**Testbank**

to accompany

**Financial Accounting**

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by

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**Chapter 1: Decision making and the role of accounting**

1. The job of the modern accountant is a challenging one and requires accountants to keep up with, and manage, a changing business environment. The most important skills required of the modern accountant are:

\*a. analytical and communication skills

b. mathematical and technology skills.

c. mathematical and record-keeping skills

d. presentation and record-keeping skills.

General Feedback:

Learning outcome 1.1: outline the dynamic environment in which accountants work.

2. There are four steps in the decision-making process. The *final* step in this process is to:

a. Assess the consequences or outcomes of the alternatives.

b. Gather relevant information for the available alternatives.

c. Identify each situation that requires a decision.

\*d. Choose the course of action which will help the business achieve its goals

General Feedback:

Learning outcome 1.2: discuss the nature of decisions and the decision-making process.

3. Which of the following has been the *most* influential in redefining the role of accountants as analysts and decision makers rather than as mainly number-crunchers?

a. The increasing demands of society for non-financial information.

\*b. The development of information and communications technology.

c. An increase in business regulations.

d. The globalisation of business.

General Feedback:

Learning outcome 1.2: discuss the nature of decisions and the decision-making process*.*

4. The consideration of economic factors is very important in the decision-making process. Which of the following must also be considered?

\*a. All of these factors must be considered. Environmental factors such as pollution.

b. Environmental factors such as pollution.

c. Government policy on trade.

d. Social factors such as the impact on unemployment.

General Feedback:

Learning outcome 1.3: outline the range of economic decisions made in the marketplace.

5. The recording or recording-keeping process involves measuring and recording business \_\_\_\_\_\_\_\_\_\_

a. deals.

b. agreements.

\*c. transactions.

d. contracts.

General Feedback:

Learning outcome 1.4: explain the nature of accounting and its main functions*.*

6. Accounting is defined as the process of identifying, \_\_\_\_\_\_\_\_\_\_, recording and communicating economic information to permit informed judgements and economic decisions by users of the information.

a. processing

b. verifying

c. interpreting

\*d. measuring

*General Feedback:*

Learning outcome 1.4: explain the nature of accounting and its main functions*.*

7. Which of the following is an example of the use of accounting information?

a. A business owner using information gathered from the business' accounting system to plan, control and make decisions.

\*b. All of these are examples of the use of accounting information.

c. A bank requiring reports generated from the business' accounting system to make a lending decision.

d. A shareholder accessing a company's annual report to help with their investing decisions.

General Feedback:

Learning outcome 1.4: explain the nature of accounting and its main functions.

8. Communication is the final stage of the accounting process and is considered to require the *most* extensive:

\*a. Training, business experience and professional judgement

b. Record-keeping

c. Planning

d. Measurement

General Feedback:

Learning outcome 1.4: explain the nature of accounting and its main functions*.*

9. The depreciation of machinery used in the production of goods is which of the following?

a. Internal transaction: Yes; External Transaction: Yes

\*b. Internal transaction: Yes; External Transaction: No

c. Internal transaction: No; External Transaction: Yes

d. Internal transaction: No; External Transaction: No

General Feedback:

Learning outcome 1.4: explain the nature of accounting and its main functions.

10. An example of a question raised by an external decision maker is:  
Learning outcome 1.5: identify the potential users of accounting information

a. Is it better to purchase or lease an asset?

b. What will be the effect of increasing the selling price?

\*c. Is the business financially sound?

d. What products should be produced?

11. The term 'special purpose financial statements' refers to the fact that the information in the reports is:

\*a. prepared for users who have specialised needs and have the authority to obtain the required information.

b. useful for special purposes but not in making specific decisions.

c. available only to external users who require specialised information

d. prepared to provide general information for use by internal users only.

General Feedback:

Learning outcome 1.5: identify the potential users of accounting information.

12. Which type of information would be of *most* interest to a manufacturing manager?

a. Compliance with accounting standards.

b. Net profit

c. Annual dividends paid to shareholders.

\*d. Total number of warranty claims made by customers.

*General Feedback:*

Learning outcome 1.5: identify the potential users of accounting information.

