

# **Testbank**

to accompany

# **Accounting**

**10<sup>th</sup> edition**

by

Hoggett et al.

# **WILEY**

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# Chapter 1: Decision making and the role of accounting

## Multiple-choice questions

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. mathematical and record-keeping skills.
  - b. mathematical and technology skills.
  - \*c. analytical and communication skills.
  - d. presentation and record-keeping skills.

*Correct answer: c*

*Learning objective 1.1 ~ outline the dynamic environment in which accountants work.*

2. 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 globalisation of business.
  - c. An increase in business regulations.
  - \*d. The development of information and communications technology.

*Correct answer: d*

*Learning objective 1.2 ~ discuss the nature of decisions and the decision-making process.*

3. There are four steps in the decision-making process. The *final* step in this process is to:
  - \*a. Choose the course of action which will help the business achieve its goals.
  - b. Gather relevant information for the available alternatives.
  - c. Identify each situation that requires a decision.
  - d. Assess the consequences or outcomes of the alternatives.

*Correct answer: a*

*Learning objective 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. Environmental factors such as pollution.
  - \*b. All of these factors must be considered.
  - c. Government policy on trade.
  - d. Social factors such as the impact on unemployment.

*Correct answer: b*

*Learning objective 1.3 ~ outline the range of economic decisions made in the marketplace.*

5. 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. verifying
  - b. interpreting
  - \*c. measuring
  - d. processing

*Correct answer: c*

*Learning objective 1.4 ~ explain the nature of accounting and its main functions.*

6. 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. A shareholder accessing a company's annual report to help with their investing decisions.
  - c. A bank requiring reports generated from the business' accounting system to make a lending decision.
  - \*d. All of these are examples of the use of accounting information.

*Correct answer: d*

*Learning objective 1.4 ~ explain the nature of accounting and its main functions.*

7. The recording or recording-keeping process involves measuring and recording business \_\_\_\_\_
- a. contracts.
  - \*b. transactions.
  - c. deals.
  - d. agreements.

*Correct answer: b*

*Learning objective 1.4 ~ explain the nature of accounting and its main functions.*

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

	Internal transaction	External transaction
a.	Yes	Yes
b.	No	No
c.	No	Yes
*d.	Yes	No

*Correct answer: d*

*Learning objective 1.4 ~ explain the nature of accounting and its main functions.*

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

- a. Measurement
- b. Record-keeping
- \*c. Training, business experience and professional judgement
- d. Planning

*Correct answer: c*

*Learning objective 1.4 ~ explain the nature of accounting and its main functions.*

10. An example of a question raised by an external decision maker is:

- a. What products should be produced?
- b. What will be the effect of increasing the selling price?
- \*c. Is the business financially sound?
- d. Is it better to purchase or lease an asset?

*Correct answer: c*

*Learning objective 1.5 ~ identify the potential users of accounting information..*

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

- a. available only to external users who require specialised information.
- b. useful for special purposes but not in making specific decisions.
- \*c. prepared for users who have specialised needs and have the authority to obtain the required information.
- d. prepared to provide general information for use by internal users only.

*Correct answer: c*

*Learning objective 1.5 ~ identify the potential users of accounting information.*

12. For Fashions R Us Ltd how many of the following are internal decision makers: bank manager, supplier, human resource manager, managing director?
- a. 1
  - \*b. 2
  - c. 3
  - d. 4

*Correct answer: b*

*Feedback: The human resource manager and the managing director are internal decision makers.*

*Learning objective 1.5 ~ identify the potential users of accounting information.*

13. Who of the following is *not* an external decision maker?
- a. Government regulator
  - b. Shareholder
  - c. Lender
  - \*d. Finance director

*Correct answer: d*

*Feedback: The finance director is an internal not an external decision maker.*

*Learning objective 1.5 ~ identify the potential users of accounting information.*

14. 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?
- a. 1
  - b. 2
  - \*c. 3
  - d. 4

*Correct answer: c*

*Feedback: Resource requirements for production, product pricing and cash management are all decisions that would be made by internal decision makers.*

*Learning objective 1.5 ~ identify the potential users of accounting information.*

15. 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. external user reports.
  - b. external purpose financial statements.
  - c. non-specific user reports.
  - \*d. general purpose financial statements.

