

Student: \_\_\_\_\_

1. The type of analysis that uses financial statements along with industry and macroeconomic data to forecast future stock movements is technical analysis.  
True False
2. The best source of information about a company's current health and prospects for the future is the company's financial statements.  
True False
3. One factor that considerably affects the ease with which users employ financial reports is that accounting is an exact science.  
True False
4. All economic events and activities that affect a company are reflected in a company's financial statements.  
True False
5. Investors are uncertain about the quality of each company's debt or equity offerings because the ultimate return from the security depends on the company's past performance which is difficult to accurately measure.  
True False
6. Investors are uncertain about the quality of each company's debt or equity offerings because the ultimate return from the security depends on future events.  
True False
7. Taxing authorities sometimes use financial statement information as a basis for establishing tax rules to match accounting rules.  
True False
8. Investors use financial statements as an analytical tool.  
True False
9. Sales value of a company's assets minus its debt owed is a company's liquidation value.  
True False
10. The ability to raise additional cash by selling assets, issuing stock, or borrowing more is financial flexibility.  
True False
11. *Information symmetry* means that management has access to more and better information about the business than do people outside the company.  
True False
12. Contracts often contain language that refers to financial statement numbers.  
True False
13. Investors who follow a *fundamental analysis approach* determine the value the company's assets would yield if sold individually.  
True False
14. Companies judged to be high credit risks may be subject to loan covenants.  
True False

15. Security analysts are among the most important users of financial statements.  
True False
16. Because financial fraud is rare, investors and other users of financial statements can safely accept the numbers in financial statements at face value.  
True False
17. The MD&A section found in published financial statements only provides a brief overview of the company's business risks and results of operations.  
True False
18. Regulators of industries granted monopoly privileges use financial statement data in setting allowable charges for the services these industries provide.  
True False
19. All financial statements provide a basis for what might occur in the future.  
True False
20. Various trends and relationships that can be gleaned from a company's financial statements provide insights into a company's economic opportunities and risks.  
True False
21. All of the information needed by professional analysts to give a complete picture of a company is found in the published financial statements.  
True False
22. Owners and managers have an economic incentive to supply the amount and type of financial information that will enable the company to raise capital at the lowest cost.  
True False
23. Accounting improprieties are sometimes designed to meet the expectations and financial targets of Wall Street analysts.  
True False
24. Besides assessing the general reasonableness of reported numbers in relation to the company's activities, industry conditions, and business climate, when designing audit procedures the company's auditor must also assess fraud risk factors that may be present.  
True False
25. Financial statements are crucial in investment decisions that use **fundamental analysis** to identify mispriced securities (i.e., securities selling for more or less than they seem to be worth).  
True False
26. Suppliers monitor the financial statements of their customers to protect collection of their accounts receivable.  
True False
27. An understanding of management's reporting incentives is sufficient to enable auditors to recognize vulnerable areas where financial reporting abuses are likely to occur.  
True False
28. Because the MD&A section found in published financial statements is management's "spin" on the company's operating results, analysts do not find this disclosure to be particularly useful given management's propensity to only accentuate positive results.  
True False
29. Financial information capable of making a difference in a decision is relevant.  
True False
30. For information to be relevant it must possess either predictive value or confirmatory value.  
True False

31. The "quality of information" as applied to financial reporting refers to the degree to which financial statements are grounded in facts and sound judgments and thus are free from distortion.  
True False
32. The role of financial accounting information is to facilitate economic transactions and to foster efficient allocation of resources among businesses and individuals.  
True False
33. Financial reports provide information that can reduce investors' uncertainty about the company's opportunities and risks thereby raising the company's cost of capital.  
True False
34. Timeliness is a qualitative characteristic of accounting information that indicates that information should be provided to users before statutory deadlines.  
True False
35. Using the same accounting methods for a company to record and report similar events from period to period demonstrates faithful representation.  
True False
36. *Comparability* across companies allows analysts to identify real economic similarities in and differences between underlying economic events because those similarities or differences are not obscured by accounting methods or disclosure practices.  
True False
37. Management has a responsibility to ensure that the company's financial information is properly classified, characterized, and presented clearly and concisely in order to make it understandable.  
True False
38. Managers are the stewards of the company's resources and thus responsible for their efficient use and for protecting them from adversity.  
True False
39. A mispriced security is a stock or bond that is selling for substantially more—or less—than it seems to be worth.  
True False
40. Fundamental investors buy undervalued stocks and avoid buying overvalued stocks.  
True False
41. To efficient market investors, financial statement data provide a basis for assessing risk, dividend yield, or other firm attributes that are important to portfolio selection decisions.  
True False
42. When earnings and share price fall below acceptable levels, dissident shareholders may launch a proxy contest to elect their own slate of directors at the next annual meeting.  
True False
43. Executive compensation contracts seldom contain annual bonus and longer term pay components tied to financial statement results, but instead usually rely on stock options as a means to reward managers in a manner that is less subject to manipulation by management.  
True False
44. Employees demand financial information to monitor the health of company-sponsored pension plans.  
True False
45. Lenders monitor financial statement data to ascertain whether borrowers are adhering to, or violating, loan covenants.  
True False

46. Suppliers assess the financial strength of their customers to determine whether they will be paid for goods shipped.  
True False
47. Financial statement information can help customers monitor a supplier's manufacturing processes and thus evaluate the quality of its products.  
True False
48. Broadly defined, the term "analyst" includes anyone who uses financial statements to make decisions as part of their job.  
True False
49. Companies have an economic incentive to supply the information investors want.  
True False
50. The efficient markets hypothesis says that any new development is quickly reflected in a firm's stock price.  
True False
51. According to the full disclosure principle, companies create a competitive advantage when they report:
- Details about the company's strategies, plans and tactics.
  - Information about the company's technological and managerial innovations.
  - Detailed information about the company's operations.
- True False
52. Firms weigh the benefits they may gain from financial disclosures against the costs they incur in making those disclosures.  
True False
53. Some capital providers possess enough bargaining power to allow them to compel companies to deliver the financial information they need for analysis.  
True False
54. When a company's financial instruments are perceived to be of low quality, there is a cost to the company in the form of lower proceeds from issuing stock or higher interest rates when it borrows funds.  
True False
55. Because financial disclosures are regulated, owners and managers have little economic incentive to supply the amount and type of financial information that will enable them to raise capital most cheaply.  
True False
56. Politically vulnerable firms with high earnings (like oil companies) are often attacked in the financial and popular media, which alleges that those earnings are evidence of anticompetitive business practices.  
True False
57. Because the supply of financial information is guided by the costs of producing and disseminating it and the benefits it will provide to the company, regulatory groups have little influence over the amount and type of financial information that companies disclose.  
True False
58. The SEC issued regulation FD to help level the playing field between individual and institutional investors.  
True False
59. Financial reporting regulatory requirements are designed to ensure that companies meet certain minimum levels of financial disclosure.  
True False

