Principles of Accounting Volume 1 - Financial Accounting 1st edition Franklin Test Bank

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Principles of Accounting, Volume 1: Financial Accounting

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Total Questions: 150

Multiple Choice

Q1.
Which statement best defines accounting as presented in the chapter?

A) The process of organizing, analyzing, and communicating financial information for decision-making ✓ Correct
B) The practice of investing excess cash in marketable securities for maximum return
C) The method of recording only tax-related transactions for regulatory compliance
D) The activity of preparing payroll and billing reports for external distribution only

Rationale: Accounting is defined as the process of organizing, analyzing, and communicating financial information used for decision-making.

Q2.
Which phrase is commonly used to describe accounting's role in organizations?

A) The engine of production
B) The language of business ✓ Correct
C) The science of taxation
D) The law of markets

Rationale: The chapter explicitly notes the traditional adage that accounting is the language of business.

Q3.
Financial accounting primarily provides information for which group?

A) Internal production supervisors only
B) External users such as investors and lenders ✓ Correct
C) Customers making purchase selections
D) Vendors setting inventory prices

Rationale: Financial accounting is designed mainly to generate information for stakeholders outside the organization.

Q4.
Managerial accounting information is generally used for which purpose?

A) Preparing reports for stock exchange listing
B) Supporting internal decisions such as budgeting and pricing ✓ Correct
C) Complying with annual SEC filing requirements
D) Issuing public quarterly earnings releases

Rationale: Managerial accounting is used internally for decisions such as budgeting, pricing, and production cost analysis.

Q5.
Which of the following is an external user of accounting information?

- **A)** Department manager
- **B)** Assembly-line employee
- **C) Loan officer ✓ Correct**
- **D)** Operations supervisor

Rationale: A loan officer is outside the organization and uses financial information to evaluate lending decisions.

Q6.
In the United States, organizations generally measure financial performance using which standard monetary basis?

- **A)** The euro
- **B)** The yen
- **C) The dollar ✓ Correct**
- **D)** The pound sterling

Rationale: The chapter states that the dollar is the standard measurement basis in the United States.

Q7.
The common methodologies used by accountants to prepare financial information are called

- **A)** budget assumptions
- **B) accounting standards ✓ Correct**
- **C)** market forecasts
- **D)** operating benchmarks

Rationale: Accountants generally use the same methodologies, referred to as accounting standards, to prepare financial information.

Q8.
Which financial statement is listed in the chapter as a primary means of communicating financial information?

- **A)** Statement of Marketing Activities
- **B)** Statement of Production Efficiency
- **C) Statement of Cash Flows ✓ Correct**
- **D)** Statement of Strategic Positioning

Rationale: The statement of cash flows is one of the primary financial statements identified in the chapter.

Q9.
Virtually every activity or event in a business that has an associated cost or value is known as a

- **A) transaction ✓ Correct**
- **B)** variance
- **C)** forecast
- **D)** ratio

Rationale: The chapter defines a transaction as an activity or event in a business with an associated cost or value.

Q10.

What is identified as the primary benefit of a computerized accounting system?

- **A)** Elimination of all estimation in accounting
- **B)** Automatic compliance with every regulation worldwide
- **C) Efficiency in recording, summarizing, and preparing reports ✓ Correct**
- **D)** Replacement of the need for accountants

Rationale: Computerized accounting systems primarily improve the efficiency of recording transactions and preparing reports.

Q11.

Which software package is described as being designed for small organizations?

- **A)** SAP
- **B)** Oracle
- **C) QuickBooks ✓ Correct**
- **D)** Hyperion

Rationale: QuickBooks is identified as a common accounting system designed for smaller organizations.

Q12.

Which software is described as being designed for large and/or multinational organizations?

- **A)** QuickBooks
- **B) SAP ✓ Correct**
- **C)** Peachtree
- **D)** Quicken

Rationale: SAP is identified in the chapter as a system intended for large and multinational organizations.

Q13.

Financial accounting information is mostly described as

- **A)** future-oriented and speculative
- **B) historical in nature ✓ Correct**
- **C)** nonmonetary in form
- **D)** unregulated for public companies

Rationale: The chapter emphasizes that financial accounting information is mostly historical in nature.

Q14.

The value of historical accounting information in reporting past performance is called

- **A)** control value
- **B) feedback value ✓ Correct**
- **C)** exchange value
- **D)** salvage value

Rationale: Historical accounting information provides feedback value by summarizing what has already occurred.

Q15.
GAAP refers to

A) global accounting application procedures
B) government-approved audit protocols
C) generally accepted accounting principles ✓ Correct
D) general assurance and attestation practices

Rationale: GAAP stands for generally accepted accounting principles.

Q16.
Which organization sets financial accounting and reporting standards for public and private sector businesses in the United States?

A) IRS
B) FASB ✓ Correct
C) GASB
D) NASDAQ

Rationale: The Financial Accounting Standards Board sets financial accounting and reporting standards in the United States.

Q17.
Which organization creates accounting standards specifically for state and local governments in the United States?

A) PCAOB
B) AICPA
C) GASB ✓ Correct
D) SEC

Rationale: The Governmental Accounting Standards Board creates standards for state and local governments.

Q18.
The Public Company Accounting Oversight Board (PCAOB) was created after major corporate fraud cases that led to

A) the Revenue Act of 1933
B) the Sarbanes-Oxley Act of 2002 ✓ Correct
C) the Securities Exchange Act of 1934
D) the Dodd-Frank Act of 2010

Rationale: The PCAOB was created after corporate fraud cases that led to the Sarbanes-Oxley Act of 2002.

Q19.
Which organization regulates corporations with shares listed and traded on securities exchanges through required periodic filings?

A) SEC ✓ Correct
B) FASB
C) GASB
D) IMA

Rationale: The Securities and Exchange Commission regulates publicly traded corporations through required filings and oversight.

Q20.

Which of the following is most closely associated with internal users of accounting information?

- **A)** Investor evaluating a stock purchase
- **B)** Bank assessing a loan application
- **C) Manager making day-to-day operating decisions ✓ Correct**
- **D)** IRS agent performing an audit

Rationale: Internal users include managers and employees who use information for day-to-day decisions.

Q21.

Which statement best distinguishes managerial accounting from financial accounting?

- **A)** Managerial accounting follows a comprehensive prescribed set of external reporting conventions
- **B) Managerial accounting is intended primarily for internal decision-making needs ✓ Correct**
- **C)** Managerial accounting excludes nonfinancial information
- **D)** Managerial accounting is mainly prepared for government agencies

Rationale: Managerial accounting is tailored to internal users and their decision-making needs.

Q22.

Why is there generally less external oversight of managerial accounting information than of financial accounting information?

- **A)** Managerial accounting is prepared only once per year
- **B) Managerial accounting is used mainly within the organization ✓ Correct**
- **C)** Managerial accounting is always unaudited and informal
- **D)** Managerial accounting is restricted to nonprofit entities

Rationale: Because managerial accounting information is generally used internally, it does not require the same external oversight.

Q23.

Which statement about managerial accounting information is accurate?

- **A) It is rarely shared outside the organization because it may include strategic information ✓ Correct**
- **B)** It must be publicly disclosed by all companies each quarter
- **C)** It is limited to monetary data from the general ledger
- **D)** It is prepared only by external consultants

Rationale: Managerial accounting information is often closely protected because it may contain strategic or competitive information.

Q24.

