**Chapter 1: Introduction to accounting and business decision making**

**Learning objectives**

1. Explain the process of accounting

Q1, Q2, Q3, Q52, Q53

2. Outline the importance of accounting and its role in decision making by various users

Q4, Q5, Q6, Q7, Q8, Q9

3. Explain the differences between financial accounting and management accounting

Q10, Q11, Q12, Q13, Q54, Q55

4. Explain the role of accounting information in the business planning process.

Q14, Q15, Q16, Q56, Q57

5. Discuss the globalisation of financial reporting

Q17, Q18, Q19, Q58

6. Identify the sources of company regulation in Australia

Q20, Q21, Q22, Q23, Q24, Q59

7. Explain the current standard setting framework and the role of the professional accounting associations in the standard-setting process

Q25, Q26, Q27, Q28, Q29, Q60, Q61

8. Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements

Q30, Q31, Q32, Q33, Q34, Q35, Q36, Q37, Q38, Q39, Q40, Q41, Q42, Q62, Q63, Q64, Q65

9. Give examples of the limitations of accounting information

Q43, Q44, Q45, Q46, Q66, Q67

10. Provide examples of exciting opportunities for careers in accounting

Q47, Q48, Q49, Q50, Q51, Q68

**Multiple-choice questions**

1. Which of the following is *not* a business transaction?

a. Incurring interest on a business loan.

\*b. A business owner purchasing a new home.

c. Purchasing inventory.

d. Receiving cash payment for services provided.

*Correct answer: b*

*Learning Objective 1.1 ~ Explain the process of accounting*

1. Which of the following is *not* an accounting report?

\*a. Statement of employee job satisfaction .

b. Balance sheet.

c. Income statement.

d. Statement of cash flows.

*Correct answer: a*

*Learning Objective 1.1 ~ Explain the process of accounting*

1. The steps in the process of accounting take place in the following order:

a. measuring, identifying, decision making, communicating.

\*b. identifying, measuring, communicating, decision making.

c. identifying, communicating, measuring, decision making.

d. identifying, decision making, measuring, communicating.

*Correct answer: b*

*Learning Objective 1.1 ~ Explain the process of accounting*

1. A supplier, when considering offering credit to a new customer, is most interested in the customer’s:

\*a. ability to pay off debts as they fall due.

b. annual dividends.

c. taxable income.

d. compliance with accounting standards.

*Correct answer: a*

*Learning Objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users*

1. The internal user of accounting information is the:

a. customer.

b. local council.

c. auditor from the Australian Tax Office.

\*d. office manager.

*Correct answer: d*

*Learning Objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users*

1. The information that would be of most interest to an organisation’s production manager is:

a. the ability to pay off debts as they fall due.

b. annual dividends.

\*c. continuity of orders for the factory.

d. the company tax rate.

*Correct answer: c*

*Learning Objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users*

1. An external user of accounting information is the:

a. payroll officer.

\*b. supplier.

c. production manager.

d. inventory clerk.

*Correct answer: b*

*Learning Objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users*

1. A bank requesting accounting information is looking for:

a. the amount of tax that should be paid.

b. cash flows from dividends paid.

\*c. the ability of the entity to repay a loan.

d. environmental aspects of the business.

*Correct answer: c*

*Learning Objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users*

1. Which of these would *not* be considered an internal user of accounting information?

a. The human resources manager.

\*b. The chairman of CPA Australia.

c. The chief financial officer.

d. The purchasing officer.

*Correct answer: b*

*Learning Objective 1.2 ~ Outline the importance of accounting and its role in decision making by various users*

1. Which of the following are differences between management and financial accounting?
2. Types of reports produced.
3. The users of reports.
4. The format of reports.
5. Frequency of reports.

a. I and III only.

b. II, III and IV only.

c. I and II only.

\*d. all of the above.

