

## Chapter 1– Financial Accounting, 3<sup>rd</sup> Edition by Dyckman, Magee & Pfeiffer

### Practice Quiz

Topic: Financial Accounting

LO: 1

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.

Topic: Accounting Equation & Business Activities

LO: 2

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

Topic: Accounting Equation

LO: 2

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.  $\text{Owner Financing} + \text{Creditor Financing} = \text{Investing}$

Topic: Financial Statement Linkages

LO: 3

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.

Topic: Accounting Regulation and Oversight

LO: 4

5. Which of the following established the Public Company Accounting Oversight Board (PCAOB)?
- FASB
  - AICPA
  - SOX
  - GAAP

Topic: Credit Risk Analysis

LO: 5

6. Below is information for Companies A, B, C, and D.

(in \$ millions)	Company A	Company B	Company C	Company D
Net income (loss), 12/31/11	22.3	157.6	83.7	200.8
Stockholders' Equity, 12/31/10	131.6	333.9	407.1	978.9
Stockholders' Equity, 12/31/11	175.8	446.7	338.9	967.8
Total liabilities, 12/31/11	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 2011?

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

Topic: Profitability Analysis

LO: 5

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

	Company A	Company B	Company C	Company D
Net income (loss), 12/31/11	22.3	157.6	83.7	200.8
Stockholders' Equity, 12/31/10	131.6	333.9	407.1	978.9
Stockholders' Equity, 12/31/11	175.8	446.7	338.9	967.8
Total liabilities, 12/31/11	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 2011?

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

Topic: Conceptual Framework

LO: 6

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

Topic: Financial Statements

LO: 3

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.

Topic: Financial Statements

LO: 3

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.