Preparing a budget is an example of

- **A)** a securities regulation activity
- **B) a managerial accounting activity ✓ Correct**
- **C)** an external audit requirement
- **D)** a stock exchange reporting obligation

Rationale: Budget preparation is specifically identified as a managerial accounting activity.

Q25.

Which source combination is most consistent with the budgeting process described in the chapter?

A) Only prior-year tax returns and audit reports

B) Only external market prices and bond ratings

C) Internal estimates and external forecasts ✓ Correct

D) Only payroll records and bank statements

Rationale: The chapter notes that budgeting commonly draws from internal estimates and external forecasts or trade information.

Q26.

Which statement best explains why managerial accounting uses both financial and nonfinancial information?

A) Because all internal decisions are required by GAAP to include narrative data

B) Because purely financial analysis may overlook strategic effects of a decision ✓ Correct

C) Because nonfinancial information replaces accounting records in most firms

D) Because external users prefer nonfinancial measures over financial statements

Rationale: The chapter emphasizes that financial analysis alone may lead to poor decisions if nonfinancial effects are ignored.

Q27.

An example in the chapter shows that eliminating an unprofitable product could be a poor decision if the company ignores

A) the historical cost principle

B) the effect on complementary product sales ✓ Correct

C) the SEC filing deadline

D) the need for depreciation estimates

Rationale: The printer example shows that eliminating one product may also reduce sales of complementary goods such as ink cartridges.

Q28.

Organizations are classified in the chapter into which three broad categories?

A) Domestic, international, and global

B) Public, private, and partnership

C) For-profit, governmental, and not-for-profit ✓ Correct

D) Manufacturing, retail, and financial

Rationale: The chapter classifies organizations as for-profit, governmental, and not-for-profit.

Q29.

What is the primary mission of a for-profit business?

A) To maximize tax collections

B) To serve a community interest without regard to resources

C) To earn a profit by selling goods and services ✓ Correct

D) To provide services exclusively to government agencies

Rationale: A for-profit business primarily seeks to earn a profit through the sale of goods and services.

Q30.

A manufacturing business is best described as a business that

- **A)** purchases products and resells them without alteration
- **B)** provides intangible benefits rather than tangible products
- **C) transforms raw materials or components into finished products ✓ Correct**
- **D)** raises funds primarily through donations and grants

Rationale: Manufacturing businesses convert basic materials or components into finished products.

Q31.

A retail or merchandising business differs from a manufacturing business because the retail business

- **A)** sells only services
- **B) resells products without altering them ✓ Correct**
- **C)** must be publicly traded
- **D)** cannot earn a profit

Rationale: Retail businesses purchase inventory and resell it in the same condition as purchased.

Q32.

Which characteristic most clearly distinguishes a service business from manufacturing and retail businesses?

- **A)** It sells only to governmental agencies
- **B)** It does not seek financial sustainability
- **C) It provides intangible benefits rather than tangible products ✓ Correct**
- **D)** It is exempt from accounting conventions

Rationale: Service businesses provide services, which are intangible benefits, instead of tangible products.

Q33.

Why is accounting for service businesses described as easier in one respect?

- **A)** Service businesses do not require budgeting
- **B) Service businesses do not need to account for inventory held for sale ✓ Correct**
- **C)** Service businesses are exempt from financial reporting
- **D)** Service businesses never use computerized systems

Rationale: Because service businesses do not sell tangible products, they generally do not account for inventory.

Q34.

Governmental entities are primarily funded through

- **A)** sales commissions and dividends
- **B) taxes and other fees ✓ Correct**
- **C)** private stock offerings
- **D)** royalty agreements

Rationale: Governmental entities are funded through taxes and other fees.

Q35.

The primary purpose or mission of a not-for-profit entity is to

A) maximize shareholder wealth

B) serve a particular community interest or need ✓ Correct

C) increase stock market capitalization

D) produce finished goods for resale

Rationale: Not-for-profit entities are mission-based organizations created to serve a specific interest or need.

Q36.

Which statement about not-for-profit organizations is consistent with the chapter?

A) They do not need financial sustainability because they are mission-based

B) They should ensure inflows of resources are at least equal to outflows over time ✓ Correct

C) They are owned directly by stockholders

D) They are governed by the same standards as state governments

Rationale: The chapter stresses that not-for-profits still require financial sustainability and efficient use of resources.

Q37.

A stakeholder is best defined as

A) an employee responsible for inventory counts

B) a person or group that relies on financial information to make decisions ✓ Correct

C) a regulator who writes accounting standards only

D) an owner of government bonds exclusively

Rationale: Stakeholders are persons or groups who rely on financial information because they have an interest in the entity's viability.

Q38.

A stockholder is

A) a creditor who extends short-term trade credit

B) an owner of stock in a business ✓ Correct

C) a manager responsible for daily operations

D) a government official overseeing taxes

Rationale: A stockholder is an owner who holds stock, or shares, in a business.

Q39.

Which statement correctly distinguishes a publicly traded company from a privately held company?

A) Publicly traded companies do not issue stock

B) Privately held companies always have higher market value

C) Publicly traded company stock is available to the general public ✓ Correct

D) Privately held companies must disclose all financial information publicly

Rationale: A publicly traded company has stock that is bought and sold by the general public on organized exchanges.

Q40.
Which statement is most accurate regarding privately held companies?

A) Their stock is not available to the general public ✓ Correct
B) They are prohibited from borrowing from banks
C) They are always nonprofit organizations
D) Their financial information must be filed with the SEC quarterly

Rationale: Privately held companies do not make their stock available to the general public.

Q41.
A creditor is best defined as

A) a bank that provides long-term loans at interest
B) a business that grants extended payment terms to another business ✓ Correct
C) an investor who purchases common stock
D) a regulator who enforces securities laws

Rationale: A creditor is a business that allows another business to pay after receiving goods or services.

Q42.
A lender is best defined as

A) a bank or institution whose primary purpose is lending money ✓ Correct
B) a vendor extending thirty-day trade terms
C) a stockholder providing equity financing
D) a customer prepaying for future services

Rationale: A lender is a bank or other institution that lends money, usually for a longer period and with interest.

Q43.
The risk that borrowed funds will not be repaid is called

A) market risk
B) liquidity risk
C) repayment risk ✓ Correct
D) compliance risk

Rationale: The chapter identifies repayment risk as the risk that funds lent or advanced will not be repaid.

Q44.
Which of the following is one of the three ways businesses generally raise capital discussed in the chapter?

A) Issuing tax refunds
B) Profitable operations ✓ Correct
C) Reducing depreciation expense
D) Delaying supplier payments indefinitely

Rationale: The chapter lists profitable operations, equity financing, and debt financing as the three general sources of capital.

Q45.

Selling ownership in a business to raise capital is called

- **A)** debt financing
- **B) equity financing ✓ Correct**
- **C)** trade financing
- **D)** lease financing

Rationale: Selling stock or ownership interests to raise funds is called equity financing.

Q46.

Borrowing from lenders to raise capital is called

- **A)** equity financing
- **B)** revenue financing
- **C) debt financing ✓ Correct**
- **D)** venture financing

Rationale: Borrowing money from lenders is referred to as debt financing.

Q47.

Which statement best reflects the chapter's discussion of profit?

- **A)** Profit exists when outflows exceed inflows
- **B) Profit means revenues are greater than expenses ✓ Correct**
- **C)** Profit is limited to cash collected from owners
- **D)** Profit is the same as stock price appreciation

Rationale: The chapter defines profit in business terms as revenues being greater than expenses.