*Correct answer: d*

*Learning Objective 1.3 ~ Explain the differences between financial accounting and management accounting*

1. Management accounting reports are prepared:

\*a. to provide up-to-date information to managers for decision making.

b. to provide information for the shareholders of the business entity.

c. based only on historical figures.

d. based on GAAP and IASB accounting standards.

*Correct answer: a*

*Learning Objective 1.3 ~ Explain the differences between financial accounting and management accounting*

1. The content of management accounting reports is governed by:

a. the Australian Securities and Investment Commission.

b. the *Corporations Act 2001*.

c. CPA Australia and the Institute of Chartered Accountants of Australia.

\*d. there are no specific rules governing the content of management accounting reports.

*Correct answer: d*

*Learning Objective 1.3 ~ Explain the differences between financial accounting and management accounting*

1. Which of the following reports would *not* be prepared for financial accounting purposes?
2. Statement of Financial Position.
3. Statement of Cash Flows.

\*c. Statement of Management Performance.

1. Statement of Profit or Loss.

*Correct answer: c*

*Learning Objective 1.3 ~ Explain the differences between financial accounting and management accounting*

1. An SME (small to medium sized enterprise) is a business entity with:

\*a. annual revenue between $2 million and $250 million.

b. annual revenue less than $2 million.

c. annual revenue between $2 million and $500 million.

d. annual revenue greater than $250 million.

*Correct answer: a*

*Learning Objective 1.4 ~ Explain the role of accounting information in the business planning process*

1. Which of the following is *not* a benefit of a business plan?
2. Provides a formal statement of direction and purpose for the business entity.
3. Provides management and employees with a set of clearly defined goals.

\*c. Allows management to set their own goals.

d. Assists in the evaluation process of the business entity.

*Correct answer: c*

*Learning Objective 1.4 ~ Explain the role of accounting information in the business planning process*

1. The evaluation process of a business plan allows:
2. more effective use of scarce resources.
3. improvement in internal communications.
4. detection of variances between actual and budgeted results.

\*d. all of the above.

*Correct answer: d*

*Learning Objective 1.4 ~ Explain the role of accounting information in the business planning process*

1. The number of countries preparing financial reports using global accounting standards is:

a. less than 50.

b. between 50 and 75.

c. between 100 and 120.

\*d. more than 120.

*Correct answer: d*

*Learning Objective 1.5 ~ Discuss the globalisation of financial reporting*

1. Which statement is correct?

The use of one set of accounting standards by companies throughout the world:

1. makes it more difficult for comparability and transparency of financial information.
2. leads to inefficiency in lending markets.
3. reduces the cost of preparing financial reports.
4. reduces the quality of information provided to capital market participants.

*Correct answer: c*

*Learning Objective 1.5 ~ Discuss the globalisation of financial reporting*

1. Companies operating in Australia and overseas must follow which accounting standards?

\*a. Both IFRS and local GAAP.

b. Local generally accepted accounting principles only.

c. IFRS only.

d. FASB.

*Correct answer: a*

*Learning Objective 1.5 ~ Discuss the globalisation of financial reporting*

1. The *Corporations Act 2001* is primarily enforced by the:

a. Financial Reporting Council.

b. Australian Securities Exchange.

c. Australian Accounting Standards Board.

\*d. Australian Securities and Investments Commission.

*Correct answer: d*

*Learning Objective 1.6 ~ Identify the sources of company regulation in Australia*

1. Legally enforceable accounting standards that apply to Australian companies are issued by the:

a. Financial Reporting Council.

\*b Australian Accounting Standards Board.

c. Australian Professional Accounting bodies.

d. Australian Securities and Investments Commission.

*Correct answer: b*

*Learning Objective 1.6 ~ Identify the sources of company regulation in Australia*

1. Which of the following is *not* a role of the Australian Securities and Investments Commission?

\*a. To ensure financial institutions honour their commitments.

b. To uphold the law uniformly, effectively and quickly.

c. To promote confident and informed participation in the financial system by investors and consumers.

d. To make information about companies and other bodies available to the public.

