Financial Accounting 11th edition Pratt Test Bank

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Financial Accounting, 11th edition
Test Bank and Video Questions
By Pratt and Peters

Chapter 1: Financial Accounting and Its Economic Context

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Table of Contents

Multiple Choice Questions 2
Matching Questions 24
Short Answer Questions 28
Short Problem Questions 34
Short Essay Questions 36
Data Analytic Questions 41
Video Questions 42

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Multiple Choice Questions

1) A bank that loans money to a company is called:
A) a supplier.
B) a creditor.
C) an equity investor.
D) a shareholder.

Answer: B
Diff: Easy
Learning Objective: 1.1
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 1 / None

2) The auditors are charged with responsibility:
A) to detect financial fraud committed by employees during the course of their audit.
B) to conduct a thorough and independent audit.
C) to correct all errors in the financial statements.
D) for the accuracy and completeness of the financial statements.

Answer: B
Diff: Medium
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 2 / None

3) Which of the following best describes the difference between consumption and investment?
A) Consumption is long term while investment is short term.
B) Consumption typically involves larger dollar amounts than investment.
C) Consumption addresses immediate needs while investment addresses future needs.
D) Consumption involves more uncertainty than investment.

Answer: C
Diff: Medium
Learning Objective: 1.2
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 3 / None

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4) How business decisions affect the financial statements:
A) is the sole responsibility of the Securities and Exchange Commission.
B) is described in the auditor's report.
C) should be considered by management when making those decisions.
D) is unimportant to financial statement users.

Answer: C
Diff: Easy
Learning Objective: 1.1; 1.2; 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 4 / None

5) A statement that "the financial statements were prepared in accordance with generally accepted accounting principles" is normally found in the:
A) description of the business in the annual report.
B) quarterly financial statements (Form 10-Q) published by publicly-traded companies.
C) balance sheet.
D) auditor's report.

Answer: D
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 5 / None

6) A statement that financial statement information "is the responsibility of the company" issuing the statements is normally found in the:
A) footnotes to the financial statements.
B) loan contracts entered into by the company.
C) management letter.
D) board of directors' report.

Answer: C
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 6 / None

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7) CPA is an abbreviation for:
A) Certified Public Accountant.
B) Certified Production Accountant.
C) Consumer Protection Agency.
D) Certified Permissible Accounting.

Answer: A
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 7 / None

8) An explanation about the assumptions, estimates, and choices of alternative accounting methods used in the financial statements is found in the:
A) footnotes to the balance sheet.
B) auditor's report.
C) statement of shareholders' equity.
D) president's letter to the shareholders.

Answer: A
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 8 / None

9) Which of the following best describes assets paid to owners of a company based on the profits earned by the company?
A) Payables
B) Compensation contracts
C) Dividends
D) Interest

Answer: C
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 9 / None

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10) All of the following would likely be part of a loan contract except:
A) maturity date.
B) a statement that equity holders have higher priority than debt holders to the company's assets in liquidation.
C) collateral.
D) interest terms.

Answer: B
Diff: Easy
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 10 / None

11) A Certified Public Accountant:
A) reviews every transaction that a company conducts during any given year.
B) performs a company's audit.
C) is one of the investors of a company.
D) is responsible for the preparation and integrity of a company's financial statements.

Answer: B
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 11 / None

12) An internal control system:
A) is maintained to ensure that transactions of a company are properly recorded and reported and the assets are safeguarded.
B) is included in the set of footnotes to the financial statements.
C) is an estimate of the profits a company expects to earn in the future.
D) measures how much control management has over its staff.

Answer: A
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 12 / None

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13) Footnotes to financial statements:
A) more fully explain certain items in the financial statements.
B) reflect financial notes personalized by the company's executive team.
C) show the detail of the company's executive officers' compensation packages.
D) are relatively unimportant compared to the actual financial statements.

Answer: A
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 13 / None

14) The balance sheet communicates:
A) a company's level of profitability.
B) a measure of the company's financial performance over a period of time.
C) assets, liabilities, and shareholders' equity as of a certain date.
D) the cash effects of the company's operating, investing, and financing activities.

Answer: C
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 14 / None

15) The income statement communicates:
A) assets, liabilities, and shareholders' equity as of a certain date.
B) how much cash the owner received during a period of time.
C) information about dividends the company paid to its owners.
D) revenues less expenses during a period of time.

Answer: D
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 15 / None

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16) Where would you find information on the amount of net income for the year?
A) Factory production reports on units produced
B) Auditor's report
C) Income statement
D) Balance sheet

Answer: C
Diff: Easy
Learning Objective: 1.3
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 16 / None

17) The statement of cash flows communicates:
A) assets, liabilities, and owners' equity at a point of time.
B) the cash effects of a company's operating, investing, and financing activities.
C) the beginning cash balance plus income less dividends.
D) how much cash the company owes its employees as a given date.

Answer: B
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 17 / None

18) The retained earnings section of the statement of shareholders' equity communicates:
A) the dollar amount of a period's earnings not paid out in the form of dividends.
B) the change in assets less liabilities during a period of time.
C) how much cash that management has paid for bonuses.
D) the cash effects of the company's operating, investing, and financing activities.

Answer: A
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 18 / None

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19) If an investor wants to find the amount of cash and land that a company has at a given point in time, where will the investor look?
A) Statement of shareholders' equity
B) Income statement
C) Balance sheet
D) Statement of cash flows

Answer: C
Diff: Easy
Learning Objective: 1.3
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 19 / None

20) Dividends declared for the owners are found in the:
A) management letter.
B) income statement.
C) dividends statement.
D) statement of shareholders' equity.

Answer: D
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 20 / None

21) Cash received by a company from its normal operating activities during the year is found in its:
A) balance sheet.
B) statement of cash flows.
C) statement of shareholders' equity.
D) auditor's report.

Answer: B
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 21 / None

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22) A company's profits during its most recent year are found in its:
A) balance sheet and income statement.
B) statement of cash flows only.
C) statement of shareholders' equity only.
D) income statement and statement of shareholders' equity.

Answer: D
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 22 / None

23) The cash paid during the year to satisfy a company's debt is found in:
A) the financing section of the statement of cash flows.
B) income statement.
C) statement of shareholders' equity.
D) the investing section of the statement of cash flows.