Q48.

Which organization allows foreign companies traded on US exchanges to present statements under IFRS without restating to US GAAP?

- **A)** PCAOB
- **B)** IASB
- **C) SEC ✓ Correct**
- **D)** AICPA

Rationale: The chapter notes that the SEC permits certain foreign issuers to use IFRS without restating to US GAAP.

Q49.

Which pair of organizations began working more closely together in 2002 to improve international comparability of accounting standards?

- **A)** SEC and IRS
- **B) FASB and IASB ✓ Correct**
- **C)** PCAOB and GASB
- **D)** AICPA and IMA

Rationale: The FASB and IASB began collaborating more closely in 2002 to align accounting standards.

Q50.

Which personal attribute is identified in the chapter as important for accountants because they often explain complex financial concepts to others?

- **A)** Mechanical aptitude
- **B) Excellent written and verbal communication skills ✓ Correct**
- **C)** Advanced laboratory technique
- **D)** Athletic coordination

Rationale: Because accountants gather information from others and explain financial concepts, strong written and verbal communication skills are essential.

Q51.

A hospital department manager is preparing a quarterly plan to reduce overtime and improve staffing efficiency. Which type of accounting information would be most useful for this decision?

- **A) Managerial accounting information using financial and nonfinancial data ✓ Correct**
- **B)** Financial accounting information prepared primarily for external users
- **C)** Tax accounting information prepared for federal filing purposes
- **D)** Governmental accounting information prepared under GASB standards

Rationale: Managerial accounting supports internal decisions such as staffing, budgeting, and operational efficiency using both financial and nonfinancial information.

Q52.

A community nonprofit director must present the organization's annual financial performance to the board, including several outside business leaders. Which knowledge would most directly improve the director's ability to answer board questions confidently?

- **A)** Knowledge of marketing segmentation methods
- **B) Knowledge of accounting terms and financial reports ✓ Correct**
- **C)** Knowledge of labor law arbitration procedures
- **D)** Knowledge of website analytics dashboards

Rationale: Understanding accounting terminology and financial reports helps leaders explain financial performance to oversight groups such as boards.

Q53.

A bank is reviewing a manufacturer's request for a five-year equipment loan. Which information would the bank most likely emphasize first?

- **A) Historical financial statements showing repayment capacity ✓ Correct**
- **B)** The company's employee satisfaction survey results alone
- **C)** The company's internal budget assumptions only
- **D)** A list of the company's future product ideas without financial data

Rationale: Lenders primarily use historical financial information to assess repayment risk and the borrower's ability to repay principal and interest.

Q54.

A retail chain wants to compare this year's results with last year's performance and with industry benchmarks. Why is monetary measurement important in this situation?

- **A)** It eliminates all need for judgment in accounting
- **B) It allows performance to be compared across periods and entities ✓ Correct**
- **C)** It ensures that only nonfinancial information is considered
- **D)** It prevents the use of estimates in financial reporting

Rationale: Using a standard monetary basis allows organizations to compare performance over time and against other organizations or standards.

Q55.

A clinic administrator asks for a report showing whether to replace aging copiers or continue repairing them. Which characteristic best describes the accounting information needed?

- **A)** It must follow GAAP because it will be issued to investors
- **B) It is managerial information tailored to an internal decision ✓ Correct**
- **C)** It is tax information designed for IRS examination
- **D)** It is external reporting intended for stock exchange filing

Rationale: Repair-or-replace decisions are internal operational choices supported by managerial accounting information customized to management's needs.

Q56.

A publicly traded company is preparing annual financial statements for investors. Which statement best explains why formal accounting standards are important here?

- **A)** They allow each manager to choose any reporting method preferred
- **B)** They make internal trade secrets easier to disclose publicly
- **C) They promote consistency, reliability, and comparability for external users ✓ Correct**
- **D)** They remove the need for disclosures and oversight

Rationale: Financial accounting standards help ensure external reports are consistent, reliable, relevant, and comparable across periods and companies.

Q57.

A manufacturing supervisor wants to know how much scrap is produced in one stage of production and whether reducing it could improve quality and delivery times. This request is best classified as

- **A)** financial accounting because it focuses only on past profitability
- **B) managerial accounting because it supports internal process improvement ✓ Correct**
- **C)** tax accounting because it affects depreciation schedules
- **D)** governmental accounting because it concerns resource stewardship

Rationale: Analyzing scrap, quality, and delays is an internal operational use of managerial accounting information.

Q58.

An accountant at a small physician practice recommends QuickBooks rather than SAP. Which rationale best supports that recommendation?

- **A)** QuickBooks is designed for highly complex multinational operations
- **B) QuickBooks is generally less expensive and suitable for smaller, less complex entities ✓ Correct**
- **C)** QuickBooks is required by GAAP for service businesses
- **D)** QuickBooks eliminates the need for trained accounting staff

Rationale: QuickBooks is commonly used by smaller organizations because it is less costly and fits less complex operations.

Q59.

A healthcare startup has grown rapidly and now operates in several countries with complex reporting needs. Which accounting software approach is most appropriate?

- **A)** Continue using a basic package with no customization regardless of complexity
- **B) Adopt a platform such as SAP or Oracle and customize it to the entity's needs ✓ Correct**
- **C)** Stop using computerized accounting systems and rely on paper ledgers
- **D)** Use only spreadsheet files because formal systems are unnecessary for large firms

Rationale: As operations become more complex, organizations often require enterprise systems such as SAP or Oracle that can be customized.

Q60.

A nurse entrepreneur is deciding whether to lease or buy a vehicle for a mobile practice. Which approach best reflects the chapter's view of decision-making?

- **A)** Consider only the monthly payment amount
- **B)** Consider only tax consequences
- **C) Consider both financial and nonfinancial factors such as reliability and maintenance ✓ Correct**
- **D)** Ignore accounting information because this is a personal decision

Rationale: The chapter emphasizes that sound decisions often require both financial and nonfinancial information.

Q61.

A theater manager finds that ticket sales from a recent production were below expectations. Which additional factor from the chapter would be most appropriate to review before judging the play's financial performance?

- **A) Weather and competing events during the performance period ✓ Correct**
- **B)** Only the actors' personal preferences
- **C)** Only the historical cost of the building
- **D)** The manager's preferred genre of theater

Rationale: The chapter notes that nonfinancial factors such as weather, marketing, and competing events can influence financial results.

Q62.

A plumbing business owner is considering paying an employee to be on call during weekends. Which nonfinancial consideration could justify the added cost?

- **A)** The owner’s desire to reduce bookkeeping entries
- **B) The possibility of gaining a strategic advantage if competitors do not offer emergency service ✓ Correct**
- **C)** The need to comply with SEC filing requirements
- **D)** The expectation that inventory accounting will become simpler

Rationale: Offering weekend emergency service may create a strategic advantage and attract customers even if it increases short-term cost.

Q63.

A manager asks why financial accounting reports often focus on past transactions rather than forecasts. What is the best response?

- **A) Historical information generally offers greater reliability ✓ Correct**
- **B)** Forecasts are prohibited in all forms of accounting
- **C)** Past transactions are more important than all future decisions
- **D)** Managers are not allowed to use predictive information

Rationale: Financial accounting is largely historical because past transactions can be reported with greater reliability.