60. When a company restates its financial statements due to some accounting irregularity, shareholder lawsuits are often filed against the company and its management.  
True False
61. Fair value accounting is widely touted as a means to avoid future financial crises as it will prevent banks from collapsing.  
True False
62. It is never permissible to issue financial statements that depart from GAAP in any material respect.  
True False
63. The convention in accounting that strives to ensure business risks and uncertainties are adequately reflected in the financial statements is conservatism.  
True False
64. The degree to which the accounting actually represents the underlying economic events is faithful representation.  
True False
65. GAAP frequently requires financial statement users to accept a compromise that favors reliability over faithful representation.  
True False
66. Companies can smooth reported income by strategically timing the recognition of revenue and expenses to dampen the normal ups and downs of business activity.  
True False
67. Although the SEC has the legal authority to set accounting principles in the U.S., it has looked to private-sector organizations (e.g., the FASB) to establish and enforce these principles.  
True False
68. Generally accepted accounting principles are set by the Securities and Exchange Commission.  
True False
69. The Financial Accounting Standards Board has the sole responsibility for setting generally accepted auditing standards.  
True False
70. Management has considerable discretion over the particular accounting procedures used in the statements and over the details contained in supplemental footnotes and related disclosures.  
True False
71. GAAP financial reports in the U.S. are intended to reflect the economic condition and performance of the reporting entity.  
True False
72. Companies can change accounting methods, but the changes are restricted to situations where it can be persuasively argued that the newly adopted accounting method is preferable to the old one.  
True False
73. Financial statements follow rigid guidelines that require adherence to specific procedures.  
True False
74. The network of conventions, rules, guidelines, and procedures used by the accounting profession is known as generally accepted auditing standards.  
True False
75. The accounting standards codification was created by the IASB to harmonize U.S. and international GAAP.  
True False

76. Accounting standard-setting in the U.S. is a technical process and thus little affected by political considerations.  
True False
77. In the United States, the accounting rules that businesses use for external financial reporting purposes differ from the accounting rules required for taxation purposes.  
True False
78. Some countries' philosophy of financial reporting differs from GAAP because their financial reports are required to conform to tax law.  
True False
79. While until recently accounting standards were developed by home-country organizations for use by domestic companies, countries in (at least) the European Union based their standards on a common philosophy and shared financial reporting objectives.  
True False
80. For years, two widely divergent financial reporting approaches existed in the world (the economic performance approach and the commercial and tax law approach).  
True False
81. In countries where capital is typically provided by a broad base of external investors, financial reporting practices tend to be different from those found in countries where capital is primarily provided by banks or the government.  
True False
82. A major factor underlying the rise of IFRS is that companies needing to seek global sources of capital are at a disadvantage when they only produce financial statements based on the commercial and tax law approach.  
True False
83. Currently, publicly traded companies located in the European Union may adopt IFRS for financial reporting in consolidated statements.  
True False
84. IFRS consists of a set of rigid standards that are now in use in over 100 countries worldwide.  
True False
85. The IASB and FASB are working together to develop a single set of high-quality, compatible accounting standards that can be used for both domestic and cross-border financial reporting.  
True False
86. Foreign companies registered with the SEC that use IFRS no longer have to reconcile their financial statements to U.S. GAAP.  
True False
87. Compared to U.S. GAAP, IASB standard generally allow firms more latitude.  
True False
88. When IFRS permits different accounting treatments for similar business transactions and events, one of these treatments is labeled the *benchmark treatment*.  
True False
89. IFRS are frequently much more detailed than their U.S. GAAP counterpart standards.  
True False
90. U.S. GAAP has been criticized as being too "rules-based" thus allowing managers to invent "loopholes" that conform to the letter of a standard but simultaneously violate its spirit.  
True False

91. Since its inception, the FASB has endeavored to draft pronouncements that clearly identify the accounting objective, explain the accounting principle(s) being applied, avoid bright-line rules, and provide enough implementation guidance for consistent application.  
True False
92. The goal of the growing movement toward international convergence of accounting standards is a single set of accounting standards accepted worldwide and superior to the choices presently available.  
True False
93. U.S. GAAP and IFRS are both grounded in the same economic performance philosophy.  
True False
94. A company's financial statements reflect information about  
A. future projections of sales, expenses, and other future economic events.  
B. product information and competitive positions.  
C. the general economy of the industry in which the company operates.  
D. economic events that affect a company that can be translated into accounting numbers.
95. All financial statements:  
A. provide a picture of the company at a moment in time.  
B. describe changes that took place over a period of time.  
C. help to evaluate what happened in the past.  
D. contain most up to date information about the company.
96. A firm's financial statements contain trends that give users insight into the firm's  
A. future market share.  
B. position within its industry.  
C. profitability, productivity, and liquidity.  
D. current market price for common and preferred stock.
97. The ability to raise additional cash by selling assets, issuing stock, or borrowing more is  
A. financial flexibility.  
B. a credit risk indicator.  
C. a stock price predictor.  
D. one way to project earnings.
98. Creditors assess credit risk by comparing a firm's required principal and interest payments to estimates of the firm's current and future  
A. net assets.  
B. gross income.  
C. net income.  
D. cash flows.
99. Professional analysts need information on a company's future earnings and cash flow to evaluate audit vulnerabilities, to assess debt repayment prospects and to  
A. certify good values in the stock market.  
B. indemnify creditors against losses.  
C. certify that no fraud exists in the company.  
D. value its equity securities.
100. The section of published reports of public companies that includes a description of the company's business risks, results of operations, financial condition, and future plans for the company is known as the  
A. management's discussion and analysis.  
B. management representation letter.  
C. president's message.  
D. board of directors' analysis.

