Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

SKU: 9781483375021-TEST-BANK

TRUE/FALSE

1. The use of research in accounting results in the field being referred to as an academic discipline.

   ANSWER: T

2. The scientific method refers to the formal procedures used to derive the laws and principles that govern scientific disciplines, such as physics and chemistry, and is therefore not used in the published research on accounting.

   ANSWER: F

3. An important segment of accounting theory is derived from the research process.

   ANSWER: T

4. Deductive reasoning analyzes empirical data to make inferences about a population.

   ANSWER: F

5. Hypotheses are conclusions derived from the research process.

   ANSWER: F

6. General deductive reasoning is extremely important in accounting theory and policy-making.

   ANSWER: T

7. Analytical/deductive research methods are commonly used in accounting research.

   ANSWER: F

8. Positive accounting research attempts to explain behavioral relationships in accounting.

   ANSWER: T

9. Positive accounting research attempts to describe “what is” and determine how things should be.

   ANSWER: F

10. Positive accounting research attempts to be value-free, while normative accounting research is value judgment oriented.

    ANSWER: T

11. Only a few examples of inductively derived theories are present in accounting literature.

    ANSWER: F

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

12. Normative theories contain at least one premise stating how things should be.

ANSWER: T

13. A premise stating that accounting reports should be based on historical costs would indicate a normative approach.

ANSWER: T

14. Inductive approaches to accounting theory usually attempt to be descriptive.

ANSWER: T

15. An important difference between deductive and inductive research is that inductive research is sometimes global in content, whereas deductive research is usually particularistic.

ANSWER: F

16. One of the purposes of positive research is to satisfy information demand by managers, auditors, creditors, and standard setters.

ANSWER: T

17. Because deductive research is grounded in real-world phenomena, it can realistically focus on only a small part of the relevant environment.

ANSWER: F

18. Deductive and inductive research are competing approaches and may not be used together.

ANSWER: F

19. Inductive research in accounting can help to shed light on relationships and phenomena existing in the business environment.

ANSWER: T

20. Inductive research can be useful in the accounting policy-making process in which deductive reasoning helps to determine rules that are to be prescribed.

ANSWER: T

21. To be useful, inductive research must be kept value-free.

ANSWER: F

22. The decision-model approach to accounting research is normative.

ANSWER: T

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

23. Accounting research of two generations ago was purely normative.

ANSWER: T

24. The decision-model approach to accounting research seeks to determine what information users of accounting information want.

ANSWER: F

25. The normative nature of the decision-model approach has led to criticism that this method is non-scientific.

ANSWER: T

26. Empirical research shows that prices of publicly traded securities react slowly and in an erratic manner to new information.

ANSWER: F

27. The efficient-markets hypothesis states that the return of a security is based on its risk.

ANSWER: T

28. Because of the efficient-markets hypothesis, the impetus for increased disclosure with less concern for choice among accounting alternatives has grown stronger.

ANSWER: T

29. Much of the accounting research in the behavioral area uses laboratory subjects in carefully controlled experimental situations.

ANSWER: T

30. An argument against using students as subjects in behavioral research experiments is that they are not representative of the broad population of accounting information users.

ANSWER: T

31. Agency theory studies are always inductive.

ANSWER: F

32. One hypothesis of agency theory is that management attempts to maximize its own welfare by minimizing the various agency costs arising from monitoring and contracting.

ANSWER: T

33. Agency theory holds that management always tries to maximize the value of the firm.

ANSWER: F

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

34. Information economics research is usually inductive in nature.

ANSWER: F

35. Information economics has relatively recently included agency theory assumptions in its analysis.

ANSWER: T

36. Critical accounting discourages active social roles for accountants.

ANSWER: F

37. Critical accounting research assumes a sharp separation between the researcher and his or her field of investigation.

ANSWER: F

38. Of the research methods discussed in the text, the critical accounting approach is the closest to the standard-setting function.

ANSWER: F

39. Currently accepted alternative depreciation methods illustrate that accounting is closer to an art than a science.

ANSWER: T

40. Because accounting is not very much concerned with the human element, we can expect it to be more precise in its measurement and predictions than are the natural sciences.

ANSWER: F

MULTIPLE CHOICE

1. Which of the following examines or tests data, usually from a sample of a population, to make inferences about the population?
   a. Deductive reasoning
   b. Inductive reasoning
   c. Subjective reasoning
   d. Objective reasoning

ANSWER: B

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

2. When the premises of a theory are constructed so that they can be tested by statistical inference, they are usually called:
   a. postulates.
   b. inferences.
   c. hypotheses.
   d. assumptions.