Q64.

An investor is reviewing five years of statements from a medical device company before buying stock. What value is the investor seeking from this historical information?

- **A)** Immediate assurance that future profits are guaranteed
- **B) A basis for identifying trends that may help predict future performance ✓ Correct**
- **C)** Proof that managerial accounting reports are unnecessary
- **D)** Evidence that the company no longer needs external financing

Rationale: Historical financial data can reveal patterns and trends that help users estimate future performance, though it does not guarantee outcomes.

Q65.

A company is deciding whether to discontinue a printer line that appears unprofitable. Which additional consideration best reflects managerial accounting thinking?

- **A) Whether the printers drive profitable ink cartridge sales ✓ Correct**
- **B)** Whether the income statement uses dollar signs
- **C)** Whether the SEC requires a product-by-product filing
- **D)** Whether the company can avoid all fixed costs immediately

Rationale: Managerial accounting considers linked products and nonobvious effects, such as losing complementary cartridge sales if printers are dropped.

Q66.
A department director says, "Because managerial reports are internal, they do not need to follow the same comprehensive prescribed rules as financial statements." This statement is

- **A) correct because managerial accounting is tailored to internal user needs ✓ Correct**
- **B)** incorrect because managerial accounting must always follow GAAP
- **C)** incorrect because only tax accounting can be used internally
- **D)** correct only for nonprofit organizations

Rationale: Managerial accounting is generally not governed by a comprehensive set of external reporting rules like GAAP because it serves internal needs.

Q67.
A budget officer gathers sales estimates from operations managers and economic forecasts from trade groups when preparing next year's plan. This illustrates that budgeting often requires

- **A)** only audited financial statements
- **B) both internal and external sources of information ✓ Correct**
- **C)** only tax return data
- **D)** only information already filed with regulators

Rationale: Budgets commonly incorporate internal estimates and external data such as trade and economic forecasts.

Q68.
A local food bank carefully tracks donations, grants, and program expenses to ensure it can continue operating. Which statement best reflects the chapter's view of not-for-profit entities?

- **A)** They do not need to be financially sustainable because profit is irrelevant
- **B) They are mission-based but still must use resources efficiently to remain viable ✓ Correct**
- **C)** They are owned by stockholders who expect dividends
- **D)** They use the same primary mission as for-profit manufacturers

Rationale: Not-for-profit entities are mission-driven but still require financial sustainability and efficient resource use.

Q69.
A state transportation agency is preparing reports on how tax dollars were collected and spent. Which accounting standard-setting body is most directly associated with this reporting environment?

- **A)** IASB
- **B)** PCAOB
- **C) GASB ✓ Correct**
- **D)** IMA

Rationale: The Governmental Accounting Standards Board sets standards specifically for state and local governments in the United States.

Q70.

A business buys finished wheelchairs from a manufacturer and resells them without altering them. This business is best classified as a

- **A)** manufacturing business
- **B) retail or merchandising business ✓ Correct**
- **C)** governmental entity
- **D)** service-only business

Rationale: A retail or merchandising business purchases products and resells them in the same condition.

Q71.

A company assembles raw materials, labor, and overhead into finished infusion pumps for sale. This is an example of a

- **A) manufacturing business ✓ Correct**
- **B)** retail business
- **C)** not-for-profit entity
- **D)** lending institution

Rationale: Manufacturing businesses transform direct materials and other inputs into finished products.

Q72.

A tax preparation firm assists clients with filing returns but does not sell tangible goods. What is the best classification?

- **A)** Manufacturing business
- **B)** Retail business
- **C) Service business ✓ Correct**
- **D)** Governmental entity

Rationale: Service businesses provide intangible benefits rather than tangible products.

Q73.

A restaurant prepares meals, serves customers, and sells gift cards and branded merchandise. Based on the chapter, the restaurant is best viewed as

- **A)** only a service business
- **B)** only a manufacturing business
- **C) having characteristics of manufacturing, retail, and service ✓ Correct**
- **D)** a governmental entity because it serves the public

Rationale: The chapter notes that restaurants can reflect manufacturing, retail, and service characteristics simultaneously.

Q74.

A county official explains that the accounting team helps demonstrate tax dollars are used efficiently and transparently. This role primarily supports

- **A)** private stockholder wealth maximization only
- **B) public accountability to taxpayers ✓ Correct**
- **C)** inventory valuation for retailers only
- **D)** elimination of all budgetary controls

Rationale: Governmental accountants support accountability by reporting receipts and disbursements of taxpayer funds.

Q75.

A board member asks why a youth mentoring nonprofit still needs strong accounting if it is not trying to maximize profit. What is the best answer?

- **A) Because nonprofits must still sustain operations and use resources efficiently ✓ Correct**
- **B)** Because nonprofits issue stock on public exchanges
- **C)** Because nonprofits are exempt from all financial reporting concerns
- **D)** Because nonprofits focus only on tax refunds

Rationale: Even mission-based organizations need accounting to maintain financial sustainability and efficient stewardship of resources.

Q76.

An entrepreneur is deciding how to raise funds for a new warehouse. Which option represents equity financing?

- **A)** Generating cash through profitable operations
- **B)** Borrowing from a bank under a loan agreement
- **C) Selling ownership interests in the business ✓ Correct**
- **D)** Delaying payment to suppliers for 30 days

Rationale: Equity financing refers to raising capital by selling ownership, such as stock.

Q77.

A company needs capital quickly for an urgent expansion and chooses a bank loan. Which advantage of debt financing from the chapter most likely influenced this choice?

- **A)** It avoids all repayment obligations
- **B) It is generally quicker and relatively inexpensive compared with some alternatives ✓ Correct**
- **C)** It eliminates interest expense
- **D)** It guarantees higher future profits

Rationale: Borrowing from lenders is often faster and relatively inexpensive, though it creates repayment commitments.

Q78.

A privately held rehabilitation services company is comparing itself with a publicly traded competitor. Which difference is most accurate?

A) The private company's stock is generally available on organized exchanges

B) The public company's financial information is generally available to the public ✓ Correct

C) The private company cannot have any outside lenders

D) The public company cannot use GAAP

Rationale: Publicly traded companies generally have publicly available financial information, unlike privately held companies.

Q79.

An owner-employee of a privately held home health business uses accounting information to decide both staffing levels and whether to retain ownership shares. This situation best illustrates that private-company owners often

A) focus only on broad market strategy and not operations

B) make both day-to-day and long-term decisions ✓ Correct

C) have no access to internal financial information

D) cannot be employees of the business

Rationale: Owners of privately held companies are often involved in daily operations as well as strategic ownership decisions.

Q80.

A supplier allows a medical office 30 days to pay for purchased equipment accessories. In this transaction, the supplier is acting as a

A) stockholder

B) lender

C) creditor ✓ Correct

D) regulator

Rationale: A creditor is a business that grants short-term extended payment terms to another business.

Q81.

A healthcare company obtains a seven-year loan from a bank to build a new outpatient center. The bank is best described as a

A) customer

B) creditor

C) lender ✓ Correct

D) stockholder

Rationale: A lender is a bank or similar institution that provides funds for longer periods, usually with interest.

Q82.

A financial analyst says that the main concern of both creditors and lenders is repayment risk. What does this mean?

A) The risk that the borrower's products will become obsolete

B) The risk that borrowed funds will not be repaid ✓ Correct

C) The risk that stock prices will always rise too slowly

D) The risk that taxes will be assessed retroactively

Rationale: Repayment risk refers to the possibility that the borrower will fail to repay the funds advanced.