101. Companies that have projected operating cash flows that are more than sufficient to meet debt payments are
- A. financially flexible.
  - B. good credit risk companies.
  - C. undervalued.
  - D. overvalued.
102. Investors who compare a firm's discounted future cash flows to the current market price of a stock are using the
- A. efficient market hypothesis.
  - B. market-to-market approach.
  - C. fundamental analysis approach.
  - D. technical analysis approach.
103. A company's financial statements can be used for all of the following purposes **except**
- A. as a scorecard on the company's social responsibility.
  - B. as a management report card.
  - C. as an early warning signal.
  - D. as a measure of accountability.
104. The market analysis known as *fundamental* analysis
- A. predicts future trends in the financial drivers of a company's success or failure.
  - B. relies on price and volume movement of stock.
  - C. has no insights about company value beyond current market price.
  - D. uses microeconomic data to forecast stock values.
105. Investors who follow a fundamental analysis approach
- A. determine the value the company's assets would yield if sold individually.
  - B. estimate the value of a stock by assessing the amount, timing, and uncertainty of future cash flows that will accrue to the issuing company.
  - C. assess the company's ability to meet its debt-related financial obligations.
  - D. assess the company's ability to raise additional cash by selling assets, issuing stock, or borrowing more.
106. Analytical review procedures include all of the following **except**
- A. simple ratio and trend analysis.
  - B. complex statistical techniques.
  - C. general reasonableness tests.
  - D. comparison of the company's reported financial results to benchmarks established by the SEC.
107. Relevant financial information
- A. is free from bias and error.
  - B. is measured in a similar manner among different companies.
  - C. can be independently verified.
  - D. is capable of making a difference in a decision.
108. To achieve faithful representation, the financial information must be
- A. consistent, unbiased, and relevant.
  - B. relevant, comparable, and timely.
  - C. relevant, consistent, and timely.
  - D. complete, neutral, and free from material error.
109. Financial information that is provided to decision makers before it loses its capacity to influence their decisions is
- A. neutral.
  - B. verifiable.
  - C. timely.
  - D. consistent.



110. Financial information that does **not** favor one set of interested parties over another is
- A. relevant.
  - B. verifiable.
  - C. neutral.
  - D. faithfully represented.
111. When independent measurers get similar results when using the same accounting measurement methods, the financial information is
- A. relevant.
  - B. verifiable.
  - C. timely.
  - D. faithfully represented.
112. Being verifiable and neutral is part of what makes financial information
- A. useful.
  - B. consistent.
  - C. comparable.
  - D. relevant.
113. If a company fails to disclose information about a lawsuit because it might be embarrassing to the company, it is violating
- A. relevance.
  - B. verifiability.
  - C. neutrality.
  - D. timeliness.
114. Financial information capable of making a difference in a decision is
- A. relevant.
  - B. verifiable.
  - C. consistent.
  - D. neutral.
115. Business enterprises enter into many different types of contracts. Examples of such contracts that often contain language that refers to verifiable financial statement numbers include all of the following **except**
- A. royalty contracts with inventors.
  - B. sales contracts with customers.
  - C. compensation contracts with managers.
  - D. debt contracts with bankers.
116. The type of analysis that uses financial statements to assess valuation of current market price is
- A. valuation analysis.
  - B. efficient market analysis.
  - C. fundamental analysis.
  - D. technical analysis.
117. The type of analysis that does **not** concern itself with financial statement numbers is
- A. valuation analysis.
  - B. efficient market analysis.
  - C. fundamental analysis.
  - D. technical analysis.
118. Investors who presume that they have no insights about company value beyond the current market price and use financial statement data to assess firm-specific variables believe in the
- A. market-to-market hypothesis.
  - B. efficient market hypothesis.
  - C. fundamental market hypothesis.
  - D. technical market hypothesis.

119. The amounts of executive compensation and bonuses are often determined by
- A. auditor's recommendations.
  - B. evaluations by subordinates.
  - C. company contracts.
  - D. industry guidelines.
120. Employees demand financial statement information because the firm's performance is often linked to all of the following **except**
- A. negotiated increases in union contracts.
  - B. social security benefits.
  - C. pension plan benefits.
  - D. employee profit sharing.
121. When a borrower violates a loan covenant that requires minimum achievement of an accounting measure in the financial statements, the lender can
- A. immediately seize the loan collateral.
  - B. fire the chief operating officer of the borrower.
  - C. report the borrower to the IRS.
  - D. call for immediate repayment of the loan.
122. Investors and analysts are sometimes urged to ignore traditional GAAP numbers and instead focus on nonstandard "pro forma" numbers because
- A. the political compromises made to achieve consensus when issuing FASB pronouncements lead to . inaccurate portrayals of underlying events.
  - B. management believes the pro forma numbers portray the company in a better light.
  - C. the pro forma numbers are closer to those reported under international reporting standards.
  - D. pro forma numbers are easier to understand.
123. GAAP's goals are to ensure that financial statements
- A. do not contain any representation that could jeopardize management.
  - B. provide stockholders all of the information they need to assess management's performance.
  - C. are accurate and free from fraud.
  - D. clearly reflect the economic condition and performance of the company.
124. Timeliness is a qualitative characteristic of accounting information that indicates that information should be provided to users
- A. within one month after the close of the books.
  - B. before it loses its capacity to influence their decisions.
  - C. before statutory deadlines.
  - D. every month.
125. Which one of the following types of disclosure costs is the cost of disclosing the company's pricing strategies?
- A. Political cost
  - B. Litigation cost
  - C. Competitive disadvantage cost
  - D. Information collection, processing, and dissemination cost
126. If the financial reporting environment were unregulated, disclosure would occur voluntarily
- A. as long as other companies in the reporting company's industry voluntarily disclosed financial information.
  - B. only to analysts that the company believes will report favorably on the company's prospects.
  - C. only when managers wanted to raise additional capital.
  - D. as long as the incremental benefits to the company from supplying financial information exceeded the . incremental costs of providing the information.