Answer: A
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 23 / None

24) The amount which a company's customers owe the company for products delivered or services rendered is found in the:
A) footnotes only.
B) income statement.
C) balance sheet.
D) statement of cash flows.

Answer: C
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 24 / None

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25) Solvency may be described as:
A) an amount owed that must be paid in the future.
B) amounts that can be distributed to owners.
C) the amount invested in the firm by its owners.
D) the ability to generate enough cash to pay its debt as the debts become due.

Answer: D
Diff: Easy
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 25 / None

26) Retained earnings may be described as:
A) the total past profits retained in the business.
B) a company's future growth.
C) the amount invested in the firm by its creditors.
D) amounts retained for payments to vendors.

Answer: A
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 26 / None

27) All of the following might be found in the auditor's report except:
A) A statement about conformity with GAAP.
B) A statement about the fair presentation of the financial conditions and operations of the audited company.
C) A statement about the effectiveness of the company's internal control system.
D) A statement about the function of the company's board of directors.

Answer: D
Diff: Medium
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 27 / None

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28) Where would you most likely find a detailed explanation about estimates used in the financial statements of a company?
A) Management letter
B) Financial footnotes
C) Debt restrictions
D) Debt contracts

Answer: B
Diff: Easy
Learning Objective: 1.3
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 28 / None

29) To run a company effectively, which one of the following might be a source from which management might acquire capital?
A) Customers
B) FASB
C) Debt and equity investors
D) Auditors

Answer: C
Diff: Easy
Learning Objective: 1.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 29 / None

30) Liabilities may be described as:
A) dollar amounts generated from providing services and selling products.
B) the dollar amounts owed that must be paid in the future.
C) the total measured past growth of a firm less the amount distributed to the owners.
D) dollar amounts the company paid during the past year.

Answer: B
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 30 / None

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31) Public stock exchanges:
A) are operated by managers of a company.
B) are markets that sell annual reports.
C) provide a forum for buying and selling of equity interests in other companies.
D) exist in the U.S. but not in other countries.

Answer: C
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 31 / None

32) An equity investor is:
A) a person who provides money to a company with the expectation that it will be paid back with interest.
B) a creditor that has a regular trade relationship.
C) a person who provides money to a company as a gift with a stipulation that it will be used as agreed.
D) a person who provides money to a company and in exchange receives a right to future profits and a right to oversee management's decisions.

Answer: D
Diff: Medium
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 32 / None

33) A debt investor is:
A) a person who provides money to a company with the expectation that it will be paid back with interest.
B) a person who provides money to a company and expects periodic cash payments based on the profits reported by the company.
C) a person who provides money to a company as a gift with a stipulation that it will be used as agreed.
D) often referred to as a stockholder.

Answer: A
Diff: Medium
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 33 / None

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34) The board of directors:
A) provides money to a company with the expectation that it will be paid back with interest.
B) oversees management's decisions and establishes overall company policies.
C) is responsible for the future profits of a company.
D) is in charge of accounting and human resources on a daily basis.

Answer: B
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 34 / None

35) As a potential short-term creditor, you are interested in a company's ability to pay loan interest and principal as they come due in the near future. Which of the following would be of the greatest interest to you in your analysis?
A) Statement of shareholders' equity
B) Income statement
C) Statement of cash flows
D) Management letter

Answer: C
Diff: Easy
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 35 / None

36) Which one of the following is an equity investor?
A) A supplier of inventory waiting for payment
B) A person who purchases common stock of a corporation
C) A bank that loans money to a firm
D) A person who has a savings account in a bank

Answer: B
Diff: Medium
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 36 / None

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37) Debt investments:
A) require payments to the shareholders for periodic dividends.
B) are found on a company's income statement.
C) may be secured with collateral.
D) return payments at the discretion of the board of directors.

Answer: C
Diff: Easy
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 37 / None

38) Annual reports of public companies:
A) are published once per year.
B) include financial statements adjusted for inflation.
C) are also known as Form 10-Q.
D) are published by companies 4 times per year.

Answer: A
Diff: Easy
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 38 / None

39) Equity investments are bought and sold:
A) in the debt market.
B) in stock exchanges such as the NASDAQ.
C) by a company's independent auditors.
D) from and to the SEC.

Answer: B
Diff: Easy
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 39 / None

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40) Shareholders:
A) and employees are interchangeable terms.
B) have rights that are similar to those of creditors.
C) have higher priority than debtholders in case of liquidation.
D) have rights to profits but have lower priority than debtholders in case of liquidation.

Answer: D
Diff: Easy
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 40 / None

41) Which of the following statements is true?
A) Dividend payments are determined by management.
B) Dividend payments are specified by a contract.
C) Dividend payments are based on company collateral.
D) Dividend payments are paid at the board of director's discretion.

Answer: D
Diff: Medium
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 41 / None

42) Which of the following is a measure of past profits that have not been paid out in the form of dividends?
A) Liabilities
B) Common stock
C) Retained earnings
D) Assets

Answer: C
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 42 / None

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43) Ownership of an equity security entitles the holder to which basic right?
A) The right to manage outstanding loans.
B) The right to pay dividends.
C) The right to vote for company directors at the annual shareholders' meeting.
D) The right to certify financial report reviews.

Answer: C
Diff: Medium
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 43 / None

44) Which of the following is a public exchange for equity and debt securities?
A) The Federal Trade Commission
B) The New York Stock Exchange
C) The Securities and Exchange Commission
D) The Financial Accounting Standards Board

Answer: B
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 44 / None

45) Who prepares financial reports for a particular company?
A) The Securities and Exchange Commission
B) The Board of Directors
C) The company's management
D) The company's auditors

Answer: C
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 45 / None

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46) As used in accounting, SEC is an abbreviation for:
A) Securities and Exchange Commission.
B) Security Ethics Commissioners.
C) Shareholders' Equity Commission.
D) Southeastern Conference.

Answer: A
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 46 / None

47) The independence of the auditor should be subject to question if the:
A) auditor is hired for more than one year.
B) auditor is considered an expert in the company's industry.
C) audit firm also audits some of the company's competitors.
D) auditor is paid 1% of the company's profits for the audit services provided.