Q83.

A chief executive is choosing between issuing new shares and taking on debt. Which is a disadvantage of issuing new stock according to the chapter?

A) It requires a fixed repayment schedule with interest

B) It is typically slower and involves high administrative costs ✓ Correct

C) It cannot be used by growing businesses

D) It always reduces total capital available

Rationale: Issuing stock can be an expensive way to raise capital because of legal and compliance costs.

Q84.

A publicly traded company is preparing periodic filings for investors. Which organization directly regulates corporations with securities traded on exchanges?

A) IRS

B) SEC ✓ Correct

C) GASB

D) ACCA

Rationale: The Securities and Exchange Commission regulates companies whose securities are traded on organized markets.

Q85.

An accounting student asks why outside users place value on audited financial statements. Which response is best?

A) Audits are designed to guarantee future profitability

B) Audits provide reasonable assurance that statements follow accounting standards ✓ Correct

C) Audits replace the need for management judgment

D) Audits are only useful for tax planning

Rationale: Auditors provide reasonable assurance that financial statements are prepared in accordance with applicable standards.

Q86.

A board member confuses the roles of FASB and PCAOB. Which pairing is correct?

A) FASB oversees public company audits; PCAOB sets state government accounting standards

B) FASB sets accounting standards; PCAOB oversees public company auditing ✓ Correct

C) FASB collects taxes; PCAOB enforces payroll law

D) FASB licenses CPAs; PCAOB issues bank loans

Rationale: FASB sets financial accounting standards, while PCAOB oversees public company auditing.

Q87.

A compliance officer explains that the PCAOB was created after major corporate fraud cases and related legislation. Which law is associated with this development?

- **A)** Affordable Care Act
- **B) Sarbanes-Oxley Act of 2002 ✓ Correct**
- **C)** Dodd-Frank Act
- **D)** Federal Reserve Act

Rationale: The PCAOB was created following major fraud cases under the Sarbanes-Oxley Act of 2002.

Q88.

A regulator is investigating a company for misleading investors about securities. Which stakeholder role is being exercised?

- **A)** Customer service
- **B) Governmental and regulatory oversight ✓ Correct**
- **C)** Internal budgeting
- **D)** Inventory management

Rationale: Governmental and regulatory agencies use financial information to protect the public interest and enforce securities laws.

Q89.

A hospital employee asks why the organization's financial performance matters to staff members who do not work in finance. Which answer is best?

- **A) Financial success can support job security, pay increases, and promotion opportunities ✓ Correct**
- **B)** Employees are legally required to buy company stock
- **C)** Only investors benefit from financial performance
- **D)** Financial information is irrelevant to operational decisions

Rationale: Employees benefit from organizational financial strength through job stability, compensation, and advancement opportunities.

Q90.

A company is considering closing a low-margin product line. The finance team recommends evaluating customer relationships and complementary purchases before deciding. This recommendation reflects which principle?

- **A)** Only historical cost should drive decisions
- **B) Sound decisions often require both financial and nonfinancial information ✓ Correct**
- **C)** Managerial accounting should be shared publicly first
- **D)** GAAP prohibits product-line analysis

Rationale: The chapter emphasizes that combining financial and nonfinancial information leads to better decisions than relying on financial data alone.

Q91.

A multinational investor wants to compare a US company with a similar company based in France. Why are IFRS-related developments important in this case?

A) They eliminate all differences in business models

B) They improve comparability of financial statements across countries ✓ Correct

C) They require every country to abandon local law immediately

D) They apply only to nonprofit organizations

Rationale: International standards improve the ability of users to compare financial reporting across countries.

Q92.

A foreign company listed on a US exchange presents financial statements using IFRS without restating them to US GAAP. According to the chapter, this is permitted by the

A) IRS

B) SEC ✓ Correct

C) PCAOB

D) GASB

Rationale: The SEC permits certain foreign companies traded on US exchanges to present statements under IFRS without restatement to US GAAP.

Q93.

A student says, "Accounting careers are mainly isolated number-crunching jobs with little interaction." Which response best aligns with the chapter?

A) Correct, because accountants rarely communicate with others

B) Incorrect, because accountants often gather information and explain complex concepts to others ✓ Correct

C) Correct, because communication skills are not important in accounting

D) Incorrect, because accountants work only in tax return preparation

Rationale: The chapter stresses that accounting work often requires strong written and verbal communication and interaction with others.

Q94.

A recruiter is evaluating candidates for an entry-level accounting role in a healthcare system. Which qualification is typically the minimum expectation?

A) High school diploma only

B) Associate degree plus five years of experience

C) Bachelor's degree ✓ Correct

D) Doctoral degree

Rationale: Entry-level accounting positions usually require at least a bachelor's degree.

Q95.

A student planning to enter public accounting wants to qualify eventually for CPA licensure in a state requiring 150 hours of education. Which educational strategy is most consistent with the chapter?

A) Assume no education beyond the bachelor's degree will ever be needed

B) Recognize that a master's degree or equivalent additional hours may be expected ✓ Correct

C) Focus only on short-term software training

D) Delay all career planning until after retirement

Rationale: Because many states require 150 hours for CPA licensure, students often pursue a master's degree or equivalent additional coursework.

Q96.

A healthcare organization hires professionals to evaluate whether cash handling procedures are being followed and whether assets are protected. These professionals are most likely

A) external equity analysts

B) internal auditors ✓ Correct

C) retail merchandisers

D) loan officers

Rationale: Internal auditors evaluate internal controls and help ensure company policies are followed and assets are protected.

Q97.

A company wants an independent opinion on whether its financial statements are fairly presented. Why would it use external rather than internal auditors for this purpose?

A) External auditors are part of management and can direct operations

B) External auditors provide greater independence and reduce appearance of conflict of interest ✓ Correct

C) Internal auditors are prohibited from reviewing controls

D) External auditors prepare all managerial budgets

Rationale: External auditors are independent of the company, which supports credibility when attesting to the fairness of financial statements.

Q98.

A health services company hires a specialist to investigate suspected embezzlement and design fraud prevention measures. Which credential is most directly aligned with this role?

A) CIA

B) CFE ✓ Correct

C) CMA

D) CFP

Rationale: A Certified Fraud Examiner is specifically trained to prevent and detect fraud.

Q99.

A tax accountant advises a growing clinic on the timing of equipment purchases and payroll decisions to reduce future tax burden while remaining compliant. This work is best described as

A) tax planning based on knowledge of changing tax laws ✓ Correct

B) financial statement auditing for external assurance

C) inventory management under merchandising rules

D) governmental fund accounting

Rationale: Tax accountants often provide planning advice to help organizations minimize tax liability while complying with tax laws.

Q100.

A chief operating officer is reviewing a dashboard containing last quarter's audited revenue results, next year's budget, patient wait-time data, and a proposal to automate scheduling. Which recommendation best reflects the chapter's integrated view of accounting information?

A) Base the decision only on audited historical revenue because nonfinancial data are irrelevant

B) Use only the budget because forecasts are always superior to historical data

C) Synthesize financial and nonfinancial information to evaluate both past performance and future operational choices ✓ Correct

D) Ignore internal reports and wait for the annual tax return

Rationale: The chapter emphasizes combining historical financial information with managerial and nonfinancial data to support effective internal decision-making.

