    b. matching principle.
    c. cost expiration principle.
    d. cash flow principle.

25. All of the following costs are operating expenses except
    a. advertising expense.
    b. interest expense.
    c. rent expense.
    d. loss on the sale of plant assets.

ANSWERS

True and False

1. F
2. T
3. T
4. T
5. F
6. F
7. T
8. T
9. F
10. T

Multiple Choice

11. B
12. C
13. B
14. C
15. C
16. B
17. B
18. A
19. B
20. D
21. C
22. C
23. C
24. B
25. D