Answer: D
Diff: Medium
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 47 / None

48) Which of the following statements is true?
A) Shopping for favorable audit opinions is permitted by the SEC.
B) No formal reporting of auditor switches is required by the SEC.
C) The audit committee works with management to choose an auditor, and monitors the audit to ensure that it is thorough, objective, and independent.
D) Since management constructs the financial statements, auditors have no legal liability to those who rely upon these reports.

Answer: C
Diff: Medium
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 48 / None

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49) The advantage to the user of financial accounting statements that are audited by independent certified public accountants is assurance that the:
A) statements are produced in accordance with generally accepted accounting principles.
B) company will be solvent into the foreseeable future.
C) company will remain profitable into the foreseeable future.
D) company pays its fair share of income taxes.

Answer: A
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 49 / None

50) GAAP is an acronym for:
A) General Asset Accounting Procedures.
B) Government Agency Accounting Procedures.
C) Generally Accepted Accounting Principles.
D) Global Asset Accounting Principles.

Answer: C
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 50 / None

51) Generally accepted accounting principles are determined by:
A) annual voting by all certified public accountants.
B) a privately financed body known as the FASB.
C) the SEC.
D) a congressional committee that passes laws governing accounting practice.

Answer: B
Diff: Medium
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 51 / None

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52) When management goes beyond ethical boundaries in its attempt to make financial statements appear attractive, management:
A) should be commended for its creativity.
B) will not need an annual audit.
C) should pay its employees larger bonuses.
D) is perpetrating fraud or possible criminal activity.

Answer: D
Diff: Easy
Learning Objective: 1.5
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 52 / None

53) Select the name that doesn't fit with the others on the list.
A) pwc
B) Sarbanes-Oxley
C) Deloitte
D) KPMG

Answer: B
Diff: Easy
Learning Objective: 1.5
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 53 / None

54) What encourages management to refrain from pressuring auditors too strongly?
A) The audit committee of the Board of Directors
B) Debt covenants
C) Management compensation packages
D) The company's stock price

Answer: A
Diff: Easy
Learning Objective: 1.5
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 54 / None

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55) All of the following are functions of the board of directors except:
A) attending quarterly meetings.
B) conducting performance review for executive management.
C) declaring dividends.
D) firing staff personnel.

Answer: D
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 55 / None

56) Which of the following is most likely to be a by-product of ethical business practices?
A) More lawsuits against the company
B) Lower profits in the long term
C) Lower audit fees
D) Lower public trust

Answer: C
Diff: Easy
Learning Objective: 1.5
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 56 / None

57) Which of the following factors is most likely to encourage managers and auditors to act professionally?
A) The benefits from a highly professional reputation
B) A complicated tax code
C) Lower levels of legal liability
D) Lower ethical standards

Answer: A
Diff: Easy
Learning Objective: 1.5
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 57 / None

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58) Which of the following groups make up a company's audit committee?
A) Auditors
B) Outside directors from the Board
C) Company officers
D) All of the individuals in A, B, and C are included in the audit committee.

Answer: B
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 58 / None

59) Which of the following groups enacted the Sarbanes Oxley Act?
A) FASB
B) AICPA
C) U.S. Congress
D) PCAOB

Answer: C
Diff: Easy
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 59 / None

60) Generally accepted accounting principles:
A) are laws created and enacted by Congress.
B) define the standards for internal management reporting.
C) increase the level of credibility in financial statements.
D) are created by the American Institute of Certified Public Accountants.

Answer: C
Diff: Easy
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 60 / None

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61) Financial accounting practices and standards used in other countries:
A) are the same as the practices used by United States companies.
B) are typically more costly to implement than U.S. GAAP.
C) require more disclosure than those used by United States companies.
D) normally require balance sheets, income statements and statements of cash flows.

Answer: D
Diff: Easy
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 61 / None

62) International Financial Reporting Standards (IFRS) are recognized as acceptable by major stock exchanges throughout the world **except** in:
A) England.
B) Japan.
C) the United States.
D) All of the above accept IFRS under certain circumstances.

Answer: D
Diff: Easy
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 62 / None

63) International Financial Reporting Standards (IFRS) are established by:
A) the United Nations.
B) the World Bank.
C) the Big Four accounting firms.
D) the IASB.

Answer: D
Diff: Easy
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 63 / None

Financial Accounting 11th edition Pratt Test Bank

64) Which one of the following is true concerning the International Accounting Standards Board?
A) It is the international accounting standards setting body that attempts to bring greater uniformity to worldwide accounting practices.
B) It approves all financial statements before they are distributed to users.
C) It consistently disagrees with the FASB on its rulemaking.
D) It requires both national and international companies around the world to apply the same accounting principles.

Answer: A
Diff: Medium
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 64 / None

65) Which of the following is a true statement?
A) The SEC requires all companies to use IAS.
B) There are no substantive differences between U.S. GAAP and IFRS.
C) The SEC prohibits U.S. stock exchanges from listing non-U.S. companies who follow IFRS.
D) All public companies in the European Union are required to report using IFRS and IAS.

Answer: D
Diff: Medium
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 65 / None

66) Which one of the following statements is true?
A) Financial accounting is the only accounting system used in the United States.
B) Wal-Mart's financial reports are based on the same system used by not-for-profit entities.
C) Managerial accounting provides information designed to help managers make better decisions.
D) Financial accounting standards and tax accounting rules are virtually the same.

Answer: C
Diff: Easy
Learning Objective: 1.1A
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Multiple Choice Question 66 / None

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Matching Questions

67) Match the 5 financial statement user groups listed below (A-E) with the 5 goals (1-5) that follow.

Users
A bankers
B equity investors
C government agencies
D customers
E managers

_____ 1. Purchase ownership securities in a company that earn returns higher than fixed income instruments
_____ 2. Accurately predict future cash flows necessary for repayment
_____ 3. Determine how much tax a company must pay
_____ 4. Purchase the best product possible for the money
_____ 5. Achieve a high level of compensation

Answer:
1. B
2. A
3. C
4. D
5. E

Diff: Easy
Learning Objective: 1.1; 1.2; 1.4
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Matching Question 1 / None

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68) For each description listed in items 1 through 4 below, select the letter of the accounting term (A through F) it best describes. You may use each letter more than once.