Q101.

A nonprofit youth mentoring agency is considering closing a small program that appears to lose money on its own reports. Which additional analysis best reflects sound managerial accounting judgment before recommending closure?

A) Review whether the program attracts grants, volunteers, or referrals that support other mission-critical services ✓ Correct

B) Restate the program's results using only GAAP-compliant external reporting categories

C) Compare the program's monthly cash balance to the agency's unrestricted net assets only

D) Delay the decision until the annual external audit opinion is issued

Rationale: Managerial decisions should incorporate nonfinancial and strategic effects, including complementary benefits to other programs.

Q102.

A publicly traded manufacturer wants to improve investor confidence after an industry fraud scandal. Which action would most directly strengthen the credibility of its external financial reporting?

A) Expanding use of internal spreadsheets for pricing analysis

B) Obtaining an independent external audit under the oversight framework established after SOX ✓ Correct

C) Restricting managerial reports to financial measures only

D) Replacing GAAP-based reports with customized internal performance dashboards

Rationale: Independent external auditing under the post-SOX oversight environment most directly enhances confidence in external financial statements.

Q103.

A bank is evaluating two loan applicants with similar recent profits. Which additional factor is most important in applying accounting information to assess repayment risk?

- **A)** The borrower's logo redesign and advertising slogan
- **B) Historical patterns in cash flows and operating performance across several years ✓ Correct**
- **C)** The borrower's preference for debt financing over equity financing in principle
- **D)** Whether the borrower uses QuickBooks instead of SAP

Rationale: Lenders rely heavily on multi-period historical performance, especially cash flow patterns, to evaluate repayment risk.

Q104.

A social service director says, 'I am not an accountant, so accounting knowledge is not central to my effectiveness.' Which response is the strongest evaluation of that claim based on the chapter?

- **A)** The claim is valid because only accountants need to interpret financial reports
- **B) The claim is weak because leadership roles often require explaining financial performance and planning resource use ✓ Correct**
- **C)** The claim is valid because nonprofit entities are mission-based rather than financially focused
- **D)** The claim is weak only if the director works for a publicly traded company

Rationale: The chapter emphasizes that administrators in many fields need accounting understanding to communicate performance and make resource decisions.

Q105.

A company is deciding whether to adopt a more advanced enterprise system instead of remaining on QuickBooks. Which rationale best supports a transition to SAP or Oracle?

- **A)** Advanced systems eliminate the need for accountants to make estimates
- **B)** Advanced systems are required by GAAP for all companies
- **C) Advanced systems are more suitable when operational complexity exceeds the capabilities of basic software ✓ Correct**
- **D)** Advanced systems convert managerial accounting into audited financial accounting

Rationale: The chapter notes that more sophisticated systems are typically adopted when a company's operations become more complex.

Q106.

Which statement best evaluates the predictive value of financial accounting information?

- **A)** It perfectly forecasts future performance because it is standardized
- **B)** It has no predictive value because it is historical
- **C) It is limited as a predictive tool but useful for identifying trends that inform future decisions ✓ Correct**
- **D)** It is predictive only for internal users, not external users

Rationale: Historical accounting information cannot guarantee future outcomes but can reveal patterns useful in forecasting.

Q107.

A chief executive wants to discontinue a low-margin printer line immediately. Which concern most strongly supports delaying that decision for further analysis?

- **A)** GAAP prohibits eliminating products with low reported margins
- **B) The printer line may drive profitable cartridge and related hardware sales ✓ Correct**
- **C)** External users prefer firms with fewer product lines
- **D)** Public companies must obtain SEC approval before changing product offerings

Rationale: Managerial accounting should consider complementary goods and broader strategic consequences before discontinuing a product.

Q108.

A state transportation agency and a private construction company both use accounting systems. Which conclusion best synthesizes the chapter's view of why both need accounting?

- **A)** Both must maximize stock price for owners
- **B)** Both must prepare identical reports under the same standard-setting body
- **C) Both manage resource inflows and outflows and need information for stewardship and decisions ✓ Correct**
- **D)** Both exist primarily to generate profits from customers

Rationale: Despite differing missions, all organizations need accounting to manage resources and support decision-making and stewardship.

Q109.

Which recommendation best aligns with the chapter's discussion of funding choices when a firm needs capital quickly for a time-sensitive project?

- **A)** Rely exclusively on future profitable operations because they are always fastest
- **B)** Issue new stock because it has no administrative cost
- **C) Consider borrowing because it can be relatively quick and fairly inexpensive, while recognizing repayment commitments ✓ Correct**
- **D)** Avoid all external capital because creditors and lenders use only nonfinancial information

Rationale: Borrowing is described as a relatively quick and comparatively inexpensive funding source, though it creates repayment obligations.

Q110.

An analyst is comparing a U.S. company with a similar company headquartered abroad. Why is convergence between FASB and IASB strategically important for this analysis?

- **A)** It guarantees identical stock prices across countries
- **B) It improves comparability of financial statements across firms operating under similar business models ✓ Correct**
- **C)** It eliminates the need for ratio analysis
- **D)** It requires all private companies worldwide to use U.S. GAAP

Rationale: Convergence efforts are intended to improve comparability of financial reporting across countries and similar business models.

Q111.
Which user is most likely to focus primarily on strategic issues such as leadership quality, acquisition plans, and executive compensation rather than daily operations?

- **A) A stockholder in a publicly traded company ✓ Correct**
- **B)** An accounts payable clerk within the company
- **C)** An internal auditor reviewing shipping procedures
- **D)** A production supervisor monitoring scrap rates

Rationale: Public-company stockholders generally emphasize broader strategic and governance issues rather than day-to-day operations.

Q112.
Which situation best illustrates the role of feedback value in financial accounting information?

- **A) A manager uses prior-year results to revise next year's operating plan ✓ Correct**
- **B)** An investor relies on a guaranteed forecast of future earnings
- **C)** A regulator allows firms to omit historical statements if current data are available
- **D)** A lender ignores past statements because they are not relevant to repayment risk

Rationale: Feedback value refers to using historical results to evaluate prior performance and improve future decisions.

Q113.
Which statement best differentiates managerial accounting from financial accounting?

- **A)** Managerial accounting is always historical, whereas financial accounting is always forward-looking
- **B) Managerial accounting is primarily for internal decision-making and can use both financial and nonfinancial information ✓ Correct**
- **C)** Managerial accounting is governed by a comprehensive external reporting framework identical to GAAP
- **D)** Managerial accounting is intended mainly for investors and government agencies

Rationale: Managerial accounting serves internal users and often combines financial and nonfinancial data for decision-making.

Q114.
A school district finance officer publishes clear reports showing how tax dollars were spent. Which stakeholder objective is being addressed most directly?

- **A)** Increasing shareholder dividends
- **B) Supporting transparency and public accountability to taxpayers ✓ Correct**
- **C)** Reducing inventory carrying costs
- **D)** Complying with PCAOB inspection standards for issuers

Rationale: Governmental accounting serves the public interest by reporting receipts and disbursements transparently to taxpayers.

Q115.

A company's controller argues that because managerial reports are internal, they should not be carefully protected. Which evaluation is most appropriate?

- **A)** Correct, because internal reports have little strategic value
- **B)** Correct, because managerial accounting excludes competitive information
- **C) Incorrect, because managerial reports often contain sensitive strategic and competitive information ✓ Correct**
- **D)** Incorrect, because all managerial reports must be filed publicly with the SEC

Rationale: The chapter notes that managerial accounting information is often closely protected because it can reveal strategy and competitive decisions.

