

**Financial Accounting for Undergraduates**  
**4<sup>th</sup> Edition by Wallace, Nelson, and Christensen**

**Practice Quiz**

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

## Practice Quiz SOLUTIONS

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1. c
2. c
3. d
4. a
5. b
6. d
7. a
8. a
9. c
10. d