Accounting Terms
A Asset
B Liability
C Retained earnings
D Revenues
E Expenses
F Shareholders' equity

_____ 1. Total past earnings less the amount distributed to owners
_____ 2. A measure of assets generated (or liabilities extinguished) from the product and services sold
_____ 3. Dollar amount owed at a given point in time and must be paid in the future
_____ 4. Total assets less total liabilities

Answer:
1. C
2. D
3. B
4. F
Diff: Easy
Learning Objective: 1.3; 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Matching Question 2 / None

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69) Identify which accounting document(s) listed in A through D contain the information described in the items 1 through 5 below. You may use each letter more than once or not at all. Some items may require more than one answer.

Accounting Documents
A Auditor's report
B Management letter
C Financial statements
D Footnotes

_____ 1. Represents that the financial statements are stated fairly, in all material respects
_____ 2. Indicates that financial statements were prepared in conformity with GAAP
_____ 3. Contains assets, liabilities, and equity, as well as income from operations
_____ 4. Explains certain items on the balance sheet
_____ 5. An acceptance of responsibility for the financial information provided

Answer:
1. A
2. A, B, D
3. C
4. D
5. B
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Matching Question 3 / None

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70) For each financial statement listed in 1 through 4 below, place the letter (A through D) of the best description in the space provided. You may use each letter more than once or not at all.

Descriptions
A Assets, liabilities, and shareholders' equity
B Increased by net income and decreased by dividends
C Operating, investing, and financing activities
D Revenues less expenses

_____ 1. Balance sheet
_____ 2. Income statement
_____ 3. The retained earnings section of the statement of shareholders' equity
_____ 4. Statement of cash flows

Answer:
1. A
2. D
3. B
4. C
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Matching Question 4 / None

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Short Answer Questions

71) What independent party attests that the balance sheet and income statement present fairly the financial position of the company?

Answer: auditor
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 1 / None

72) Who assesses whether the financial statements fairly represent the financial position and results of operations?

Answer: independent auditor
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 2 / None

73) Where would you most likely find statements revealing the assumptions, estimates, and choices of alternative accounting methods used in the financial statements?

Answer: footnotes to the financial statements
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 3 / None

74) Which financial statement would you review to determine the amount of cash a company received from an issue of capital stock during the year?

Answer: statement of cash flows
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 4 / None

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75) Which financial statement would you review to determine a company's interest expense?

Answer: income statement
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 5 / None

76) Identify the financial statement in which revenues less expenses are reported.

Answer: income statement
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 6 / None

77) What financial statement communicates profits retained and distributions to shareholders?

Answer: statement of shareholders' equity
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 7 / None

78) What financial statement communicates cash flows from operating activities?

Answer: statement of cash flows
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 8 / None

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79) What financial statement lists and measures assets, liabilities, and shareholders' equity at a certain date?

Answer: balance sheet
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 9 / None

80) What financial statement shows where the cash came from and where it went?

Answer: statement of cash flows
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 10 / None

81) Identify which financial statement you would review to determine the amount of cash a company paid to retire its debt.

Answer: statement of cash flows
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 11 / None

82) Which source would you review to determine that the financial statements are fairly stated in accordance with GAAP?

Answer: auditor's report
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 12 / None

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83) Which financial statement would you review to determine if a company's operating cash flow is sufficient to pay day-to-day obligations?

Answer: statement of cash flows
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 13 / None

84) Which financial statement would best help you understand the increases and decreases in cash over a period of time?

Answer: statement of cash flows
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 14 / None

85) What financial statement would you review to determine if a company's payroll expense exceeds $1,000,000?

Answer: income statement
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 15 / None

86) Which financial statement would you review to determine profits as a percent of revenues?

Answer: income statement
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 16 / None

Financial Accounting 11th edition Pratt Test Bank

87) Which financial statement would you review to determine whether dividends were paid during the year?

Answer: statement of cash flow
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 17 / None

88) Which financial statement would you review to determine a company's liabilities as a percent of its total assets?

Answer: balance sheet
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 18 / None

89) On which financial statement(s) would you find the accumulation of total profits and losses less distributions to owners since the company began operations? What is the name of this amount?

Answer: balance sheet and statement of shareholders' equity; retained earnings
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 19 / None

90) List the names of the financial statements that appear in an annual report.

Answer: balance sheet, income statement, statement of cash flows, statement of shareholders' equity
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 20 / None

Financial Accounting 11th edition Pratt Test Bank

91) What accounting name is given to one who provides money to a company with the expectation that it will be paid back with interest?

Answer: debt investor, creditor or lender
Diff: Easy
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 21 / None

92) What is the name of a person who provides money to a company and in return receives a right to the company's profits and the right to oversee management's decisions?

Answer: equity investor or shareholder
Diff: Easy
Learning Objective: 1.4
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Answer Question 22 / None

93) Identify the responsibilities of the board of directors.

Answer: Sets company policies; declares dividends; sets management compensation; hires and fires management; appoints the audit committee
Diff: Easy
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Answer Question 23 / None

Financial Accounting 11th edition Pratt Test Bank

Short Problem Questions

94) Bricklin Company has $700 in its checking account. A customer owes Bricklin $1,100. The company has store equipment that cost $1,600 and a truck that cost $5,200. Bricklin Company owes the bank $3,600 on the truck loan of which one payment of $900 is due in one week and owes $4,200 to creditors for its monthly operating expenses, including rent, all of which is due in the next 30 days.
A. List Bricklin Company's assets and the dollar amount of each.
B. List Bricklin Company's liabilities and the dollar amount of each.
C. Is Bricklin Company solvent? Explain.

Answer:
A.

ASSETS	
Cash	$ 700
Accounts receivable	1,100
Truck	5,200
Store equipment	1,600
Total	$8,600

B.