127. Companies offering higher risk securities have incentives to mask their true condition by
- A. supplying overly optimistic financial information.
  - B. not having their financial statements audited.
  - C. listing on foreign exchanges where reporting requirements are less stringent than those in the U.S.
  - D. including testimonials from well known executives in their financial statements.
128. One financial disclosure cost is the possibility that competitors may use the information to harm the company providing the disclosure. All of the following disclosures might create a competitive disadvantage **except**
- A. detailed information about company operations, such as sales and cost figures for individual product lines.
  - B. information about the company's technological and managerial innovations.
  - C. information on the company's level of spending on research and development.
  - D. details about the company's strategies, plans and tactics.
129. It is common for shareholders to initiate litigation when
- A. the company reports record profits, but does not declare dividends.
  - B. there's a sudden drop in stock price.
  - C. the company introduces new products that are found to be harmful to the environment.
  - D. rumors about the company appear in the media that, if true, would result in slower growth in future profits.
130. Using the same accounting methods to record and report similar events from period to period demonstrates
- A. consistency.
  - B. comparability.
  - C. neutrality.
  - D. faithful representation.
131. Which one of the following has statutory authority to determine accounting rules?
- A. American Institute of Certified Public Accountants
  - B. State Boards of Accountancy
  - C. Securities and Exchange Commission
  - D. Financial Accounting Standards Board
132. The growth of global investing has spurred development of worldwide accounting standards that are written by the
- A. American Institute of Certified Public Accountants.
  - B. Institute of Global Auditors.
  - C. Global Committee on Accounting Standards.
  - D. International Accounting Standards Board.
133. Common justifications for changing accounting methods include all of the following **except**:
- A. to conform to industry practice.
  - B. to more accurately represent the company's activities.
  - C. a new pronouncement by the FASB necessitated the change.
  - D. the company's financial position appears significantly better when reported under the new method than under the old one.
134. In 2009, the FASB completed a five-year effort to distill the existing GAAP literature into a single database known as
- A. the accounting standards database.
  - B. international financial reporting standards.
  - C. the converged accounting standards.
  - D. the accounting standards codification.

135. The ASC uses a structure in which the FASB's authoritative accounting guidance is organized into all of the following **except**
- A. chapters.
  - B. topics.
  - C. sections.
  - D. paragraphs.
136. ASC content is organized
- A. alphabetically by topic.
  - B. in chronological order based on the issue date of the major pronouncement on which the content is based.
  - C. without regard to the original standard from which the content was derived.
  - D. in the manner prescribed by the IASB.
137. GAAP's flexibility in its reporting standards allows companies to
- A. smooth reported earnings over several reporting periods.
  - B. change accounting estimates to meet target sales or earnings.
  - C. change accounting principles to improve reported earnings.
  - D. avoid adopting specific accounting techniques and reporting procedures.
138. Financial statements follow
- A. rigid guidelines that require specific adherence to regulated procedures.
  - B. generally accepted guidelines that allow management to choose among different procedures.
  - C. general guidelines with little choice among different procedures.
  - D. legal requirements for uniform presentation and disclosure.
139. A company manages a large portfolio of marketable securities and sells only stocks with substantial gains in poor income years or sells only stocks with substantial losses in good income years. This strategy is an indication of
- A. securities fraud.
  - B. unstable portfolio management.
  - C. income smoothing.
  - D. violating security trading laws.
140. Identify the correct order of the three steps constituting the FASB's "due process" procedure.
- A. Public-hearing stage, exposure-draft stage, and voting stage.
  - B. Discussion-memorandum stage, public-hearing stage, and voting stage.
  - C. Exposure-draft stage, discussion-memorandum stage, and voting stage.
  - D. Discussion-memorandum stage, exposure-draft stage, and voting stage.
141. The Securities and Exchange Act of 1934 required all publicly traded firms to
- A. purchase insurance against corporate bankruptcy.
  - B. register with an authorized stock exchange.
  - C. provide annual financial statements audited by independent accountants.
  - D. file balance sheets, income statements, and statements of cash flow with the SEC each year.
142. The Financial Accounting Standards Board has responsibility for the establishment of U. S. accounting standards and
- A. full statutory power to enforce compliance with GAAP.
  - B. authority from the SEC to enforce compliance with GAAP.
  - C. no authority or responsibility to enforce compliance with GAAP.
  - D. responsibility imposed by AICPA to enforce compliance with GAAP.
143. When financial information is measured and reported in a similar manner across different companies in the same industry it is
- A. consistent.
  - B. comparable.
  - C. neutral.
  - D. faithfully represented.

144. When a company changes from straight-line to the declining balance method of accounting for depreciation, the financial statements lack
- A. comparability.
  - B. consistency.
  - C. neutrality.
  - D. faithful representation.
145. The network of conventions, rules, guidelines, and procedures used by the accounting profession is known as generally accepted
- A. auditing standards.
  - B. accounting procedures.
  - C. accounting principles.
  - D. auditing principles.
146. When a financial statement contains omissions or misstatements that would alter the judgment of a reasonable person, it violates
- A. neutrality.
  - B. consistency.
  - C. conservatism.
  - D. materiality.
147. Some countries' philosophy of financial reporting differs from U.S. GAAP because their financial reports are required to
- A. be verifiable.
  - B. conform to tax and/or commercial law.
  - C. be reported and measured in a similar manner across companies.
  - D. use the same accounting methods for similar events period to period.
148. Depending on the home-country of a reporting entity, historically (e.g., pre-IFRS) its financial statements might have been
- A. intended to capture and reflect the underlying performance and condition of the reporting entity.
  - B. in conformity with mandated laws or detailed tax rules.
  - C. either a. or b.
  - D. none of the above.
149. Financial reporting philosophies differ across countries. These philosophies evolve from and reflect several factors including all of the following **except**
- A. the language(s) spoken in the country.
  - B. the specific political institutions within the country.
  - C. the specific financial institutions within the country.
  - D. the country's social customs.
150. Companies needing to access new and ever larger sources of capital in response to increased international competitiveness face a severe disadvantage if their financial reporting
- A. is in accordance with IFRS.
  - B. is in accordance with U.S. GAAP.
  - C. is based on a commercial and tax law approach.
  - D. is based on an economic performance approach.
151. International accounting rules are currently established by the
- A. IASC.
  - B. IASB.
  - C. FASB.
  - D. none of the above.

152. IFRS frequently
- A. upon issue are automatically approved for any foreign listed company.
  - B. permit only one accounting treatment for similar business transactions and events to promote comparability.
  - C. allow firms less latitude when compared to U.S. GAAP.
  - D. follow a more generalized overview approach than do U.S. GAAP counterpart standards.
153. IFRS are
- A. built on broad principles.
  - B. rules-based.
  - C. narrowly defined, detailed standards.
  - D. seldom different than those issued by the FASB.
154. The SEC has issued a proposed roadmap for the adoption of IFRS by U.S. public companies, specifying adoption by the end of
- A. 2011.
  - B. 2014.
  - C. 2015.
  - D. The roadmap does not specify a "date certain" for adoption.
155. Stock markets are common in many countries and economies. Explain the need for and use of a stock market in an economy.
156. A tremendous amount of time, money, and effort are spent on the compilation of quarterly and yearly financial reports. Correspondingly, they attract a lot of attention and scrutiny. Explain the role and importance of financial reports in capital markets.
157. Financial reporting is arguably one of the most heavily regulated areas of business activity. Provide the main reasons why accounting information is so heavily regulated. In your answer try to address the intended consequences of such regulation.