*Correct answer: a*

*Learning Objective 1.6 ~ Identify the sources of company regulation in Australia*

1. The regulatory body that oversees the operations of financial institutions such as banks and building societies in Australia is:

a. ASIC.

b. ASX.

c. ATO.

\*d. APRA.

*Correct answer: d*

*Learning Objective 1.6 ~ Identify the sources of company regulation in Australia*

1. The ACCC is responsible for:

a. enforcement of the *Corporations Act 2001*.

b. the stability of the Australian financial system.

\*c. administration of the *Competition and Consumer Act 2010*.

d. the ASX Market and Listing Rules.

*Correct answer: c*

*Learning Objective 1.6 ~ Identify the sources of company regulation in Australia*

1. The ICAA and CPA Australia:

a. are responsible for developing company regulations.

b. play no role in setting company regulation and have nothing to do with enforcing company regulation.

c. have nothing to do with setting company regulations but have a role in enforcing the regulations.

\*d. are involved in the enforcement of company regulations through the regulation of their members.

*Correct answer: d*

*Learning Objective 1.7 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. The Financial Reporting Council is responsible for:

\*a. overseeing the accounting and auditing standard-setting process for both the public and private sectors in Australia.

b. developing Australian accounting standards for both the public and private sectors in Australia.

c. issuing Australian accounting standards for both the public and private sectors in Australia.

d. reporting breeches of Australian accounting standards for both the public and private sectors in Australia.

*Correct answer: a*

*Learning Objective 1.7 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. A disclosing entity is an entity that:

a. discloses the basis on which their financial reports are prepared.

b. is exempt under the *Corporations Act 2001* from applying the AASB accounting standards.

c. is involved in the accounting standard-setting process.

\*d. issues securities that are quoted on a stock market or made available to the public via a prospectus.

*Correct answer: d*

*Learning Objective 1.7 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. The first step in issuing an accounting standard is the:

\*a. identification by interested parties of a relevant issue.

b. issue of an exposure draft inviting comment from interested parties.

c. consultation with stakeholders.

d. comprehensive research of the relevant issue.

*Correct answer: a*

*Learning Objective 1.7 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. AASB accounting standards are legally enforceable in Australia under the:

a. *Trade Practices Act 1974*.

b. *Income Tax Assessment Act 2007*.

\*c. *Corporations Act 2001*.

d. Australian Securities and Investments Commission.

*Correct answer: c*

*Learning Objective 1.7 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. Which statement about the AASB *Conceptual* *Framework* is *not* true?

a. It establishes the objectives of the financial statements.

b. It sets out the fundamental and enhancing qualitative characteristics of financial reports.

\*c. It applies to all entities producing special purpose financial statements.

d. It defines the elements of the financial statements.

*Correct answer: c*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Under the *Conceptual* *Framework* the four enhancing qualitative characteristics for general purpose financial statements are:

a. reliability, timeliness, conservatism and understandability.

b. timeliness, comparability, uniqueness and reliability.

\*c. timeliness, understandability, verifiability and comparability.

d. comparability, verifiability, timeliness and competition.

*Correct answer: c*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Which of these entities is *least* likely to have users dependent on general purpose financial statements?

a. An international company operating in the Asia-Pacific region.

b. A company with a large number of shareholders.

c. A company listed on the stock exchange.

\*d. A small company whose shareholders also run the business.

*Correct answer: d*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Which of the following is *not* a cost associated with providing financial information?
2. Collecting.
3. Processing.

\*c. Reviewing.

d. Disseminating.

*Correct answer: c*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. ‘A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits’ is the definition of:

a. an expense.

\*b. a liability.

c. equity.

d. an asset.

*Correct answer: b*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. ‘Resources controlled by the entity as a result of past transactions or events and from which future economic benefits are expected to flow to the entity’ is the definition of:

a. expenses.