   ANSWER: C

3. Judging a theory by observing evidence rather than simply by its internal logic is called:
   a. subjective reasoning.
   b. inductive reasoning.
   c. deductive reasoning.
   d. objective reasoning.

   ANSWER: B

4. Which of the following is not a characteristic of good inductive accounting theory research?
   a. It must carefully specify the problem that is being examined.
   b. It must be based on a hypothesis that is capable of being tested.
   c. It must test the entire population under investigation.
   d. It must employ the requisite tools of statistical inference.

   ANSWER: C

5. Which of the following types of research can realistically examine only rather narrowly defined questions and problems?
   a. Inductive research
   b. Normative research
   c. Deductive research
   d. Nonempirical research

   ANSWER: A

6. The basic set of premises in a theory is also sometimes called all of the following except:
   a. hypotheses.
   b. assumptions.
   c. postulates.
   d. positions.

   ANSWER: D

7. Empirical research that attempts to determine why particular accounting alternatives are selected by management is an example of:
   a. normative research.
   b. deductive research.
   c. positive accounting research.
   d. analytical research.

   ANSWER: C

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

8. Which of the following statements is **not** true?
   a. Inductive and deductive methods can be used together.
   b. It is impossible to keep inductive research completely value-free.
   c. Inductive approaches to accounting theory usually attempt to be descriptive.
   d. Deductive research makes inferences about a population based on tests of data.

   ANSWER: D

9. Which of the following characteristics does **not** apply to the decision-model approach to research?
   a. It asks what information is needed for making decisions.
   b. It asks what information users want.
   c. It concentrates on what information is useful for particular decisions.
   d. It has a normative and deductive orientation.

   ANSWER: B

10. Which one of the following statements is true regarding the decision-model approach to research?
   a. A premise underlying this research approach is that decision-makers may need to be taught how to use information they are unfamiliar with.
   b. This approach has become more important with the rise of empirical research in accounting.
   c. Some advocates of newer approaches have declared that this approach is too scientific.
   d. The decision-model approach does not parallel those of standard-setters because standard-setters must cope with the politics of the regulatory process.

   ANSWER: A

11. Which of the following statements is **not** true regarding the efficient-markets hypothesis?
   a. It stems primarily from the discipline of finance.
   b. It assumes that market prices of publicly traded securities reflect fully all publicly available information.
   c. As a result of this proposition, the impetus for less disclosure with more concern for choice among accounting alternatives has grown stronger.
   d. It states that the return of a security is based on its risk.

   ANSWER: C

12. Which of the following statements regarding behavioral research is true?
   a. It is a normative approach.
   b. The main concern of this type of research is how users of accounting information make decisions and what information they need.
   c. Many studies have shown that there are no discrepancies between normative decision models and the actual decision process of users.
   d. Since behavioral research is positive in approach, it is impossible to reach a conclusion regarding whether or not the usage of accounting data for decision-making purposes could be improved upon.

   ANSWER: B

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

13. Which of the following statements regarding behavioral research in accounting is **not** true?
    a. Much of this research uses laboratory subjects in carefully controlled experimental situations.
    b. This approach seeks to understand what accounting information is selected for use and how it is processed.
    c. This research has found that published financial statements are not often used for managerial decision-making purposes.
    d. The question of how representative student subjects are to the broad population is a problem that pervades virtually all behavioral research that uses student subjects.

    ANSWER: C

14. The roots of behavioral research lie in the field(s) of:
    a. Economics.
    b. Finance.
    c. Psychology and sociology.
    d. Accounting.

    ANSWER: C

15. Agency theory studies are a special case of:
    a. capital markets research.
    b. the decision-model approach.
    c. critical accounting.
    d. behavioral research.

    ANSWER: D

16. Which of the following is not true regarding agency theory?
    a. It is also called contracting theory.
    b. Its underlying assumption is that individuals act in their own best self-interest.
    c. Few agency relationships between parties may be defined or governed by accounting numbers.
    d. It is concerned with the various costs of monitoring and enforcing relations among management, owners, creditors, and government.

