

# EXAM QUESTIONS

## Chapter 1

### True False

1. Napoleon found the Italian system of accounting to be inefficient.
2. Venice's commerce was driven by sea traffic.
3. The Genoese system was the first to imply that unlike items could be compared in terms of a common monetary unit.
4. Double entry bookkeeping quickly had world-wide acceptance, as the British accepted it in the 1400s.
5. When hyperinflation exists, alternative systems to historical cost become necessary.
6. The International Accounting Standards Board, an international organization dedicated to the diversity of accounting standards worldwide.
7. One trend in European securities markets is consolidation.
8. The continental accounting system is closely linked to the tax collection system.
9. The first step into international business is usually the creation of a foreign subsidiary.
10. If a firm is not involved in international commercial transactions, knowledge of international business is unnecessary.

### Multiple Choice

#### Learning Objective #1.1: Identify the key trends in the development of accounting through history

1. The Crusades were important in the development of accounting, because
  - a. the Arabs first developed double entry accounting, which was then adopted by the Italians.
  - b. the Christians needed double entry accounting to keep track of the relative profitability of the different Crusades.
  - c. the trade routes shifted the commercial center from Italy to Constantinople
  - d. none of the above.
2. The major Genoese influence on accounting was
  - a. the establishment of Luca Pacioli's first accounting program at the University of Genoa.
  - b. the development of large associations and partnerships that pooled capital.
  - c. the development of the gold florin, the standard gold piece used in Europe.
  - d. the double entry books of the Massari (treasury officials), which date from 1340.
3. Luca Pacioli (or Paciolo) is best known for
  - a. developing an accounting system based on the banks rather than non-bank commercial enterprises.
  - b. developing the printing press.

- c. publishing a mathematics book that contains a chapter on double entry accounting.
- d. developing the commercial activities of the Franciscan monks, which resulted in the development of double entry accounting.

4. Which of the following is not true about Luca Pacioli?

- a. He did not claim that he developed double entry accounting.
- b. He started the first accounting program in Italy.
- c. He was a Franciscan monk.
- d. He was not a merchant or bookkeeper.

5. Where would Pacioli first record a transaction?

- a. Journal
- b. Memorandum book
- c. Financial notes
- d. Ledger

### **Learning Objective #1.2: Highlight the evolution of business to modern times**

6. The major early Venetian influence on the development of accounting was

- a. the development of the gold florin, the standard gold piece used in Europe.
- b. the spread of double entry accounting.
- c. the initial development of double entry accounting.
- d. the establishment of the first banking institutions.

7. The major early influence of Florin, Italy, on accounting was

- a. the double entry books of the Massari (treasury officials), which date from 1340.
- b. the spread of double entry accounting.
- c. the development of large associations and partnerships that pooled capital.
- d. accounting records with pretty pictures.

8. Which of the following is not a part of Pacioli's initial contributions to accounting?

- a. His objective was to publish a detailed, mathematical approach to accounting rather than a popular version of accounting that could be used by all.
- b. He believed that all transactions required both a debit and a credit in order for transactions to remain in equilibrium.
- c. He introduced the memorandum book, the journal and the ledger.
- d. The center for the accounting system was the ledger.

9. In the compagnie accounting system developed in Florence, Italy in the 1200s,

- a. deferrals and accruals were common.
- b. quarterly financial statements were required.
- c. double entry accounting was unknown, so companies only recorded one side of a transaction.
- d. provisions were made for the division of profits and losses.

10. As a result of the industrial revolution in the 19th and early 20th centuries,

- a. governments got together and decided to require firms to draw up balance sheets every two years.
- b. it was finally necessary to develop double entry accounting.
- c. the basic form of business organization shifted to limited liability and joint stock companies.
- d. fixed assets diminished in importance.

11. During the pre-industrial period,

- a. governments invested in colonies in order to get access to their manufactured goods in exchange for raw materials that came from the colonial power.
- b. most of the world trade was taking place between the Greeks and Romans.
- c. the right to trade had become a privilege granted by the states.

d. the principle of mercantilism implied that merchants had to provide financial information to the state.

12. During the industrialization period,

- a. trade restrictions were eliminated so that countries could trade freely with each other.
- b. mass production and standardization of products increased dramatically.
- c. the center of commerce shifted from southern Europe to northern Europe.
- d. companies located in large domestic markets had to turn to exporting.

### **Learning Objective #1.3: Identify the key environmental influences on business and accounting**

13. The underlying reason for national differences in accounting systems is:

- a. computers
- b. globalization
- c. the invention of the printing press
- d. environmental

14. Where there is state ownership

- a. the customs and values of the follow the common law tradition
- b. central control will tend to override the serving of microeconomic objectives.
- c. behavior should be judged in terms of a relative outside standard.
- d. secrecy and transparency coexist.

15. Which of the following accurately reflects environmental influences on accounting?

- a. the social (employee) climate has had a strong impact on accounting in the United States, in contrast to Europe where the social climate is almost irrelevant.
- b. economic factors have proven to be very influential on accounting, but political factors are not.
- c. taxation is an important factor in situations where accounting systems are strongly influenced by state objectives.
- d. where there is a more developed accounting profession, there is likely to be centralized and uniform accounting systems, as opposed to judgementally-based systems.