LIABILITIES	
Note payable (truck loan)	$3,600
Accounts payable	4,200
Total	$7,800

C. Solvency is the ability of a company to generate cash in order to meet its debts as they come due. While Bricklin Company's assets exceed its liabilities by $800, the company may not be solvent. A truck payment of $900 is due in one week, and the creditors expect payments of $4,200 within 30 days. There is only $700 in cash readily available and Bricklin cannot be sure when (or even if) the customer will pay the $1,100 amount owed. Bricklin Company appears to have a cash flow problem.
Diff: Medium
Learning Objective: 1.3
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 7 min.
Title/Media Ref.: Short Problem 1 / None

Financial Accounting 11th edition Pratt Test Bank

95) Sonnan Company showed profits for the last two years totaling $120,000 and $260,000, respectively. Sonnan Company paid a total of $90,000 to its owners over the two-year period.
A. How much remains in Sonnan Company as retained earnings at the end of the second year of business?
B. Briefly explain the concept of 'earning power' as it pertains to Sonnan Company.

Answer:
A.

Total profits ($120,000 + $260,000)	$380,000
Distributions to owners	(90,000)
	$290,000

B. Earning power is the ability to create profits in the future. Sonnan Company has demonstrated earning power by generating $380,000 in profits over the last two years. The board of directors has also chosen to distribute some of those profits to the equity investors, suggesting that the board believes that the company has enough capital to continue to create profits in the future.
Diff: Medium
Learning Objective: 1.3
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Short Problem 2 / None

96) Matura, Inc. reported the following activities for the year:
- Borrowed $350,000 from the bank to be repaid in 5 years
- Issued stock to investors for $40,000 cash
- Paid dividends to shareholders totaling $10,000
- Purchased equipment by promising to pay $150,000 to a creditor over the next 3 years

A. Identify which activities involve debt financing.
B. Identify which activities involve equity investments.

Answer:
A. Debt financing: Borrowed $350,000 from the bank to be repaid in 5 years
Promising to pay $150,000 to a creditor over the next 3 years
B. Equity investments: Issued stock to investors for $40,000 cash
Diff: Medium
Learning Objective: 1.4
Bloom's: Analysis
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Short Problem 3 / None

Financial Accounting 11th edition Pratt Test Bank

Short Essay Questions

97) Veronica Ingram is the CEO of a small corporation whose stock is traded on a public stock exchange. She has been concerned with the high cost of producing and distributing annual financial statements. She has proposed that the corporation stop producing these financial reports which would save the company $240,000 annually. Briefly explain to Ms. Ingram why her proposal cannot be adopted.

Answer: Although the $240,000 savings is significant, failure to comply with the Securities Exchange Act of 1934 is a violation of regulatory practices for publicly held companies. This Act requires companies with equity securities that are listed on public security markets to (1) annually file a Form 10-K (audited financial reports), (2) quarterly 10-Qs (unaudited quarterly financial statements) and (3) annually provide audited financial reports to the shareholders. Violations lead to being barred from public trading.
Diff: Medium
Learning Objective: 1.6
Bloom's: Application
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Short Essay Question 1 / None

98) Why must managers understand financial reporting?

Answer: Managers often use financial statements to assess the financial condition and performance of their own company, its competitors, and other companies of which investments in stocks and bonds of other companies might be undertaken. Managers must understand how business decisions affect the financial statements and how capital providers and other outsiders use financial statements to evaluate and control their actions.
Diff: Medium
Learning Objective: 1.1
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 2 / None

Financial Accounting 11th edition Pratt Test Bank

99) What are the two fundamental economic reasons why investors and creditors demand financial accounting information?

Answer: Both investors and creditors need financial accounting information to guide their investment decisions — equity investors invest in equity (ownership) securities and debt investors (creditors) lend money to companies. The success of these investments is determined by the financial performance of the companies which is measured by the financial statements. Both groups also need financial accounting information to help monitor and control the decisions of management — equity investors do so by creating compensation packages that reward management on the basis goals expressed in terms of financial statement numbers; and creditors do so by writing debt contracts that express limitations on management decisions in terms of financial accounting numbers.
Diff: Medium
Learning Objective: 1.5
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 3 / None

100) What information is provided in a management letter? Who signs it?

Answer: The CEO and CFO provide a management letter that acknowledges responsibility for the financial information provided in the financial statements and notes.
Diff: Medium
Learning Objective: 1.2
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 4 / None

101) Describe the two components of the income statement.

Answer: The two components of the income statement are revenues and expenses, the difference of which represents net income or loss for a period of time. Revenues are a measure of the assets generated, or liabilities extinguished, from products sold and services provided. Expenses are a measure of the asset outflows (or liabilities created) associated with products sold and providing the services.
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 5 / None

Financial Accounting 11th edition Pratt Test Bank

102) Describe the three components of the statement of cash flows.

Answer: The three components of the statement of cash flows are operating, investing, and financing activities. Operating activities are associated with the actual products and services provided by a company. Investing activities include the purchase and sale of assets, such as equipment and land. Financing activities refer to the collections and payments related to a company's debt and equity capital resources, such as cash borrowings, loan payments, cash from owners, and payment of dividends to owners.
Diff: Easy
Learning Objective: 1.3
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 4 min.
Title/Media Ref.: Short Essay Question 6 / None

103) What is the role of the Securities and Exchange Commission?

Answer: The Securities and Exchange Commission is an agency of the federal government that was commissioned to implement and enforce the Securities Act of 1933 and the Securities Exchange Act of 1934 as well as the Sarbanes-Oxley Act of 2002.
Diff: Easy
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 1 min.
Title/Media Ref.: Short Essay Question 7 / None

104) Why might corporate management want to lobby the FASB?

Answer: Corporate management and other interested parties wish to influence generally accepted accounting principles (GAAP). Financial statements, which reflect management's performance, are prepared by management using GAAP, so management is very concerned that the required accounting principles accurately measure the financial effects of transactions engaged in by the company. Management also wishes to ensure that the accounting principles used to prepare the financial statements reflect the company's financial performance and condition as positively as possible.
Diff: Medium
Learning Objective: 1.6
Bloom's: Application
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 2 min.
Title/Media Ref.: Short Essay Question 8 / None

Financial Accounting 11th edition Pratt Test Bank

105) The Sarbanes-Oxley Act was passed in response to a series of financial and accounting scandals. The purpose of the Act was to bolster corporate governance and restore confidence in the financial reporting system. Describe one of the new things that the management of a U.S. public corporation is required to do under this act.

