

Financial & Managerial Accounting for Decision Makers, 3rd Edition by Dyckman, Hanlon, Magee, Pfeiffer, Hartgraves, and Morse

Chapter 1—Introducing Financial Accounting

Practice Quiz

1. Which of the following statements best explains the use of financial accounting information?
 - a. Company managers use financial accounting reports to make decision such as whether to drop or add products.
 - b. Financial accounting focuses on profitability and financial health of companies.
 - c. Financial accounting includes proprietary information about the profitability of specific divisions.
 - d. Company managers use financial accounting reports to make decisions such as whether to continue serving different types of customers.

2. Equity, as represented in the accounting equation, would increase as a result of which of the following items?
 - a. Borrowing from a commercial bank
 - b. Payments of cash to the owners
 - c. Losses from unprofitable operations of a business
 - d. Earnings from operating a business

3. All of the following are accurate representations of the accounting equation except:
 - a. $\text{Assets} - \text{Equity} = \text{Liabilities}$
 - b. $\text{Investing} - \text{Creditor Financing} = \text{Owner Financing}$
 - c. $\text{Assets} + \text{Liabilities} = \text{Equity}$
 - d. $\text{Owner Financing} + \text{Creditor Financing} = \text{Investing}$

4. Which of the following represents a key financial statement linkage?
 - a. The statement of cash flows links the beginning and ending contributed capital in the statement of stockholders' equity.
 - 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.

5. Which of the following established the Public Company Accounting Oversight Board (PCAOB)?
- FASB
 - AICPA
 - SOX
 - GAAP
6. Below is information for Companies A, B, C, and D.

(in \$millions)	Company A	Company B	Company C	Company D
Net income (loss), 12/31/16	22.3	157.6	83.7	200.8
Stockholders' Equity, 12/31/15	131.6	333.9	407.1	978.9
Stockholders' Equity, 12/31/16	175.8	446.7	338.9	967.8
Total liabilities, 12/31/16	257.9	667.1	786.3	1,111.4

Based on this information and using the debt-to-equity ratio to evaluate, which company is the least risky in terms of long-term solvency in 2016?

- Company A
 - Company B
 - Company C
 - Company D
7. Below is information for Companies A, B, C, and D.

	Company A	Company B	Company C	Company D
Net income (loss), 12/31/16	22.3	157.6	83.7	200.8
Stockholders' Equity, 12/31/15	131.6	333.9	407.1	978.9
Stockholders' Equity, 12/31/16	175.8	446.7	338.9	967.8
Total liabilities, 12/31/16	257.9	667.1	786.3	1,111.4

Based on this information and using the return on equity ratio to evaluate, which company earned a higher rate of return for its shareholders in 2016?

- Company A
- Company B
- Company C
- Company D

8. Which of the following qualitative characteristics of accounting best enables users to identify similarities and differences between financial data for two companies in the same industry?
- Relevance
 - Consistency
 - Reliability
 - Comparability
9. During the current year, the liabilities of Markham Company decreased by \$60,000 and equity increased by \$95,000.

Based on this information, which of the following is correct?

- Assets at the end of the year totaled \$35,000.
 - Assets decreased during the year by \$155,000.
 - Assets at the end of the year totaled \$155,000.
 - Assets increased during the year by \$35,000.
10. Below are several line items and account titles.

- Net income
- Cash asset
- Retained earnings
- Expenses
- Noncash assets

Which of these would you most likely find in the statement of stockholders' equity?

- I, III, and V
- II and V
- I and III
- None of these.