\*b. assets.

c. liabilities.

d. equity.

*Correct answer: b*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Which of these is an asset?

\*a. Investments.

b. Employee benefits payable.

c. General reserve.

d. Interest earned on investments.

*Correct answer: a*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Which of the following is an example of a liability?

a. Allowance for doubtful debts.

\*b. Revenue received in advance.

c. Prepayments.

d. Accumulated depreciation.

*Correct answer: b*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. ‘Decreases in economic benefits in the form of outflows or depletions of assets or incurrences of liabilities that result in a decrease in equity, other than those relating to distributions to equity participants’ is the definition of:

a. liabilities.

b. assets.

\*c. expenses.

d. equity.

*Correct answer: c*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Special purpose financial reports provide information for which group(s)?

|  |  |  |
| --- | --- | --- |
|  | Internal users | External users |
| I | Yes | Yes |
| II | No | No |
| III | No | Yes |
| IV | Yes | No |

a. I

b. II

c. III

\*d. IV

*Correct answer: d*

*Learning Objective 1.8 ~: Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Preparing financial statements for external users costs large entities:

a. nothing, as all charges are reimbursed by the government.

b. very little, as the statements are quite simple to prepare.

\*c. a significant amount.

d. varying amounts depending on the year in question.

*Correct answer: c*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Under the *Conceptual* *Framework*, the qualitative characteristic of relevance is described as information that:

\*a. is of value to users in decision making.

b. is material.

c. can be recorded in accounting reports.

d. can be reliably measured.

*Correct answer: a*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. The term ‘general purpose financial statements’ refers to the fact that the information conveyed is:

a. generally reliable.

b. useful for general purposes but not for making specific decisions.

\*c. potentially valuable for a number of users.

d. comparable over several accounting periods.

*Correct answer: c*

*Learning Objective 1.8 ~ Evaluate the role of the Conceptual Framework and illustrate the qualitative characteristics of financial statements*

1. Which of the following is *not* a limitation of accounting information?

a. The use of historical data to predict future events.

b. The time delay from when events take place and their reporting.

c. Its subjective nature.

\*d. Its objective nature.

*Correct answer: d*

*Learning Objective 1.9 ~ Give examples of the limitations of accounting information*

1. The time delay in Australia in providing the annual report of large companies to external users after the end of the financial year is:

a. often only two weeks.

b. always one month.

\*c. often up to three months.

d. nil.

*Correct answer: c*

*Learning Objective 1.9 ~ Give examples of the limitations of accounting information*

1. When making informed investment decisions, investors are:

a. only interested in the company’s financial situation.

b. mainly interested in the company’s share price.

c. only interested in how long the company has been operating profitably.

\*d. interested in the company’s financial situation and other relevant business factors.

*Correct answer: d*

*Learning Objective 1.9 ~ Give examples of the limitations of accounting information*

1. Subjectivity does *not* apply to the valuation of:

\*a. cash.

b. inventory.

d. net accounts receivable.

c. property, plant and equipment.

*Correct answer: a*

*Learning Objective 1.9 ~ Give examples of the limitations of accounting information*

1. Firms of accountants who work for many different clients are known as:

a. financial accountants.

b. private accountants.

c. company accountants.

\*d. public accountants.

*Correct answer: d*

*Learning Objective 1.10 ~ Provide examples of exciting opportunities for careers in accounting*

1. Which of the following has *not* been a traditional area of employment for accountants?

\*a. Forensic accounting.

b. Audit and assurance.

c. Financial accounting.

d. Tax accounting.

*Correct answer: a*

*Learning Objective 1.10 ~ Provide examples of exciting opportunities for careers in accounting*

1. The most senior accounting position in a corporation is generally referred to as the:

\*a. chief financial officer.

b. general director.

c. accounting manager.

d. auditor.

*Correct answer: a*

*Learning Objective 1.10 ~ Provide examples of exciting opportunities for careers in accounting*

1. Which of the following is *not* likely to be a growth area for the accountants of the future?

a. Sustainability accounting.

b. Forensic accounting.