Q116.

A student claims that a service business is not really part of accounting study because it has no inventory. Which response best evaluates the claim?

- **A)** Correct, because accounting applies only to manufacturing and retail entities
- **B) Incorrect, because service businesses still require accounting even though inventory accounting is less central ✓ Correct**
- **C)** Correct, because service firms use only nonfinancial data
- **D)** Incorrect, but only if the service firm is publicly traded

Rationale: Service businesses still require accounting for their activities even though they do not typically account for inventory held for sale.

Q117.

Which scenario best demonstrates why nonfinancial information can alter a decision that appears justified by financial data alone?

- **A)** A retailer selects the higher of two tax rates to be conservative
- **B)** A company drops an unprofitable printer line without reviewing related cartridge sales
- **C) A manager retains a low-margin product because it supports complementary product demand and customer relationships ✓ Correct**
- **D)** An auditor replaces transaction testing with customer satisfaction surveys

Rationale: Nonfinancial and strategic considerations can justify retaining a product that supports broader profitability and customer behavior.

Q118.

Which statement most accurately compares creditors and lenders?

- **A)** Creditors and lenders both typically provide long-term financing measured in years
- **B) Creditors usually extend short-term payment terms, whereas lenders typically provide longer-term borrowed funds with interest ✓ Correct**
- **C)** Creditors charge interest but lenders do not
- **D)** Creditors are always banks, whereas lenders are always suppliers

Rationale: Creditors generally provide short-term trade credit, while lenders provide longer-term loans that usually include interest.

Q119.

An organization wants reports that are consistent across periods and broadly comparable with other entities. Which reporting approach best supports that goal?

- **A)** Customized managerial dashboards prepared solely for internal use
- **B) Financial statements prepared using accounting standards such as GAAP ✓ Correct**
- **C)** Verbal summaries from department managers without monetary measures
- **D)** Marketing reports focused on customer impressions

Rationale: Standardized financial statements prepared under accounting standards promote consistency and comparability.

Q120.

A manufacturer tracks scrap generated in one production area and finds that reducing scrap also improves quality and shipping timeliness. What is the best interpretation?

- **A) The analysis shows why managerial accounting often reveals indirect operational effects beyond immediate cost savings ✓ Correct**
- **B)** The analysis proves financial accounting is unnecessary for manufacturers
- **C)** The analysis is irrelevant because scrap is a nonmonetary issue
- **D)** The analysis should be disclosed as a required SEC filing

Rationale: Managerial accounting helps managers identify operational relationships and indirect benefits that extend beyond direct financial effects.

Q121.

A company is choosing between profitable operations, issuing stock, and borrowing to raise capital. Which statement best reflects the trade-offs described in the chapter?

- **A)** Issuing stock is usually the least expensive and fastest method
- **B)** Borrowing avoids repayment commitments but dilutes ownership
- **C) Profitable operations generate internal resources, while stock and borrowing can raise funds more quickly for major projects ✓ Correct**
- **D)** Borrowing and issuing stock are identical because both are equity financing

Rationale: The chapter distinguishes internally generated funds from external financing methods that can provide capital more quickly.

Q122.

Which conclusion best explains why accounting has been called both the language of business and the language of life?

- **A)** Only business executives make decisions using accounting information
- **B) Accounting information informs both organizational and personal decisions that weigh financial consequences ✓ Correct**
- **C)** Accounting replaces all nonfinancial considerations in decision-making
- **D)** Accounting is relevant only when audited financial statements are available

Rationale: The chapter emphasizes that accounting informs many personal and professional decisions involving financial consequences.

Q123.

A multinational company wants one reporting framework that facilitates comparison by investors across countries. Which development most directly addresses that objective?

- **A)** The creation of local tax codes
- **B) The move toward IFRS and convergence efforts with U.S. standards ✓ Correct**
- **C)** The replacement of audits with internal control reviews
- **D)** The elimination of external users from financial reporting

Rationale: IFRS and convergence efforts were designed to improve cross-country comparability of financial statements.

Q124.

Which action by an accountant best reflects the identifying, recording, and reporting roles described in the chapter?

- **A)** Estimating customer preferences without documenting transactions
- **B) Quantifying business transactions, entering them into a system, and summarizing them in financial reports ✓ Correct**
- **C)** Approving all strategic decisions without management input
- **D)** Limiting analysis to cash transactions only

Rationale: Accountants identify and quantify transactions, record them, and report summarized financial information.

Q125.

A private company owner who also works in the business differs from many public-company stockholders because the owner is more likely to

- **A)** avoid using financial information in daily decisions
- **B)** focus solely on SEC filing compliance
- **C) participate in both day-to-day operational decisions and long-term strategy ✓ Correct**
- **D)** have no interest in profitability or stability

Rationale: Owners in privately held firms are often involved in operations as well as strategic decisions.

Q126.

Which statement best evaluates the claim that nonprofit organizations do not need to earn more inflows than outflows because profit is not their mission?

- **A)** The claim is sound because nonprofits can operate indefinitely at a loss
- **B) The claim is flawed because mission-based entities still require financial sustainability to continue serving their purpose ✓ Correct**
- **C)** The claim is sound because donors replace the need for stewardship
- **D)** The claim is flawed only for colleges and universities

Rationale: Not-for-profit entities must still use resources efficiently and maintain financial sustainability to support their mission.

Q127.
A restaurant purchases ingredients, prepares meals, and serves customers. Which classification best reflects the chapter's treatment of such businesses?

A) Only a manufacturer
B) Only a retailer
C) Only a service provider
D) A business with characteristics of manufacturing, retail, and service ✓ Correct

Rationale: The chapter notes that some businesses, such as restaurants, can exhibit features of all three categories.

Q128.
Which rationale best explains why publicly traded companies are subject to greater external financial oversight than internal managerial reporting?

A) External users rely on standardized, transparent information but cannot directly observe internal operations ✓ Correct
B) Internal reports are always more important than external reports
C) Managerial reports must follow international auditing standards
D) External users are employees who already understand company strategy

Rationale: Because outside stakeholders rely on external reports without direct access to internal operations, oversight and standardization are essential.

Q129.
A finance committee wants to know whether accounting education is useful outside traditional accounting roles. Which evidence from the chapter is most persuasive?

A) Accounting knowledge is relevant mainly for tax preparers
B) Leaders in fields such as social services may need to present financial performance and plan future resource use ✓ Correct
C) Only publicly traded corporations benefit from accounting literacy
D) Accounting is primarily a software skill transferable only within accounting departments

Rationale: The chapter explicitly illustrates how nonaccounting leaders benefit from accounting knowledge in administrative and strategic roles.

Q130.
Which recommendation best demonstrates analysis rather than simple recall when advising a board on financial reporting policy?

A) Use dollars as the measurement basis in the United States
B) Prepare reports under GAAP and pair them with governance practices that enhance external trust ✓ Correct
C) Define accounting as organizing, analyzing, and communicating information
D) List the four basic financial statements from memory

Rationale: This choice integrates reporting standards with stakeholder trust and governance considerations, reflecting higher-level judgment.

Q131.
Which organization is most directly associated with standards specifically for state and local governments?

A) GASB ✓ Correct
B) PCAOB
C) AICPA
D) IASB

Rationale: The Governmental Accounting Standards Board sets standards for U.S. state and local governmental entities.