158. Briefly explain the forces behind the rise of IFRS.

# 1 Key

1. The type of analysis that uses financial statements along with industry and macroeconomic data to forecast future stock movements is technical analysis.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #1

2. The best source of information about a company's current health and prospects for the future is the company's financial statements.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #2

3. One factor that considerably affects the ease with which users employ financial reports is that accounting is an exact science.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #3

4. All economic events and activities that affect a company are reflected in a company's financial statements.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium  
Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #4

5. Investors are uncertain about the quality of each company's debt or equity offerings because the ultimate return from the security depends on the company's past performance which is difficult to accurately measure.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #5

6. Investors are uncertain about the quality of each company's debt or equity offerings because the ultimate return from the security depends on future events.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #6



7. Taxing authorities sometimes use financial statement information as a basis for establishing tax rules to match accounting rules.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium  
Revsine - Chapter 01 #7

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

8. Investors use financial statements as an analytical tool.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #8

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.

9. Sales value of a company's assets minus its debt owed is a company's liquidation value.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #9

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.

10. The ability to raise additional cash by selling assets, issuing stock, or borrowing more is financial flexibility.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium  
Revsine - Chapter 01 #10

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.

11. Information symmetry means that management has access to more and better information about the business than do people outside the company.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #11

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.

12. Contracts often contain language that refers to financial statement numbers.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #12

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.

13. Investors who follow a *fundamental analysis approach* determine the value the company's assets would yield if sold individually.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #13

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

14. Companies judged to be high credit risks may be subject to loan covenants.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #14

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

15. Security analysts are among the most important users of financial statements.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #15

16. Because financial fraud is rare, investors and other users of financial statements can safely accept the numbers in financial statements at face value.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #16

17. The MD&A section found in published financial statements only provides a brief overview of the company's business risks and results of operations.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #17

18. Regulators of industries granted monopoly privileges use financial statement data in setting allowable charges for the services these industries provide.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #18

19. All financial statements provide a basis for what might occur in the future.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #19

20. Various trends and relationships that can be gleaned from a company's financial statements provide insights into a company's economic opportunities and risks.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #20

21. All of the information needed by professional analysts to give a complete picture of a company is found in the published financial statements.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #21

22. Owners and managers have an economic incentive to supply the amount and type of financial information that will enable the company to raise capital at the lowest cost.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.

Revsine - Chapter 01 #22

23. Accounting improprieties are sometimes designed to meet the expectations and financial targets of Wall Street analysts.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.

Revsine - Chapter 01 #23

24. Besides assessing the general reasonableness of reported numbers in relation to the company's activities, industry conditions, and business climate, when designing audit procedures the company's auditor must also assess fraud risk factors that may be present.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Risk analysis  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

Revsine - Chapter 01 #24

25. Financial statements are crucial in investment decisions that use **fundamental analysis** to identify mispriced securities (i.e., securities selling for more or less than they seem to be worth).

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

Revsine - Chapter 01 #25

26. Suppliers monitor the financial statements of their customers to protect collection of their accounts receivable.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

Revsine - Chapter 01 #26

27. An understanding of management's reporting incentives is sufficient to enable auditors to recognize vulnerable areas where financial reporting abuses are likely to occur.

**FALSE**

AACSB: Reflective thinking  
AICPA FN: Risk analysis  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

Revsine - Chapter 01 #27

28. Because the MD&A section found in published financial statements is management's "spin" on the company's operating results, analysts do not find this disclosure to be particularly useful given management's propensity to only accentuate positive results.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.

Revsine - Chapter 01 #28

29. Financial information capable of making a difference in a decision is relevant.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #29

30. For information to be relevant it must possess either predictive value or confirmatory value.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #30

31. The "quality of information" as applied to financial reporting refers to the degree to which financial statements are grounded in facts and sound judgments and thus are free from distortion.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #31

32. The role of financial accounting information is to facilitate economic transactions and to foster efficient allocation of resources among businesses and individuals.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #32

33. Financial reports provide information that can reduce investors' uncertainty about the company's opportunities and risks thereby raising the company's cost of capital.

**FALSE**

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #33

34. Timeliness is a qualitative characteristic of accounting information that indicates that information should be provided to users before statutory deadlines.

**FALSE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium  
Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #34

35. Using the same accounting methods for a company to record and report similar events from period to period demonstrates faithful representation.

**FALSE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium  
Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #35

36. *Comparability* across companies allows analysts to identify real economic similarities in and differences between underlying economic events because those similarities or differences are not obscured by accounting methods or disclosure practices.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

*Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.*

*Revsine - Chapter 01 #36*

37. Management has a responsibility to ensure that the company's financial information is properly classified, characterized, and presented clearly and concisely in order to make it understandable.

**TRUE**

AACSB: Analytic  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Easy

*Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.*

*Revsine - Chapter 01 #37*

38. Managers are the stewards of the company's resources and thus responsible for their efficient use and for protecting them from adversity.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Easy

*Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.*

*Revsine - Chapter 01 #38*

39. A mispriced security is a stock or bond that is selling for substantially more—or less—than it seems to be worth.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Easy

*Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.*

*Revsine - Chapter 01 #39*

40. Fundamental investors buy undervalued stocks and avoid buying overvalued stocks.

**TRUE**

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

*Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.*

*Revsine - Chapter 01 #40*

41. To efficient market investors, financial statement data provide a basis for assessing risk, dividend yield, or other firm attributes that are important to portfolio selection decisions.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

*Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.*

*Revsine - Chapter 01 #41*

42. When earnings and share price fall below acceptable levels, dissident shareholders may launch a proxy contest to elect their own slate of directors at the next annual meeting.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

*Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.*

*Revsine - Chapter 01 #42*

43. Executive compensation contracts seldom contain annual bonus and longer term pay components tied to financial statement results, but instead usually rely on stock options as a means to reward managers in a manner that is less subject to manipulation by management.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Difficult  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #43

44. Employees demand financial information to monitor the health of company-sponsored pension plans.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #44

45. Lenders monitor financial statement data to ascertain whether borrowers are adhering to, or violating, loan covenants.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #45

46. Suppliers assess the financial strength of their customers to determine whether they will be paid for goods shipped.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #46