*Correct answer: d*

*Learning objective 1.5 ~ identify the potential users of accounting information.*

16. Internal decision makers:
- \*a. are the managers of the business.
  - b. are the shareholders of the company.
  - c. are the customers of the business.
  - d. are the government regulators.

*Correct answer: a*

*Learning objective 1.5 ~ identify the potential users of accounting information.*

17. External decision makers can be divided into four groups. To which of these groups do unions belong?
- a. Managers and governing bodies
  - b. Resource providers
  - c. Financial institutions
  - \*d. Reviewers and overseers

*Correct answer: d*

*Learning objective 1.5 ~ identify the potential users of accounting information.*

18. Special purpose financial statements provide information to be used by which of these parties?
- a. Internal management only
  - b. Suppliers
  - \*c. Internal management and some external users such as financial institutions and government agencies.
  - d. Board of directors

*Correct answer: c*

*Learning objective 1.5 ~ identify the potential users of accounting information..*

19. How many of the following decisions would be made by external as opposed to internal decision makers: choosing which products to produce, determining how much is owing to creditors, assessing an application for a loan, and employing additional staff?
- \*a. 1
  - b. 2
  - c. 3
  - d. 4

*Correct answer: a*

*Learning objective 1.5 ~ identify the potential users of accounting information..*

20. Which type of information would be of *most* interest to a manufacturing manager?
- a. Net profit.
  - \*b. Total number of warranty claims made by customers.
  - c. Annual dividends paid to shareholders.
  - d. Compliance with accounting standards.

*Correct answer: b*

*Learning objective 1.5 ~ identify the potential users of accounting information.*

21. Which of the following statements is true?
- a. Accounting information for decision making is concerned with past transactions.
  - 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. Many factors considered in the decision-making process are estimates of future events.

*Correct answer: d*

*Learning objective 1.6 ~ apply information to make basic economic decisions.*

22. Which type of information about a company would be of *most* interest to the Australian Taxation Office?
- a. Total sales.
  - b. Compliance with accounting standards.
  - c. Ability to pay debts when they fall due.
  - \*d. Taxable income.

*Correct answer: d*

*Learning objective 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 its trade creditors?
- \*a. Ability to pay debts as they fall due.
  - b. Compliance with accounting standards.
  - c. Total production expenses.
  - d. Continuity of orders for the factory.

*Correct answer: a*

*Learning objective 1.7 ~ describe the role of accounting information in the decision-making process.*

24. Accounting can be divided into two broad branches. They are:
- a. public and private.
  - b. commercial and non-commercial.
  - \*c. management and financial.
  - d. taxation and management.

*Correct answer: c*

*Learning objective 1.8 ~ compare accounting information for management and external users.*

25. Which type of accounting is concerned with providing information to external decision makers of the organisation?
- \*a. financial
  - b. management
  - c. private
  - d. public

*Correct answer: a*

*Learning objective 1.8 ~ compare accounting information for management and external users.*



26. 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. One  
b. Two  
c. Three  
\*d. Four

*Correct answer: d*

*Learning objective 1.8 ~ compare accounting information for management and external users.*

27. Which of the following statements about financial accounting is true?
- \*a. Information is prepared for external users.  
b. Information is prepared for internal users.  
c. Information is provided to assist management in their planning, controlling and decision-making responsibilities.  
d. Includes activities such as budgeting.

*Correct answer: a*

*Learning objective 1.8 ~ compare accounting information for management and external users.*

28. In the accounting profession the initials CPA stand for:
- a. Complying Private Accountant.  
b. Company Professional Accountant.  
c. Certified Professional Accountant.  
\*d. Certified Practising Accountant.

*Correct answer: d*

*Learning objective 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. ACCA.  
\*c. CPA Australia.  
d. NZICA.