\*c. Transaction processing.

d. E-Commerce.

*Correct answer: c*

*Learning Objective 1.10 ~ Provide examples of exciting opportunities for careers in accounting*

1. The type and nature of work performed by accountants that will be most valued in the future will be:

\*a. functions that cannot be automated or outsourced.

b. transaction processing.

c. financial report preparation.

d. auditing.

*Correct answer: a*

*Learning Objective 1.10 ~ Provide examples of exciting opportunities for careers in accounting*

**Fill the blanks**

1. The work of recording financial transactions is normally carried out by a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ not an accountant.

a. bookkeeper

*Learning Objective 1.1 Explain the process of accounting*

1. Accounting is the process of identifying, communicating, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ economic information for the purposes of decision-making.

a. measuring

*Learning Objective 1.1 Explain the process of accounting*

1. The accounting process within an organisation which includes costing, budgeting and planning is known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ accounting.

a. management

*Learning Objective 1.3 Explain the differences between financial accounting and management accounting*

1. A company’s financial statements include the Statement of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Income, the Statement of Financial Position and the Statement of Cash Flows.

a. Comprehensive

*Learning Objective 1.3 Explain the differences between financial accounting and management accounting*

1. A business plan can also be referred to as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

a. blueprint

*Learning Objective1.4 Explain the role of accounting information in the business planning process*

1. Accounting information provides \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with the tools necessary to evaluate the business plan.

a. management

*Learning Objective1.4 Explain the role of accounting information in the business planning process*

1. The global accounting standards that are being followed by more than 120 countries worldwide to prepare their financial statements are known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. International Financial Reporting Standards (IFRSs)

*Learning Objective 1.5 Discuss the globalisation of financial reporting*

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ *Act 2001* is the most important Act under the authority of the Australian Securities and Investments Commission.

a. Corporations

*Learning Objective 1.6 Identify the sources of company regulation in Australia*

1. Entities that issue securities that are quoted on a stock market or made available to the public via a prospectus are known as \_\_\_\_\_\_\_\_\_\_\_\_\_ entities.

a. disclosing

*Learning Objective 1.7 Explain the current standard-setting framework*

1. The Financial Reporting Council is responsible for overseeing the accounting and auditing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ process for all accounting sectors in Australia.

a. standard-setting

*Learning 1.7 Explain the current standard-setting framework*

1. Accounting reports that do not cater to the general needs common to most users are known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ purpose financial reports.

a. special

*Learning Objective 1.8 Evaluate the role of the Conceptual Framework*

1. The major constraint on the preparation of financial information is \_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

a. cost

*Learning Objective 1.8 Evaluate the role of the Conceptual Framework*

1. The financial reports that meet the information needs of a range of users unable to demand accounting information are called \_\_\_\_\_\_\_\_\_\_\_\_ purpose financial statements.

a. general

*Learning Objective 1.8 Evaluate the role of the Conceptual Framework*

1. \_\_\_\_\_\_\_\_\_\_\_\_ is the accounting element defined as ‘increases in economic benefits during the accounting period in the form of inflows or enhancements of assets, or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants’.

a. Income

*Learning Objective 1.8 Evaluate the role of the Conceptual Framework*

1. The information provided in financial statements is the result of past transactions and does not provide information.

a. forecast

*Learning Objective 1.9 ~ Limitations of accounting information*

1. Corporate \_\_\_\_\_\_\_\_\_\_\_\_\_\_ principles include appropriate auditing, board independence, corporate responsibility, financial transparency and information disclosure.

a. governance

*Learning Objective 1.9 Limitations of accounting information*

1. The area of accounting that helps to solve crimes such as computer hacking and the theft of large amounts of money through hoax schemes on the internet is referred to as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ accounting.

a. Forensic

*Learning Objective 1.10 Opportunities for careers in accounting*