47. Financial statement information can help customers monitor a supplier's manufacturing processes and thus evaluate the quality of its products.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #47

48. Broadly defined, the term "analyst" includes anyone who uses financial statements to make decisions as part of their job.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Easy  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #48

49. Companies have an economic incentive to supply the information investors want.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #49

50. The efficient markets hypothesis says that any new development is quickly reflected in a firm's stock price.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #50

51. According to the full disclosure principle, companies create a competitive advantage when they report:

- Details about the company's strategies, plans and tactics.
- Information about the company's technological and managerial innovations.
- Detailed information about the company's operations.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #51

52. Firms weigh the benefits they may gain from financial disclosures against the costs they incur in making those disclosures.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Easy  
Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #52

53. Some capital providers possess enough bargaining power to allow them to compel companies to deliver the financial information they need for analysis.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #53

54. When a company's financial instruments are perceived to be of low quality, there is a cost to the company in the form of lower proceeds from issuing stock or higher interest rates when it borrows funds.

**TRUE**

AACSB: Analytic  
AICPA BB: Resource management  
Blooms: Knowledge  
Difficulty: Medium  
Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #54

55. Because financial disclosures are regulated, owners and managers have little economic incentive to supply the amount and type of financial information that will enable them to raise capital most cheaply.

**FALSE**

AACSB: Analytic  
AICPA BB: Resource management  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #55

56. Politically vulnerable firms with high earnings (like oil companies) are often attacked in the financial and popular media, which alleges that those earnings are evidence of anticompetitive business practices.

**TRUE**

AACSB: Analytic  
AICPA BB: Industry  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #56

57. Because the supply of financial information is guided by the costs of producing and disseminating it and the benefits it will provide to the company, regulatory groups have little influence over the amount and type of financial information that companies disclose.

**FALSE**

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #57

58. The SEC issued regulation FD to help level the playing field between individual and institutional investors.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #58

59. Financial reporting regulatory requirements are designed to ensure that companies meet certain minimum levels of financial disclosure.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #59

60. When a company restates its financial statements due to some accounting irregularity, shareholder lawsuits are often filed against the company and its management.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Legal  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #60

61. Fair value accounting is widely touted as a means to avoid future financial crises as it will prevent banks from collapsing.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #61

62. It is never permissible to issue financial statements that depart from GAAP in any material respect.

**FALSE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #62



63. The convention in accounting that strives to ensure business risks and uncertainties are adequately reflected in the financial statements is conservatism.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Medium  
Revsine - Chapter 01 #63

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

64. The degree to which the accounting actually represents the underlying economic events is faithful representation.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium  
Revsine - Chapter 01 #64

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

65. GAAP frequently requires financial statement users to accept a compromise that favors reliability over faithful representation.

**TRUE**

AACSB: Analytic  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Medium  
Revsine - Chapter 01 #65

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

66. Companies can smooth reported income by strategically timing the recognition of revenue and expenses to dampen the normal ups and downs of business activity.

**TRUE**

AACSB: Analytic  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Medium  
Revsine - Chapter 01 #66

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

67. Although the SEC has the legal authority to set accounting principles in the U.S., it has looked to private-sector organizations (e.g., the FASB) to establish and enforce these principles.

**FALSE**

The SEC retains enforcement authority over financial reporting in the U.S.

AACSB: Reflective thinking  
AICPA BB: Legal  
Blooms: Knowledge  
Difficulty: Medium  
Revsine - Chapter 01 #67

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

68. Generally accepted accounting principles are set by the Securities and Exchange Commission.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Legal  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #68

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

69. The Financial Accounting Standards Board has the sole responsibility for setting generally accepted auditing standards.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium  
Revsine - Chapter 01 #69

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

70. Management has considerable discretion over the particular accounting procedures used in the statements and over the details contained in supplemental footnotes and related disclosures.

**TRUE**

AACSB: Reflective thinking  
AICPA BB: Measurement  
Blooms: Comprehension  
Difficulty: Easy  
Revsine - Chapter 01 #70

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

71. GAAP financial reports in the U.S. are intended to reflect the economic condition and performance of the reporting entity.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Easy  
Revsine - Chapter 01 #71

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

72. Companies can change accounting methods, but the changes are restricted to situations where it can be persuasively argued that the newly adopted accounting method is preferable to the old one.

**TRUE**

AACSB: Analytic  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium  
Revsine - Chapter 01 #72

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

73. Financial statements follow rigid guidelines that require adherence to specific procedures.

**FALSE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #73

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

74. The network of conventions, rules, guidelines, and procedures used by the accounting profession is known as generally accepted auditing standards.

**FALSE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy  
Revsine - Chapter 01 #74

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

75. The accounting standards codification was created by the IASB to harmonize U.S. and international GAAP.

**FALSE**

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium  
Revsine - Chapter 01 #75

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

76. Accounting standard-setting in the U.S. is a technical process and thus little affected by political considerations.

**FALSE**

AACSB: Reflective thinking

AICPA BB: Legal

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #76

77. In the United States, the accounting rules that businesses use for external financial reporting purposes differ from the accounting rules required for taxation purposes.

**TRUE**

AACSB: Reflective thinking

AICPA FN: Measurement

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #77

78. Some countries' philosophy of financial reporting differs from GAAP because their financial reports are required to conform to tax law.

**TRUE**

AACSB: Diversity

AICPA BB: Legal

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #78

79. While until recently accounting standards were developed by home-country organizations for use by domestic companies, countries in (at least) the European Union based their standards on a common philosophy and shared financial reporting objectives.

**FALSE**

AACSB: Diversity

AICPA BB: Global

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #79

80. For years, two widely divergent financial reporting approaches existed in the world (the economic performance approach and the commercial and tax law approach).

**TRUE**

AACSB: Diversity

AICPA BB: Global

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #80

81. In countries where capital is typically provided by a broad base of external investors, financial reporting practices tend to be different from those found in countries where capital is primarily provided by banks or the government.

**TRUE**

AACSB: Diversity

AICPA BB: Global

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #81

82. A major factor underlying the rise of IFRS is that companies needing to seek global sources of capital are at a disadvantage when they only produce financial statements based on the commercial and tax law approach.

**TRUE**

AACSB: Diversity

AICPA BB: Global, Resource management

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #82

83. Currently, publicly traded companies located in the European Union may adopt IFRS for financial reporting in consolidated statements.