*Correct answer: c*

*Learning objective 1.9 ~ summarise how the accounting profession is organised in Australia.*

30. The initials ICAA stand for:
- \*a. Institute of Chartered Accountants in Australia.
  - b. Institute of Commercial Accounting Associates.
  - c. International Committee of Advanced Accounting.
  - d. Institute of Commercial Accountants in Australia.

*Correct answer: a*

*Learning objective 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. All of these options.
  - d. Additional study in a professional body's graduate program.

*Correct answer: c*

*Learning objective 1.9 ~ summarise how the accounting profession is organised in Australia.*

32. Which of the following is *not* a main area of practise for accountants?
- a. Public accounting.
  - \*b. Private accounting.
  - c. Commercial accounting.
  - d. Not-for-profit accounting.

*Correct answer: b*

*Learning objective 1.9 ~ summarise how the accounting profession is organised in Australia.*

33. Examples of assurance services provided by auditors include:
- a. Assessment of business risk
  - b. Security of electronic commerce systems
  - c. Comparisons of entity's performance to that of its competitors.
  - \*d. All of these options.

*Correct answer: d*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

34. 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. budgeting.
  - \*c. cost accounting
  - d. administration accounting.

*Correct answer: c*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

35. Accountants who administer or wind-up businesses unable to pay debts specialise in the area of:
- a. auditing.
  - \*b. insolvency.
  - c. general accounting.
  - d. cost accounting.

*Correct answer: b*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

36. 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. general accounting.
  - b. cost accounting.
  - c. internal auditing.
  - d. private accounting.

*Correct answer: a*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

37. Organisations such as hospitals, clubs, charities, and local, state and federal governments employ accountants with specialised knowledge in the area of:
- a. cost accounting.
  - b. accounting information systems.
  - c. insolvency and administration.
  - \*d. non-for-profit accounting.

*Correct answer: d*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

38. Independent professional services that improve the context and quality of information for decision-making is known as:
- a. financial services.
  - b. auditing services.
  - \*c. assurance services.
  - d. internal services.

*Correct answer: c*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

39. Assurance services which assess an entity's compliance with environmental requirements are an example of:
- \*a. Sustainability audits
  - b. Electronic commerce
  - c. Business performance management
  - d. Information systems reliability

*Correct answer: a*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

40. The main function of budgeting is to:
- a. prepare periodic reports that comply with taxation regulations.
  - \*b. provide management with a projection of the activities necessary to reach their established goals.
  - 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.

*Correct answer: b*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

41. Which statement is *incorrect*?
- a. Auditors are required to be independent of their clients.
  - b. Audit firms must disclose all of the non-audit services they provide to clients.
  - \*. Auditors of companies should be rotated every five years.
  - \*d. Auditors must declare their independence every two years.

*Correct answer: d*

*Learning objective 1.10 ~ identify the different areas of the economy in which accountants work.*

42. Which statement relating to ethics is *not* correct?
- \*a. A high standard of ethical behaviour is in the short-term interest of businesses.
  - b. The accounting professional bodies have set down rules of professional conduct for their members.
  - c. Ethics is concerned with whether human actions are proper or improper.
  - d. Ethical decisions are often challenging to make.

*Correct answer: a*

*Learning objective 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.*

43. The type of behaviour that would be regarded as ethical is:
- a. blaming others for your own mistakes.
  - \*b. refusing to manipulate the financial statements upon the request of the CFO.
  - c. discussing a client's sensitive cash flow information with one of their competitors.
  - d. using confidential information for personal gain.

*Correct answer: b*

*Learning objective 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.*

44. The professional and ethical standards established by the APESB require accountants to adhere to various aspects of professional accounting activities including:
- a. conformity with the law, competence, accounting standards.
  - b. independence, auditing and assurance standards, client confidentiality.
  - \*c. Both a. & b.
  - d. Option a. only.

*Correct answer: c*

*Learning objective 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.*

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:
- a. influence the international standards agenda.
  - \*b. perform all of these options.
  - c. be innovative in engaging key stakeholders.
  - d. issue professional and ethical standards that are integral to the Australian accounting profession.

*Correct answer: b*

*Learning objective 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.*