Answer:
- certify that the financial statements have been reviewed by the CEO and CFO, or
- file an annual report on internal controls over financial reporting, or
- additional responsibilities to ensure that adequate internal controls are in place, or
- provide reasonable assurance that financial records are complete and accurate.

Diff: Medium
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 4 min.
Title/Media Ref.: Short Essay Question 9 / None

106) Frank Smithson, chief operating officer for Star Master Corporation, has discovered that two separate and distinct sets of financial statements are being provided–one to the Internal Revenue Service and the other to its shareholders. He objected to this policy and is insisting that one set of financial statements be provided to all interested parties. Provide examples of the needs of the two parties.

Answer: Although one might initially react favorably to Frank's proposal of one set of financial statements for all users, it would be impossible. Various rules for determining income and financial position are specified by each user. These rules reflect different uses of accounting information. The IRS raises money to support government operations and has codified rules designed to accomplish this task. The public information provided to shareholders and other outside parties is governed by generally accepted accounting principles that are designed to provide the general users with information required for investment decisions.
Diff: Medium
Learning Objective: 1.1A
Bloom's: Application
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 4 min.
Title/Media Ref.: Short Essay Question 10 / None

Financial Accounting 11th edition Pratt Test Bank

107) What powers does the Securities and Exchange Commission have?

Answer: The Securities and Exchange Commission has the power to prescribe the accounting practices and standards to be employed by companies within its jurisdiction–public companies. However, the SEC has chosen to delegate the responsibility for establishing accounting practices and standards to the Financial Accounting Standards Board (FASB). The SEC is also responsible for ensuring that listed companies prepare and file registration statements before they issue new securities, and file periodic quarterly and annual reports.
Diff: Medium
Learning Objective: 1.6
Bloom's: Knowledge
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Short Essay Question 11 / None

108) What elements of the economic environment help to ensure that management acts in the interests of the owners and prepares financial statements in good faith?

Answer: The elements, often called corporate governance, include high-quality financial accounting standards, debt and compensation contracts, the board of directors, auditors and the audit committee, legal liability, management's ethical standards, and in general the capital market which determines the value of the company's equity and debt securities and often punishes companies with questionable integrity.
Diff: Medium
Learning Objective: 1.5
Bloom's: Comprehension
AACSB/AICPA: Analytic / BB: Critical Thinking; FN: Reporting
TOT: 3 min.
Title/Media Ref.: Short Essay Question 12 / None

Financial Accounting 11th edition Pratt Test Bank

Data Analytic Questions

Important Note to Instructor: All of the real world data included in the data analytic test bank questions was taken from the company information data base used for the data analytic concept practice exercises in the text located at **www.wiley.com/go/pratt/financialaccounting11e**. These questions can be used in at least two different ways to test two levels of data analytic skills. To test only the basic analysis required simply provide the student with the financial information followed by the questions just as they are illustrated in the test bank. Alternatively, to test both their ability to access and navigate the data base as well as their analysis skills, you can provide for the students only the questions and require them to access and navigate the data base, organize the data, and perform the analysis.

109) Income statements and balance sheets for 2016 – 2019 reported by Ethan Allen Interiors, furniture manufacturer, are provided below. Review the statements and answer the questions that follow.

Ethan Allen Interiors (in Millions)

	2019	**2018**	**2017**	**2016**
Sales	$747	$767	$763	$794
Cost of sales	337	351	344	352
Operating expenses	376	367	362	353
Interest expense	0	0	1	2
Income tax expense	8	13	21	31
Unusual Gains	-	-	-	(2)
Unusual Losses	21	1	1	-
Net income before Tax	34	49	57	88
Net Income after Tax	26	36	36	57
Cash and equivalents	$ 21	$ 22	$ 58	$ 53
Short-term investments	-	-	-	-
Accounts receivable	14	12	12	9
Inventory	162	163	149	162
Current assets	216	214	243	248
Non-current assets	294	316	325	329
Total assets	510	530	568	577
Accounts payable	$ 35	$ 19	$ 17	$ 15
Other Current Liabilities	87	102	109	108
Current liabilities	123	121	126	123
Non-current liabilities	24	25	41	62
Total Liabilities	146	147	167	185
Shareholders' Equity	364	384	401	392

Financial Accounting 11th edition Pratt Test Bank

Compute the rate of growth experienced by Ethan Allen for the following financial statement accounts for the following time periods:
a. Sales for 2017 – 2018
b. Sales for 2018 – 2019
c. Net income for 2017 – 2018
d. Net income for 2018 – 2019
e. Total assets for 2017 – 2018
f. Total assets for 2018 – 2019

Answer:
a. ($767 - $763) / $763 = .005
b. ($747 - $767) / $767 = - .026
c. ($36 - $36)/$36 = 0
d. ($26 - $36)/$36 = - .278
e. ($530 - $568) / $568 = - .067
f. ($510 - $530)/($530) = - .038
Diff: Medium
Learning Objective: 1.7
Bloom's: Application
AACSB/AICPA: Analytic / BB: None; FC: Measurement
TOT: 3 min.
Title/Media Ref.: Data Analytic Question 1 / None

Video Questions

110) Which of the following purchases would be considered investment instead of consumption?
A) Purchasing milk at the grocery store.
B) Purchasing an old automobile to fix up for subsequent sale.
C) Purchasing an automobile to drive until it dies.
D) Purchasing light bulbs to use at home.

Answer: B
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 1 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

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111) Which of the following purchases would be considered consumption instead of investment?
A) Purchasing a savings bond issued by the United States government.
B) Purchasing a ticket for a Mediterranean cruise.
C) Purchasing an ownership interest in new start-up company.
D) Purchasing a rare coin in hopes that its value would increase.

Answer: B
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 2 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

112) Which of the following would accurately describe whether the purchase of an automobile would be considered consumption or investment?
A) If you purchased it, and fixed it up just for your indefinite use; that would be considered investment.
B) If you purchased it, and gave it to your brother as a gift; that would be considered an investment.
C) If you purchased it, and hoped that it would appreciate in value for sale at a later date; that would be considered an investment.
D) If you purchased it, and used it exclusively in your for profit business activities; that would be considered consumption.