**FALSE**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Medium

*Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #83*

84. IFRS consists of a set of rigid standards that are now in use in over 100 countries worldwide.

**FALSE**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Easy

*Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #84*

85. The IASB and FASB are working together to develop a single set of high-quality, compatible accounting standards that can be used for both domestic and cross-border financial reporting.

**TRUE**

AACSB: Diversity  
AICPA BB: Global  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium

*Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #85*

86. Foreign companies registered with the SEC that use IFRS no longer have to reconcile their financial statements to U.S. GAAP.

**TRUE**

AACSB: Diversity  
AICPA BB: Global  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Medium

*Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #86*

87. Compared to U.S. GAAP, IASB standard generally allow firms more latitude.

**TRUE**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Easy

*Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #87*

88. When IFRS permits different accounting treatments for similar business transactions and events, one of these treatments is labeled the *benchmark treatment*.

**TRUE**

AACSB: Diversity  
AICPA BB: Global  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

*Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #88*

89. IFRS are frequently much more detailed than their U.S. GAAP counterpart standards.

**FALSE**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Easy

*Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #89*

90. U.S. GAAP has been criticized as being too "rules-based" thus allowing managers to invent "loopholes" that conform to the letter of a standard but simultaneously violate its spirit.

**TRUE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #90

91. Since its inception, the FASB has endeavored to draft pronouncements that clearly identify the accounting objective, explain the accounting principle(s) being applied, avoid bright-line rules, and provide enough implementation guidance for consistent application.

**FALSE**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #91

92. The goal of the growing movement toward international convergence of accounting standards is a single set of accounting standards accepted worldwide and superior to the choices presently available.

**TRUE**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #92

93. U.S. GAAP and IFRS are both grounded in the same economic performance philosophy.

**TRUE**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #93

94. A company's financial statements reflect information about
- A. future projections of sales, expenses, and other future economic events.
  - B. product information and competitive positions.
  - C. the general economy of the industry in which the company operates.
  - D.** economic events that affect a company that can be translated into accounting numbers.

AACSB: Reflective thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #94

95. All financial statements:
- A. provide a picture of the company at a moment in time.
  - B. describe changes that took place over a period of time.
  - C.** help to evaluate what happened in the past.
  - D. contain most up to date information about the company.

AACSB: Reflective thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #95

96. A firm's financial statements contain trends that give users insight into the firm's
- A. future market share.
  - B. position within its industry.
  - C. profitability, productivity, and liquidity.**
  - D. current market price for common and preferred stock.

AACSB: Reflective thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.

Revsine - Chapter 01 #96

97. The ability to raise additional cash by selling assets, issuing stock, or borrowing more is
- A. financial flexibility.**
  - B. a credit risk indicator.
  - C. a stock price predictor.
  - D. one way to project earnings.

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

Revsine - Chapter 01 #97

98. Creditors assess credit risk by comparing a firm's required principal and interest payments to estimates of the firm's current and future
- A. net assets.
  - B. gross income.
  - C. net income.
  - D. cash flows.**

AACSB: Analytic  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.

Revsine - Chapter 01 #98

99. Professional analysts need information on a company's future earnings and cash flow to evaluate audit vulnerabilities, to assess debt repayment prospects and to
- A. certify good values in the stock market.
  - B. indemnify creditors against losses.
  - C. certify that no fraud exists in the company.
  - D. value its equity securities.**

AACSB: Analytic  
AICPA BB: Industry  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.

Revsine - Chapter 01 #99

100. The section of published reports of public companies that includes a description of the company's business risks, results of operations, financial condition, and future plans for the company is known as the
- A. management's discussion and analysis.**
  - B. management representation letter.
  - C. president's message.
  - D. board of directors' analysis.

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.

Revsine - Chapter 01 #100

101. Companies that have projected operating cash flows that are more than sufficient to meet debt payments are
- A. financially flexible.
  - B. good credit risk companies.**
  - C. undervalued.
  - D. overvalued.

AACSB: Analytic  
AICPA BB: Resource management  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #101

102. Investors who compare a firm's discounted future cash flows to the current market price of a stock are using the
- A. efficient market hypothesis.
  - B. market-to-market approach.
  - C. fundamental analysis approach.**
  - D. technical analysis approach.

AACSB: Analytic  
AICPA BB: Resource management  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #102

103. A company's financial statements can be used for all of the following purposes **except**
- A. as a scorecard on the company's social responsibility.**
  - B. as a management report card.
  - C. as an early warning signal.
  - D. as a measure of accountability.

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #103

104. The market analysis known as *fundamental* analysis
- A. predicts future trends in the financial drivers of a company's success or failure.**
  - B. relies on price and volume movement of stock.
  - C. has no insights about company value beyond current market price.
  - D. uses microeconomic data to forecast stock values.

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Comprehension  
Difficulty: Difficult

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #104

105. Investors who follow a fundamental analysis approach
- A. determine the value the company's assets would yield if sold individually.
  - B. estimate the value of a stock by assessing the amount, timing, and uncertainty of future cash flows that will accrue to the issuing company.**
  - C. assess the company's ability to meet its debt-related financial obligations.
  - D. assess the company's ability to raise additional cash by selling assets, issuing stock, or borrowing more.

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Comprehension  
Difficulty: Difficult

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #105

106. Analytical review procedures include all of the following **except**
- A. simple ratio and trend analysis.
  - B. complex statistical techniques.
  - C. general reasonableness tests.
  - D.** comparison of the company's reported financial results to benchmarks established by the SEC.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Hard

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #106

107. Relevant financial information
- A. is free from bias and error.
  - B. is measured in a similar manner among different companies.
  - C. can be independently verified.
  - D.** is capable of making a difference in a decision.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #107

108. To achieve faithful representation, the financial information must be
- A. consistent, unbiased, and relevant.
  - B. relevant, comparable, and timely.
  - C. relevant, consistent, and timely.
  - D.** complete, neutral, and free from material error.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #108

109. Financial information that is provided to decision makers before it loses its capacity to influence their decisions is
- A. neutral.
  - B. verifiable.
  - C.** timely.
  - D. consistent.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #109

110. Financial information that does **not** favor one set of interested parties over another is
- A. relevant.
  - B. verifiable.
  - C.** neutral.
  - D. faithfully represented.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #110



111. When independent measurers get similar results when using the same accounting measurement methods, the financial information is
- A. relevant.
  - B. verifiable.**
  - C. timely.
  - D. faithfully represented.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #111

112. Being verifiable and neutral is part of what makes financial information
- A. useful.**
  - B. consistent.
  - C. comparable.
  - D. relevant.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #112

113. If a company fails to disclose information about a lawsuit because it might be embarrassing to the company, it is violating
- A. relevance.
  - B. verifiability.
  - C. neutrality.**
  - D. timeliness.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Hard

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #113

114. Financial information capable of making a difference in a decision is
- A. relevant.**
  - B. verifiable.
  - C. consistent.
  - D. neutral.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #114

115. Business enterprises enter into many different types of contracts. Examples of such contracts that often contain language that refers to verifiable financial statement numbers include all of the following **except**
- A. royalty contracts with inventors.
  - B. sales contracts with customers.**
  - C. compensation contracts with managers.
  - D. debt contracts with bankers.