    ANSWER: C

17. The objective of information theory analysis is:
    a. to determine how optimal contractual arrangement incentives and risk sharing can be negotiated.
    b. to determine appropriate alternatives to accrual accounting.
    c. to use inductive research techniques to test hypotheses regarding information usefulness.
    d. to find alternatives to agency theory assumptions.

    ANSWER: A

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

18. Critical accounting:
    a. developed from two other areas of accounting, behavioral accounting and agency theory.
    b. is concerned with the economic rather than social role of accountants.
    c. presumes a sharp separation between the researcher and his or her field of investigation.
    d. views accounting as having a pivotal role in adjudicating conflicts between the corporation and constituencies such as labor, consumers, and the general public.

    ANSWER: D

19. Which of the following statements is not true regarding critical accounting?
    a. Critical accountants believe that accounting should more strongly emphasize the attempt to solve broad societal problems.
    b. Critical accounting researchers believe that in viewing and investigating reality, they also help to shape that reality.
    c. It is the intention of critical accounting researchers to move the field into the mainstream of accounting research by adopting a conflict-based perspective.
    d. In critical accounting, there is less emphasis upon historical models and more upon mathematical and statistical models.

    ANSWER: D

20. Which of the following statements is true?
    a. A paradigm is a shared problem-solving view among members of a science or discipline.
    b. In accounting, the shared paradigm has been current valuation.
    c. Criticism of historical cost has increased since inflation lessened during the 1980s.
    d. It appears that a scientific revolution has occurred in accounting because historical cost is no longer the dominant paradigm.

    ANSWER: A

21. In which of the following research areas do researchers believe that there is not a sharp separation between the researcher and his or her field of investigation?
    a. Information economics
    b. Critical accounting
    c. Capital markets research
    d. Agency theory

    ANSWER: B

22. Which of the following research areas hypothesizes that management attempts to maximize its own welfare by minimizing costs of monitoring and contracting?
    a. Information economics
    b. Critical accounting
    c. Capital markets research
    d. Agency theory

    ANSWER: D

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

23. Which of the following accounting research areas is based on the efficient markets hypothesis?
    a. The decision-model approach
    b. Behavioral research
    c. Critical accounting
    d. Capital markets research

    ANSWER: D

24. Empirical research is:
    a. inductive.
    b. deductive.
    c. analytical.
    d. none of the above.

    ANSWER: A

25. In a scientific approach to accounting:
    a. a great deal of latitude is allowed in measurements.
    b. there is a low degree of objectivity.
    c. the intention is to provide information useful for either predictive or assessment purposes.
    d. the straight-line method of depreciation would always be used.

    ANSWER: C

26. Which of the following accounting research approaches arose as a result of the perceived separation of interests in the modern corporation between management and ownership interests?
    a. Capital markets research
    b. Behavioral research
    c. Agency theory
    d. Information economics

    ANSWER: C

ESSAY

1. Discuss the differences between each of the following:

    - Normative vs. descriptive theories
    - Inductive vs. deductive reasoning
    - Global vs. particularistic theories

    Also identify how these types of approaches relate to one another. (For example: is deductive research normative or descriptive; is it global or particularistic?)

    ANSWER:
    Normative theories contain at least one value judgment, or premise, saying how things should be. Descriptive theories try to find relationships that actually exist and attempt to be value-free. Inductive reasoning examines or tests data, usually a sample from a population, and makes inferences about the population. Deductive reasoning uses logic to derive one or more conclusions from a set of premises. Global theories are all-encompassing in nature, while particularistic theories focus on only a small part of the relevant environment, examining rather

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

narrowly defined questions and problems. Deductive research tends to be normative and global. Inductive approaches are usually descriptive and particularistic.

2. A study by Watts and Zimmerman that explored the question of how corporate management responds to new standards proposed by the FASB was discussed in the text. Answer the following questions related to that study.

   a. What was the hypothesis of the study?
   b. Describe the study and discuss its findings.
   c. Was the study inductive or deductive? Explain.
   d. Discuss the criticisms that have been directed at the study and the implications of those criticisms.