13. How many of the following decisions would be made by internal as opposed to external decision makers: resource requirements for production, product pricing, cash management, and monitoring compliance with environmental regulators?  
Learning outcome 1.5: identify the potential users of accounting information.  
Feedback: Resource requirements for production, product pricing and cash management are all decisions that would be made by internal decision makers.

a. 4

\*b. 3

c. 2

d. 1

14. Who of the following is *not* an external decision maker?

a. Lender

b. Shareholder

\*c. Finance director

d. Government regulator

*General Feedback:*

Learning outcome 1.5: identify the potential users of accounting information. The finance director is an internal not an external decision maker

15. For Fashions R Us Ltd how many of the following are internal decision makers: bank manager, supplier, human resource manager, managing director?

a. 4

b. 3

\*c. 2

d. 1

*General Feedback:*

Learning outcome 1.5: identify the potential users of accounting information. The human resource manager and the managing director are internal decision makers.

16. Internal decision makers:

a. are the shareholders of the company.

\*b. are the managers of the business.

c. are the customers of the business.

d. are the government regulators.

General Feedback:

Learning outcome 1.5: identify the potential users of accounting information.

17. Financial reports prepared for a variety of external users who are unable to obtain the accounting information for their own specific needs are known as:

\*a. general purpose financial statements.

b. external purpose financial statements.

c. non-specific user reports.

d. external user reports.

General Feedback:

Learning outcome 1.5: identify the potential users of accounting information.

18. External decision makers can be divided into four groups. To which of these groups do unions belong?

a. Financial institutions

\*b. Reviewers and overseers

c. Resource providers

d. Managers and governing bodies

General Feedback:

Learning outcome 1.5: identify the potential users of accounting information.

20. Special purpose financial statements provide information to be used by which of these parties?

a. Board of directors

b. Suppliers

c. Internal management only

\*d. Internal management and some external users such as financial institutions and government agencies

*General Feedback:*

Learning outcome 1.5: identify the potential users of accounting information.

21. Which of the following statements is true?

\*a. Many factors considered in the decision-making process are estimates of future events

b. Internal and external users of accounting information usually require similar information.

c. Non-accounting information is always more important in decision making than accounting information.

d. Accounting information for decision making is concerned with past transactions.

*General Feedback:*

Learning outcomee1.6: apply information to make basic economic decisions.

22. Which type of information about a company would be of *most* interest to its trade creditors?

a. Compliance with accounting standards.

b. Total production expenses.

\*c. Ability to pay debts as they fall due.

d. Continuity of orders for the factory.

General Feedback:

Learning outcome 1.7: describe the role of accounting information in the decision-making process.

23. Which type of information about a company would be of *most* interest to the Australian Taxation Office?

\*a. Taxable income.

b. Total sales.

c. Ability to pay debts when they fall due.

d. Compliance with accounting standards.

*General Feedback:*

Learning outcome 1.7: describe the role of accounting information in the decision-making process.

24. Which of the following statements about financial accounting is true?

a. Includes activities such as budgeting.

b. Information is prepared for internal users.

\*c. Information is prepared for external users.

d. Information is provided to assist management in their planning, controlling and decision-making responsibilities.

General Feedback:

Learning outcome 1.8: compare accounting information for management and external users.

25. Accounting can be divided into two broad branches. They are:

a. taxation and management.

b. commercial and non-commercial.

c. public and private.

\*d. management and financial.

General Feedback:

Learning outcome 1.8: compare accounting information for management and external users.

26. Which type of accounting is concerned with providing information to external decision makers of the organisation?

a. public

b. management

\*c. financial

d. private

*General Feedback:*

Learning outcome 1.8: compare accounting information for management and external users.

27. How many of the following are differences between management and financial accounting?  
· External verification of reports  
· Frequency of reports  
· The content and format of reports  
· The users of reports

\*a. Four

b. Three

c. Two

d. One

General Feedback:

Learning outcome 1.8: compare accounting information for management and external users.

28. Which of the following is *not* a main area of practise for accountants?

a. Public accounting.

b. Commercial accounting.

\*c. Private accounting.

d. Not-for-profit accounting.

*General Feedback:*

Learning outcome 1.9: summarise how the accounting profession is organised in Australia.

29. One of the major professional accounting bodies in Australia is:

a. CIMA.

b. NZICA.

c. ACCA.

\*d. CPA Australia.

*General Feedback:*

Learning outcome 1.9: summarise how the accounting profession is organised in Australia.

30. In the accounting profession the initials CPA stand for:

a. Company Professional Accountant.

\*b. Certified Practising Accountant.

c. Certified Professional Accountant.

d. Complying Private Accountant.

General Feedback:

Learning outcome 1.9: summarise how the accounting profession is organised in Australia.