Answer: C
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 3 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

113) Which of the following is always true about investments?
A) Investments involve uncertainty about future outcomes.
B) Investment expenditures are larger than consumption expenditures.
C) Investments are limited to purchases of securities, like bonds and stocks.
D) Investments involve high levels of risk.

Answer: A
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 4 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

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114) A diversified portfolio of investments means that:
A) some of the investments are large and others are small.
B) most of the investments are low risk.
C) some of the investments are in the form of securities and others are in the form of real estate.
D) the investments that comprise the portfolio are balanced across a wide variety of risk levels, ranging from low to high.

Answer: D
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 5 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

115) Which of the following best describes the relationship between risk and return inherent in investments?
A) Investments that offer the potential for high return normally are also inherently riskier.
B) Investments that offer the potential for high returns are larger than investments than offer low returns.
C) There is little reason ever to make an investment that offers the potential for a low return.
D) The outcomes associated with investments that offer the potential for high return are normally more predictable than the outcomes associated with investments that offer the potential for low returns.

Answer: A
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 6 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

116) Which of the following investments would likely be the least risky?
A) Investing in rare objects, hoping that they will appreciate.
B) Investing in real estate.
C) Investing in a company to provide financial support for a seemingly innovative idea.
D) Investing in savings bond issued by the United States government.

Answer: D
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 7 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

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117) When researching investments, for which of the following would you most likely rely on financial statements?
A) Investing in rare art objects, hoping that they will appreciate.
B) Investing in real estate.
C) Investing in a company to provide financial support for a seemingly innovative idea.
D) Investing in savings bond issued by the United States government.

Answer: C
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 8 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

118) Which of the following best describes the nature of the information found in financial statements?
A) Information about the future prospects of the company.
B) Information about the industry in which the company operates.
C) Information about the past financial performance and current financial condition of the company.
D) Information about the new projects being planned by the company.

Answer: C
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 9 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

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119) Which of the following best describes why financial statements are useful?
A) Financial statements provide information indicating whether a company will be successful in the future.
B) Financial statements provide information about how well a company has performed to date as well as the strength of its current financial position.
C) Financial statements provide information about economic forecasts that is important in assessing the risk and return levels associated with a variety of investments.
D) Financial statements provide information useful in determining the expected returns of low-risk investments.

Answer: B
Diff: Easy
Learning Objective: 1.1; 1.2
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Why financial statements matter Video: Question 10 / Video: Why financial statements matter. www.wiley.com/go/pratt/financialaccounting11e

120) Which of the following is **not** a characteristic of debt?
A) Debtholders have preference over equity holders at liquidation.
B) The rights of debtholders are defined by the debt contract.
C) Debtholders have proportional rights to company profits.
D) Debtholders often write covenants into debt contracts that impose restrictions on management.

Answer: C
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 1 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

121) In which industry category below does Target Corporation reside?
A) Manufacturing
B) Retail
C) Internet
D) Services

Answer: B
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 2 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

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122) Which of the following is **not** a primary role of financial statements?
A) Financial statements provide information that is used by investors to assess the risks and returns offered by equity and debt investments.
B) Financial statements provide dollar values used in debt covenants designed to protect the interests of debt investors.
C) Financial statements provide dollar values used in management compensations contracts designed to encourage management to act in the interest of the company's owners.
D) Financial statements provide future predictions of a company's financial performance and prospects.

Answer: D
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Analysis
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 3 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

123) Which of the following would be true if a debt covenant contained a provision that the company must report positive net income or the debtholder would have the right to demand immediate payment of the outstanding debt?
A) This provision is example of how equity investors monitor and control management.
B) This provision is designed to protect the debt investor in case the company (borrower) falls into hard times.
C) This provision means that if the company (borrower) fails to report a profit, it will be forced into bankruptcy.
D) This provision would normally have to be approved by the auditor.

Answer: B
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 4 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

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124) Which of the following would **not** be true if a management compensation contract contained a provision that at the end of each year management would receive a bonus equal to 3% of the dollar amount by which reported net income exceeded 5% of shareholders' equity?
A) This provision indicates that if the company reports a profit management receives a bonus.
B) This provision is an example of how equity investors can use financial statement numbers to encourage management to act in their interests.
C) This provision is designed to ensure that management does not receive a bonus until reported net income is large enough to ensure a 5% return to the shareholders on their investment.
D) This provision would create an incentive for management to report a level of net income higher than it actually is.

Answer: A
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Analysis
AACSB/AICPA: Analytic / None
Title/Media Ref.: Environment of financial reporting Video: Question 5 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

125) Which of the following is **not** true about auditors and the opinions they render on the financial statements?
A) Auditors must be independent, meaning that they have no financial interest in the companies they audit.
B) Auditors are hired by government agencies to establish whether the financial statements fairly represent the financial performance and condition of the company.
C) Auditors render opinions on both the financial statements and the accounting systems that lead to the creation of the financial statements.
D) The audit opinion does not state whether the financial statements are accurate and correct, but rather comments on whether the financial statements have been prepared in accordance with generally accepted accounting standards.

Answer: B
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 6 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

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126) Which of the following is true about auditors and the opinions they render on the financial statements?
A) Auditors check all the transactions entered into by a company during the accounting period to ensure that they were recorded correctly.
B) Audit firms provide only audit services. For independence reasons they are not allowed to offer tax and/or advisory services.
C) The U.S. government requires that all U.S. companies receive annual audits.
D) Clean audit opinions rendered on financial statements are an important part of maintaining investor confidence regarding the usefulness of the statements.

Answer: D
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 7 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

127) Who pays the audit fees?
A) An industry association
B) A government body
C) Debt investors
D) Management

Answer: D
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 8 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

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128) Which of the following is **not** likely to happen if a set of financial statements, which recently received a clean audit opinion, was subsequently discovered to be seriously misstated?
A) The reputation of the audit firm would be damaged, discouraging other companies from hiring that audit firm in the future.
B) The perceived value of the audited company that issued the misstated financial statements would decrease, and the company's management and the audit firm may be subject to legal action for the loss in value.
C) The ethics of the company's management and the auditor may be seriously questioned.
D) The company's shareholders would likely be sued.