   ANSWER:
   a. Watts and Zimmerman hypothesized that management has more incentive to favor standards that lower reported net income when the firm is subject to political pressures, such as antitrust action or regulation because of their dominant market position.

   b. Watts and Zimmerman examined responses to the FASB's exposure draft requiring general price-level adjusted income calculations in corporate annual reports. They found that the proposal was supported by larger firms that would have lower income as a result of general price-level adjustment. Larger firms that would have higher income using general price-level adjustment tended to be against the proposal. These findings supported their hypothesis.

   c. The study was inductive because it tested actual data (responses to the exposure draft) from a sample of firms and made inferences about the relevant population.

   d. Solomons stated that Watts and Zimmerman's evidence is rather flimsy because it involves a relatively small number of firms, a single accounting issue, and a single point in time. He also noted that many of the firms that lobbied in favor of general price-level adjustments were not using already available techniques, such as accelerated depreciation and LIFO, which would have reduced reported income. Also, several large firms that would have had lower general price-level-adjusted income relative to historical cost income lobbied against the proposed standard. This implies that the premise of the study, that large firms would be in favor of standards that decrease income, would be applicable only to a very small handful of very large firms. These criticisms show that empirical research in an area involving human behavior is subject to many interpretations and must be used carefully if inferences relative to the standard-setting process are to be drawn from the research.

3. Are inductive and deductive research mutually exclusive methods? Give examples to support your answer.

   ANSWER:
   Inductive and deductive research techniques are not mutually exclusive and are often used together. For example, the inductive method may be used to assess the appropriateness of a set of originally selected premises in a primarily deductive system. Researchers often work backward from the conclusions of other studies by developing new hypotheses that appear to fit the data. They then attempt to test the new hypotheses. Inductive research in accounting can shed light on

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

relationships and phenomena existing in the business environment. This research, in turn, can be useful in the policy-making process in which deductive reasoning helps to determine rules that are to be prescribed.

4. Describe the decision-model approach to accounting research and identify the two major decisions embraced by this approach.

   ANSWER:
   The decision-model approach to research asks what information is needed by decision-makers. It does not address what information users want but rather concentrates on what information is useful for a particular decision. Its orientation is normative and deductive. The two major decisions embraced by this approach are: (1) enabling the user to better predict future cash flows; and (2) analyzing the efficiency and effectiveness of management (stewardship) as well as subcategories of both these major types of decisions.

5. Answer the following related to behavioral research:

   a. What is the main concern of behavioral research?
   b. How does behavioral research differ from the decision-model approach?
   c. What are some of the findings of this research?

   ANSWER:
   a. The main concern of behavioral research is how users of accounting information make decisions and what information they need.

   b. This approach is descriptive, whereas the decision-model approach is normative. Also, much of behavioral research uses laboratory subjects in carefully controlled experimental situations.

   c. Many behavioral studies have shown discrepancies between normative decision models and the actual decision processes of users. Also, revision of probabilities by decision-makers occurs less than Bayesian decision models indicate is appropriate. Other research has found that there may be a tendency to use published financial statements for managerial decision-making purposes.

6. Answer the following questions regarding agency theory:

   a. What are the assumptions, focus, and hypothesis of agency theory?
   b. How does opportunistic behavior, or moral hazard apply to agency theory?
   c. How does an audit of financial statements pertain to agency theory?

   ANSWER:
   a. The underlying assumption of agency theory is that individuals act in their own best self-interest. Another assumption is that the enterprise is the intersection point for many contractual-type relationships that exist among management, owners, creditors, and government. As a result, agency theory is concerned with the various costs of monitoring and enforcing relations among these various groups. One hypothesis of agency theory is that management attempts to maximize its own welfare by minimizing the various agency costs arising from monitoring and contracting.

   b. According to agency theory, management will try to maximize its compensation, but

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank

must do so within the framework of increasing net income, return on investment, or similar accounting measures. While the main management drive will usually be toward improving performance, management may also attempt to choose accounting rules that maximize income immediately rather than over time in order to maximize its own compensation. In this case, management actions may not always be in the best interest of stockholders. This is called opportunistic behavior or moral hazard.

c. The audit minimizes agency costs, and is an example of efficient contracting. It attempts to give assurances to outsiders, such as owners and creditors, about the governance of the enterprise by management.

7. What is critical accounting, and in what way does it differ from all of the other research areas discussed in the text?

ANSWER:
Critical accounting views accounting as having a pivotal role in adjudicating conflicts between the corporation and social constituencies such as labor, consumers, and the general public. It is thus directly concerned with the active social role of accountants. All of the other research areas discussed in the text presume a sharp separation between the researcher and his or her field of investigation. Critical accounting researchers believe that in observing and investigating reality, they also help shape that reality.

Accounting Theory Conceptual Issues in a Political and Economic Environment 9th edition Wolk Test Bank