Q132.
Which organization sets financial accounting and reporting standards in the United States for public and private sector businesses?

A) IRS
B) FASB ✓ Correct
C) SEC enforcement division
D) GASB

Rationale: The Financial Accounting Standards Board establishes financial accounting and reporting standards in the United States.

Q133.
Which term refers to the common set of rules, standards, and procedures publicly traded companies must follow when preparing financial statements?

A) IFRS
B) GAAP ✓ Correct
C) SOX
D) ERP

Rationale: GAAP is the common set of accounting rules, standards, and procedures used for financial statement preparation.

Q134.
Which software is identified as commonly used by smaller, less complex organizations?

A) SAP
B) Oracle
C) QuickBooks ✓ Correct
D) PCAOB

Rationale: QuickBooks is described as popular with smaller, less complex entities.

Q135.
Which statement best describes financial accounting information?

A) It is primarily historical and often used by external stakeholders ✓ Correct
B) It is primarily nonfinancial and used only by managers
C) It is unconstrained by standards because it is internal
D) It is designed mainly for short-term production scheduling

Rationale: Financial accounting is largely historical and serves both external users and internal evaluation needs.

Q136.

Which type of business purchases products and resells them without altering their condition?

A) Manufacturing business

B) Retail or merchandising business ✓ Correct

C) Service business

D) Governmental entity

Rationale: Retail businesses buy inventory and resell it without changing the product.

Q137.

Which stakeholder group is most directly associated with ownership in a for-profit corporation?

A) Taxpayers

B) Stockholders ✓ Correct

C) Customers

D) Regulators

Rationale: Stockholders are owners who hold shares in a for-profit corporation.

Q138.

Which source of capital is also called equity financing?

A) Borrowing from a bank

B) Generating profit from operations

C) Selling ownership through stock ✓ Correct

D) Extending payment terms to suppliers

Rationale: Selling stock raises capital by issuing ownership interests, which is equity financing.

Q139.

Which law is closely associated with the creation of the PCAOB after major corporate fraud cases?

A) HIPAA

B) Sarbanes-Oxley Act of 2002 ✓ Correct

C) Affordable Care Act

D) Dodd-Frank Act

Rationale: The PCAOB was created in the wake of corporate fraud through the Sarbanes-Oxley Act of 2002.

Q140.

Which certification is most directly associated with internal auditing?

A) CIA ✓ Correct

B) CFA

C) CFP

D) CMA

Rationale: The Certified Internal Auditor designation is the certification most relevant to internal audit careers.

Q141.

A hospital-affiliated nonprofit clinic evaluates whether to outsource billing. Which information set best supports a managerial accounting decision?

A) Only last year's audited financial statements

B) Only the clinic's tax return

C) Projected cost differences, service quality effects, staff capacity, and patient experience implications ✓ Correct

D) Only the SEC's latest enforcement releases

Rationale: Managerial accounting decisions should integrate financial projections with relevant nonfinancial operational factors.

Q142.

A lender is deciding between two borrowers and asks for several years of statements rather than one current-year report. Why is this request most reasonable?

A) A longer history may reveal trends relevant to repayment ability ✓ Correct

B) GAAP requires lenders to review exactly five years of data

C) Current-year data are never reliable

D) Historical statements eliminate all uncertainty about future repayment

Rationale: Multi-year statements help lenders identify patterns and trends useful in assessing repayment risk.

Q143.

A county government wants to reassure residents after criticism about wasteful spending. Which accounting communication strategy is most appropriate?

A) Release only internal managerial dashboards to selected employees

B) Provide unbiased reports on receipts and disbursements showing efficient use of taxpayer funds ✓ Correct

C) Focus only on future projections and omit past spending data

D) Issue stock so residents can monitor ownership returns

Rationale: Governmental accounting supports public accountability by transparently reporting how taxpayer dollars are received and spent.

Q144.

A retail chain is profitable but experiencing customer complaints and delivery delays. Which recommendation best reflects synthesis of financial and managerial accounting concepts?

A) Ignore nonfinancial issues because profits indicate success

B) Use only GAAP statements to diagnose the problem

C) Combine financial results with operational measures to identify process weaknesses affecting long-term performance ✓ Correct

D) Discontinue all customer service metrics because they are subjective

Rationale: Sound management integrates financial outcomes with nonfinancial operational indicators to support long-term decision-making.

Q145.

A board member argues that because a company is privately held, formal financial information is unnecessary. Which reply is best?

- **A)** Correct, because private firms do not need accounting unless they issue stock publicly
- **B) Incorrect, because owners, managers, creditors, and lenders still rely on financial information for decisions ✓ Correct**
- **C)** Correct, because only governmental entities need stewardship reports
- **D)** Incorrect, but only if the company manufactures inventory

Rationale: Even privately held companies need accounting information for internal management and external financing relationships.

Q146.

A student compares accounting expertise to medical expertise. Which conclusion best reflects the chapter's reasoning?

- **A) Both fields require certification and continuing education because practice environments evolve and users depend on competent judgment ✓ Correct**
- **B)** Only medicine requires supervised experience because accounting is purely mechanical
- **C)** Accounting does not require ongoing education once software is learned
- **D)** Certification matters only in public relations roles, not technical professions

Rationale: The chapter emphasizes specialized training, certification, experience, and continuing education in accounting, much like medicine.

Q147.

A company wants to decide whether to automate part of production or hire more workers. Why is this primarily a managerial accounting issue?

- **A) Because the decision concerns internal planning and may require customized financial and nonfinancial analysis ✓ Correct**
- **B)** Because GAAP requires a note disclosure before any staffing change
- **C)** Because only external auditors can evaluate production choices
- **D)** Because the decision is based solely on historical stock price data

Rationale: Automation-versus-hiring decisions are internal planning matters suited to flexible managerial accounting analysis.

Q148.

An investor says, 'If a company's historical statements are reliable, they are sufficient to predict future returns with confidence.' Which evaluation is best?

- **A)** Agree, because reliability guarantees predictive accuracy
- **B)** Agree, because historical statements eliminate market uncertainty
- **C) Disagree, because reliable historical data are useful but future performance remains uncertain ✓ Correct**
- **D)** Disagree, because investors should ignore historical statements entirely

Rationale: Reliable historical information aids analysis, but uncertainty means it cannot guarantee future returns.

Q149.

A manufacturer is considering issuing new shares instead of borrowing for expansion. Which factor most strongly supports borrowing rather than issuing stock, assuming both are feasible?

A) Borrowing avoids all future cash obligations

B) Borrowing may be relatively inexpensive and does not dilute ownership, though it creates repayment commitments ✓ Correct

C) Borrowing is equity financing and therefore less risky

D) Borrowing removes the need to show profitability to capital providers

Rationale: Debt financing can be comparatively inexpensive and preserves ownership, but it obligates repayment.

Q150.

A university accounting department is advising students about career preparation. Which recommendation best fits the chapter's portrayal of successful accounting professionals?

A) Prioritize technical memorization and avoid interpersonal roles

B) Develop analytical, communication, and time-management skills while remaining adaptable, curious, and strategic ✓ Correct

C) Focus only on tax preparation because most accounting careers are identical

D) Avoid graduate study or certifications because experience alone is always sufficient

Rationale: The chapter describes accounting careers as requiring communication, analysis, organization, adaptability, curiosity, and strategic thinking.