Answer: D
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 9 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

129) Which of the following lists best encompasses the environment surrounding the preparation and use of financial statements?
A) Capital providers, management, debt and management compensation contracts, independent auditors, reputation and ethics, and legal liability
B) Debt investors, debt contracts, audit opinions, litigation
C) Equity investors, compensation contracts, bonus agreements, attestation
D) Capital providers, industry groups, financial reporting standards, management and auditor reputation and ethics

Answer: A
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Environment of financial reporting Video: Question 10 / Video: Environment of financial reporting. www.wiley.com/go/pratt/financialaccounting11e

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130) Which of the following is **not** true about the concept of corporate governance?
A) Corporate governance is a mechanism designed to encourage management to act in the interest of the company's owners.
B) Corporate governance is designed to encourage management to report to the company's owners in good faith.
C) The quality of the corporate governance varies greatly across different companies.
D) The quality of a company's corporate governance is largely independent of the usefulness of its financial statements.

Answer: D
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Knowledge; Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 1 / Video: Corporate governance.
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131) Which of the following statements is true about corporate governance?
A) Corporate governance is enhanced by a capital market comprised of investors that punish companies when they are mismanaged.
B) The audit function has little influence over the quality of a company's corporate governance.
C) Management compensation contracts that reward management with bonuses for reporting high profits is rarely a threat to good corporate governance.
D) A board of directors comprised primarily of company management is a sign of strong corporate governance.

Answer: A
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 2 / Video: Corporate governance.
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132) What is the role of the board of directors?
A) The board of directors oversees and evaluates most management decisions.
B) The board of directors is elected by management to design a strategic plan for the company.
C) The board of directors is designed to encourage management to act in the interest of the company's owners and report to them in good faith.
D) The board of directors is normally quite active in developing a company's marketing and advertising campaigns.

Answer: C
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 3 / Video: Corporate governance.
www.wiley.com/go/pratt/financialaccounting11e

133) Which of the following is **not** true about a strong board of directors?
A) The board is comprised primarily of non-management directors.
B) The board members have financial interests in the major customers of the company.
C) The board of directors includes an audit committee, comprised of non-management directors, that oversees the conduct of the audit and the audit fees.
D) The board of directors includes a compensation committee, comprised of non-management directors, that establishes and executes the executive compensation packages.

Answer: B
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 4 / Video: Corporate governance.
www.wiley.com/go/pratt/financialaccounting11e

134) Which of the following would be an indicator of strong corporate governance?
A) A board of directors that meets once per year to assess the quality of a company's performance.
B) A board of directors that is run by a strong-minded chief executive officer (CEO).
C) A small company where the same individual both collects the cash payments from the customers and records the sales transactions in the company's records.
D) A set of financial statements that have received clean opinion from an independent audit firm.

Answer: D
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 5 / Video: Corporate governance.
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135) Financial reporting standards exist at three levels. Which of the following is **not** one of those levels?
A) Financial reporting standards, established by individual countries that regulate the financial reporting practices in those countries.
B) Generally accepted accounting principles, established in the United States that regulate the financial reporting practices in the U.S. capital markets.
C) Financial reporting standards established by metropolitan areas (i.e., cities) that regulate the financial reporting practices of companies that operate within those cities.
D) International financial reporting standards, established by an international board that regulates the financial reporting practices in a variety of non-U.S. capital markets.

Answer: C
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 6 / Video: Corporate governance.
www.wiley.com/go/pratt/financialaccounting11e

136) Which of the following best characterizes U.S. GAAP?
A) Financial reporting laws that must be followed by companies operating in the United States.
B) Financial reporting standards that must be followed by public U.S. companies with ownership shares traded on the U.S. security exchanges, like the New Stock Exchange and the NASDAQ.
C) Standards that provide guidance to auditors regarding how to conduct an audit of a publicly-traded U.S. company.
D) Financial reporting standards that rely very little on the judgment of company management when implementing them.

Answer: B
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 7 / Video: Corporate governance.
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137) Which of the following best characterizes IFRS?
A) IFRS represents a very extensive list of rules and laws that must strictly be followed by companies with equity shares traded on U.S. exchanges.
B) IFRS represents a set of financial reporting standards that are accepted by a wide variety of stock exchanges throughout the world.
C) IFRS represents a set of audit standard established to provide guidance to auditors when conducting audits in non-U.S. settings.
D) IFRS represents a set of laws that govern the computation of taxable income for companies that operate in the European Union.

Answer: B
Diff: Easy
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Knowledge
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 8 / Video: Corporate governance.
www.wiley.com/go/pratt/financialaccounting11e

138) Which of the following is **not** true about the differences between U.S. GAAP and IFRS?
A) U.S. GAAP is comprised of an extensive set of rules, while IFRS is based more on principles.
B) The implementation of IFRS relies more heavily on the judgments and estimates of management than does the implementation of U.S. GAAP.
C) IFRS provides more opportunities for management to value a company's assets and liabilities at their fair market value than does U.S. GAAP.
D) Companies, based in the U.S., meet the reporting requirements established by the Securities and Exchange Commission for publicly-traded companies if they provide audited financial statements consistent with IFRS.

Answer: D
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 9 / Video: Corporate governance.
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139) Novartis is a Swiss-based pharmaceutical company that prepares its financial statements under IFRS, while Merck is a U.S. based pharmaceutical company that prepares its financial statements under U.S. GAAP. Which of the following statements is **not** true?
A) Novartis meets the reporting standard requirement established by the Securities and Exchange Commission for trading its equity securities on the U.S. exchanges.
B) Merck meets the reporting standard requirement established by most non-U.S. exchanges for trading its equity securities on those exchanges.
C) The flexibility allowed to Novartis management when implementing its financial reporting standards likely exceeds that allowed to Merck management when implementing its financial reporting standards.
D) The fact that Novartis and Merck prepare their financial statements using different sets of standards likely does not raise any comparability problems for investors attempting to compare the financial performance and condition of the two companies.

Answer: D
Diff: Medium
Learning Objective: 1.3; 1.4; 1.5; 1.6
Bloom's: Comprehension
AACSB/AICPA: Knowledge / None
Title/Media Ref.: Corporate governance Video: Question 10 / Video: Corporate governance.
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