31. Membership to a professional accounting body in Australia requires:

a. Practical experience.

b. A recognised qualification.

c. Additional study in a professional body's graduate program.

\*d. All of these options.

*General Feedback:*

Learning outcome 1.9: summarise how the accounting profession is organised in Australia.

32. The initials ICAA stand for:

a. Institute of Commercial Accounting Associates.

\*b. Institute of Chartered Accountants in Australia.

c. International Committee of Advanced Accounting.

d. Institute of Commercial Accountants in Australia.

*General Feedback:*

Learning outcome 1.9: summarise how the accounting profession is organised in Australia.

33. Examples of assurance services provided by auditors include:

\*a. All of these options.

b. Security of electronic commerce systems

c. Assessment of business risk

d. Comparisons of entity's performance to that of its competitors.

General Feedback:

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

34. The area of accounting that oversees the recording of transactions and prepares reports specially tailored for managers in their planning and decision-making is called:

a. private accounting.

b. internal auditing.

c. cost accounting.

\*d. general accounting.

*General Feedback:*

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

35. Accounting work that deals with the collection, allocation and control of costs of producing specific products and services is known as:

a. general accounting.

b. administration accounting.

c. budgeting.

\*d. cost accounting

*General Feedback:*

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

36. Accountants who administer or wind-up businesses unable to pay debts specialise in the area of:

a. general accounting.

b. auditing.

\*c. insolvency.

d. cost accounting.

*General Feedback:*

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

37. The main function of budgeting is to:

\*a. provide management with a projection of the activities necessary to reach their established goals prepare periodic reports that comply with taxation regulations.

b. provide an independent examination of the entity's financial statements.

c. provide an independent examination of the entity's financial statements.

d. conduct ongoing reviews to ensure that established procedures and policies are being followed.

General Feedback:

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

38. Organisations such as hospitals, clubs, charities, and local, state and federal governments employ accountants with specialised knowledge in the area of:

\*a. non-for-profit accounting.

b. cost accounting.

c. insolvency and administration.

d. accounting information systems.

*General Feedback:*

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

39. Independent professional services that improve the context and quality of information for decision-making is known as:

a. financial services.

b. auditing services.

c. internal services.

\*d. assurance services.

General Feedback:

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

40. Which statement is *incorrect*?

a. Auditors are required to be independent of their clients.

\*b. Auditors are encouraged to provide advisory services to companies they audit.

c. Audit firms must disclose all of the non-audit services they provide to clients

d. Auditors of companies should be rotated every five years.

General Feedback:

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

41. Assurance services which assess an entity's compliance with environmental requirements are an example of:

a. Business performance management

b. Electronic commerce

\*c. Sustainability audits

d. Information systems reliability

*General Feedback:*

Learning outcome 1.10: identify the different areas of the economy in which accountants work.

42. Which statement relating to ethics is *not* correct?  
Learning outcome 1.11: identify the importance of ethics in business and accounting and how to recognise and handle ethical dilemmas as part of the decision-making process.

a. Ethical decisions are often challenging to make.

b. Ethics is concerned with whether human actions are proper or improper members.

c. The accounting professional bodies have set down rules of professional conduct for their members

\*d. A high standard of ethical behaviour is in the short-term interest of businesses.

43. The type of behaviour that would be regarded as ethical is:  
Learning outcome 1.11: identify the importance of ethics in business and accounting and how to recognise and handle ethical dilemmas as part of the decision-making process.

a. blaming others for your own mistakes.

b. discussing a client's sensitive cash flow information with one of their competitors

\*c. refusing to manipulate the financial statements upon the request of the CFO.

d. using confidential information for personal gain.

44. The professional and ethical standards established by the APESB require accountants to adhere to various aspects of professional accounting activities including:  
Learning outcome 1.11: identify the importance of ethics in business and accounting and how to recognise and handle ethical dilemmas as part of the decision-making process.

a. independence, auditing and assurance standards, client confidentiality

\*b. Both a.& d.

c. Option a. only

d. conformity with the law, competence, accounting standards.

45. The APESB's vision is to be recognised by their stakeholders for their leading contribution in achieving the highest level of professional and ethical behaviour in the accounting profession. In order to achieve this, the APESB will:  
Learning outcome 1.11: identify the importance of ethics in business and accounting and how to recognise and handle ethical dilemmas as part of the decision-making process.

a. influence the international standards agenda.

b. issue professional and ethical standards that are integral to the Australian accounting profession.

c. be innovative in engaging key stakeholders.

\*d. perform all of these options.