16. How do societal values and accounting values interact with each other to establish accounting systems?

- a. Accounting values indirectly affect accounting systems through their impact on institutional consequences
- b. Societal values affect accounting values, and accounting values also modify societal values.
- c. Accounting systems are influenced directly by societal values.
- d. Accounting systems are indirectly influenced by societal values through their impact on accounting values and institutional consequences (such as legal systems, capital markets, etc.)

17. Major international forces for change are:

- a. changes in corporate strategy and organization.
- b. new technology and the Internet.
- c. the internationalization of stock exchanges and financial markets.
- d. the International Accounting Standards Committee and the International Organization of Securities Commissions.
- e. global economic integration, privatization, and deregulation.
- f. All of the above.

### **Learning Objective #1.4: Discuss the major factors influencing the development of accounting and information disclosure in the global economy**

18. The emergence of corporations has influenced financial accounting by

- a. removing limited liability as a way of hiding corporate responsibility.
- b. combining ownership and control.
- c. making transparency less important.
- d. emphasizing disclosure as part of the necessary means of regulating corporate behavior.

19. Securities markets influence corporate reporting

- a. by forcing companies to increase the quantity and quality of their disclosures.
- b. in industrial but not developing countries.
- c. by requiring significant social disclosures due to pressure from Europe.
- d. by eliminating the need for voluntary disclosures.

20. Which of the following is true concerning the impact of securities markets on corporate reporting?

- a. Most investors and creditors know what information they want, how they can use the information, and what the costs and benefits are of that information.
- b. There is a strong correlation between well-developed capital markets and the extent of financial disclosure in corporate reports.
- c. The wave of privatization is hampering disclosure, because state-owned firms cannot disclose the same information that private firms can.
- d. There is a strong convergence of opinions on what corporate management wants to disclose and what financial providers want from management.

21. The wider audience of users of financial information (employees, trade unions, consumers, etc.)

- a. is relatively unimportant in any country due to their lack of political and financial power.
- b. want the same information as do providers of capital.
- c. tend to pursue a different set of information due to their nontraditional goals.
- d. want information that really doesn't affect corporate behavior and performance.

22. Sarbanes/Oxley

- a. is designed to increase tax revenues
- b. will solve the ownership control problem
- c. is likely to prove to be a barrier to entry in U.S. markets
- d. wants information that really doesn't affect corporate behavior and performance.

### **Learning Objective #1.5. Discuss the important accounting dimensions of global business and major topics that comprise the field of international accounting**

23. Which of the following is true concerning international business?

- a. It includes business transactions that involve two or more countries.
- b. Even if a firm establishes production facilities abroad, it is not engaging in international business unless it also expands sales abroad.
- c. It has resulted in the shift of technological leadership from the industrial to the emerging developing countries.
- d. It is conducted exclusively in the private rather than public sector.

24. Firms that have a worldwide view of production, sourcing raw materials and components, and final markets are

- a. typical of industrial but not service firms.
- b. multinational enterprises.
- c. multidomestic enterprises.
- d. from the industrial but not developing countries.

25. When examining the lists of the largest corporations in the world, it is obvious that

- a. European firms dominate the list of large and most profitable firms.
- b. exchange rates have the potential of distorting the list.
- c. Japanese companies are the largest in sales and most profitable in the world.
- d. U.S. companies are the largest in sales but are not among the most profitable.

26. Which of the following is a true statement concerning MNEs?

- a. Developing country MNEs tend to come from the industrial sector rather than the services and utilities sectors
- b. There are no MNEs from developing countries due to small market size.
- c. Top developing country MNEs tend to come from Eastern Europe.
- d. Latin American and Asian MNEs are the most significant of the emerging market companies.

27. Firm-specific advantages refer to  
\_\_a. assets that can be easily duplicated by competitors.  
\_\_b. the fact that firms typically operate in specific industries.  
\_\_c. advantages that firms get from operating in specific countries or regions of the world.  
\_\_d. the intangible assets that firms own.
28. The first exposure a firm has to international accounting is usually  
\_\_a. the purchase of a subsidiary  
\_\_b. establishment of license of a foreign company  
\_\_c. unsolicited purchase order from a foreign buyer.  
\_\_d. joint venture with another MNE.

### **Chapter 1 Answer Key**

#### **True False**

- 1.False
- 2.True
- 3.True
- 4.False
- 5.True
- 6.False
- 7.True
- 8.True
- 9.False
- 10..False

#### **Multiple Choice**

1. d.
2. d.
3. c.
4. b.
5. b.
6. b.
7. c.
8. a.
9. d.
10. c.
11. c.
12. b
13. d.
14. b.
15. c.
16. d.
17. f.
18. d.
19. a.
20. b.
21. c.
22. c.
- 23.a.
24. b
25. b.
26. d.
27. d.

