

Financial & Managerial Accounting for Undergraduates
2nd Edition
by Wallace, Nelson, Christensen, Hobson, and Matthews

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?
- 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.

SOLUTIONS

Chapter 1: Financial Accounting and Business Decisions

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