

**Financial Accounting for Undergraduates**  
**3<sup>rd</sup> Edition by Wallace, Nelson, Christensen, and Ferris**

**Practice Quiz**

**Chapter 1. Financial Accounting and Business Decisions**

1. Which form of business organization is characterized by the attribute of double taxation?
  - a. Sole proprietorship
  - b. Partnership
  - c. Corporation
  - d. Both sole proprietorship and partnership.
  
2. What is the principal difference between a sole proprietorship and a partnership?
  - a. Limited liability
  - b. Double taxation of partnership income
  - c. The number of owners
  - d. Relative ease of ownership transfer
  
3. U.S. GAAP refers to:
  - a. A set of accounting standards used worldwide
  - b. A set of accounting standards approved by the U.S. Congress
  - c. A rigid set of accounting standards that must be uniformly applied by all U.S. businesses
  - d. A set of accounting standards that form the guidelines for financial accounting
  
4. The Sarbanes-Oxley Act refers to:
  - a. U.S. legislation passed in 2002 to restore investor trust in U.S. GAAP
  - b. U.S. legislation that created the Internal Revenue Service (IRS)
  - c. Legislation passed by the U.S. Securities & Exchange Commission to reduce fraud
  - d. Legislation passed by the European Union to create the IASB and IFRS

5. The three types of business activities undertaken by all enterprises are:
  - a. Purchasing, receiving and selling
  - b. Financing, investing, and operating
  - c. Manufacturing, marketing, and sales
  - d. Sales, servicing, and delivery
  
6. The sale of stock in a business is an example of what type of business activity?
  - a. Investing
  - b. Marketing
  - c. Operating
  - d. Financing
  
7. The accounting equation requires that:
  - a. Total assets equal total liabilities plus stockholders' equity
  - b. Current assets equal current liabilities plus stockholders' equity
  - c. Total assets equal total noncurrent liabilities plus stockholders' equity
  - d. Stockholders' equity equal total liabilities minus total assets
  
8. A higher ratio of liabilities to stockholders' equity implies that a business is:
  - a. Principally debt financed
  - b. Principally equity financed
  - c. Highly profitable
  - d. Likely to generate an operating loss
  
9. Which of the following is NOT a component of the annual report?
  - a. Management discussion and analysis
  - b. Notes to the financial statements
  - c. A company's charter of incorporation
  - d. The auditor's report

- 10.** Which of the following represents a key financial statement linkage?
- a. The statement of cash flows links the beginning and ending retained earnings in the statement of retained earnings.
  - b. The balance sheet links the beginning and ending net income in the statement of cash flows.
  - c. The income statement links the beginning and ending increase in cash.
  - d. None of these represents a key financial statement linkage.