

Financial Accounting for Undergraduates
3rd Edition by Wallace, Nelson, Christensen, and Ferris

Practice Quiz Solutions

Chapter 1. Financial Accounting and Business Decisions

1. Which form of business organization is characterized by the attribute of double taxation?
- Sole proprietorship
 - Partnership
 - Corporation
 - Both sole proprietorship and partnership.

Answer: *c*

2. What is the principal difference between a sole proprietorship and a partnership?
- Limited liability
 - Double taxation of partnership income
 - The number of owners
 - Relative ease of ownership transfer

Answer: *c*

3. U.S. GAAP refers to:
- A set of accounting standards used worldwide
 - A set of accounting standards approved by the U.S. Congress
 - A rigid set of accounting standards that must be uniformly applied by all U.S. businesses
 - A set of accounting standards that form the guidelines for financial accounting

Answer: *d*

4. The Sarbanes-Oxley Act refers to:
- U.S. legislation passed in 2002 to restore investor trust in U.S. GAAP
 - U.S. legislation that created the Internal Revenue Service (IRS)
 - Legislation passed by the U.S. Securities & Exchange Commission to reduce fraud
 - Legislation passed by the European Union to create the IASB and IFRS

Answer: a

5. The three types of business activities undertaken by all enterprises are:
- Purchasing, receiving and selling
 - Financing, investing, and operating
 - Manufacturing, marketing, and sales
 - Sales, servicing, and delivery

Answer: *b*

6. The sale of stock in a business is an example of what type of business activity?
- Investing
 - Marketing
 - Operating
 - Financing

Answer: *d*

7. The accounting equation requires that:
- Total assets equal total liabilities plus stockholders' equity
 - Current assets equal current liabilities plus stockholders' equity
 - Total assets equal total noncurrent liabilities plus stockholders' equity
 - Stockholders' equity equal total liabilities minus total assets

Answer: *a*

8. A higher ratio of liabilities to stockholders' equity implies that a business is:
- Principally debt financed
 - Principally equity financed
 - Highly profitable
 - Likely to generate an operating loss

Answer: *a*

9. Which of the following is NOT a component of the annual report?
- Management discussion and analysis
 - Notes to the financial statements
 - A company's charter of incorporation
 - The auditor's report

Answer: *c*

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.

Answer: *d*