AACSB: Analytic  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #115

116. The type of analysis that uses financial statements to assess valuation of current market price is  
A. valuation analysis.  
B. efficient market analysis.  
C. fundamental analysis.  
D. technical analysis.

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #116

117. The type of analysis that does **not** concern itself with financial statement numbers is  
A. valuation analysis.  
B. efficient market analysis.  
C. fundamental analysis.  
D. technical analysis.

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #117

118. Investors who presume that they have no insights about company value beyond the current market price and use financial statement data to assess firm-specific variables believe in the  
A. market-to-market hypothesis.  
B. efficient market hypothesis.  
C. fundamental market hypothesis.  
D. technical market hypothesis.

AACSB: Analytic  
AICPA BB: Resource management  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #118

119. The amounts of executive compensation and bonuses are often determined by  
A. auditor's recommendations.  
B. evaluations by subordinates.  
C. company contracts.  
D. industry guidelines.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #119

120. Employees demand financial statement information because the firm's performance is often linked to all of the following **except**  
A. negotiated increases in union contracts.  
B. social security benefits.  
C. pension plan benefits.  
D. employee profit sharing.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #120

121. When a borrower violates a loan covenant that requires minimum achievement of an accounting measure in the financial statements, the lender can
- A. immediately seize the loan collateral.
  - B. fire the chief operating officer of the borrower.
  - C. report the borrower to the IRS.
  - D. call for immediate repayment of the loan.**

AACSB: Reflective thinking  
AICPA BB: Resource management  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #121

122. Investors and analysts are sometimes urged to ignore traditional GAAP numbers and instead focus on nonstandard "pro forma" numbers because
- A the political compromises made to achieve consensus when issuing FASB pronouncements lead to inaccurate portrayals of underlying events.
  - B. management believes the pro forma numbers portray the company in a better light.**
  - C. the pro forma numbers are closer to those reported under international reporting standards.
  - D. pro forma numbers are easier to understand.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Difficult

Learning Objective: 01-01 Why financial statements are valuable sources of information about companies.  
Revsine - Chapter 01 #122

123. GAAP's goals are to ensure that financial statements
- A. do not contain any representation that could jeopardize management.
  - B. provide stockholders all of the information they need to assess management's performance.
  - C. are accurate and free from fraud.
  - D. clearly reflect the economic condition and performance of the company.**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #123

124. Timeliness is a qualitative characteristic of accounting information that indicates that information should be provided to users
- A. within one month after the close of the books.
  - B. before it loses its capacity to influence their decisions.**
  - C. before statutory deadlines.
  - D. every month.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #124

125. Which one of the following types of disclosure costs is the cost of disclosing the company's pricing strategies?
- A. Political cost
  - B. Litigation cost
  - C. Competitive disadvantage cost**
  - D. Information collection, processing, and dissemination cost

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #125

126. If the financial reporting environment were unregulated, disclosure would occur voluntarily
- A. as long as other companies in the reporting company's industry voluntarily disclosed financial information.
  - B. only to analysts that the company believes will report favorably on the company's prospects.
  - C. only when managers wanted to raise additional capital.
  - D.** as long as the incremental benefits to the company from supplying financial information exceeded the incremental costs of providing the information.

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #126

127. Companies offering higher risk securities have incentives to mask their true condition by
- A.** supplying overly optimistic financial information.
  - B. not having their financial statements audited.
  - C. listing on foreign exchanges where reporting requirements are less stringent than those in the U.S.
  - D. including testimonials from well known executives in their financial statements.

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #127

128. One financial disclosure cost is the possibility that competitors may use the information to harm the company providing the disclosure. All of the following disclosures might create a competitive disadvantage **except**
- A. detailed information about company operations, such as sales and cost figures for individual product lines.
  - B. information about the company's technological and managerial innovations.
  - C.** information on the company's level of spending on research and development.
  - D. details about the company's strategies, plans and tactics.

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #128

129. It is common for shareholders to initiate litigation when
- A. the company reports record profits, but does not declare dividends.
  - B.** there's a sudden drop in stock price.
  - C. the company introduces new products that are found to be harmful to the environment.
  - D. rumors about the company appear in the media that, if true, would result in slower growth in future profits.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Hard

Learning Objective: 01-03 How the supply of financial information is influenced by the costs of producing and disseminating it and by the benefits it provides.  
Revsine - Chapter 01 #129

130. Using the same accounting methods to record and report similar events from period to period demonstrates
- A.** consistency.
  - B. comparability.
  - C. neutrality.
  - D. faithful representation.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #130

131. Which one of the following has statutory authority to determine accounting rules?
- A. American Institute of Certified Public Accountants
  - B. State Boards of Accountancy
  - C. Securities and Exchange Commission**
  - D. Financial Accounting Standards Board

AACSB: Reflective thinking  
AICPA BB: Legal  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #131

132. The growth of global investing has spurred development of worldwide accounting standards that are written by the
- A. American Institute of Certified Public Accountants.
  - B. Institute of Global Auditors.
  - C. Global Committee on Accounting Standards.
  - D. International Accounting Standards Board.**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #132

133. Common justifications for changing accounting methods include all of the following **except**:
- A. to conform to industry practice.
  - B. to more accurately represent the company's activities.
  - C. a new pronouncement by the FASB necessitated the change.
  - D. the company's financial position appears significantly better when reported under the new method than under the old one.**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #133

134. In 2009, the FASB completed a five-year effort to distill the existing GAAP literature into a single database known as
- A. the accounting standards database.
  - B. international financial reporting standards.
  - C. the converged accounting standards.
  - D. the accounting standards codification.**

AACSB: Reflective thinking  
AICPA FN: Research  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #134

135. The ASC uses a structure in which the FASB's authoritative accounting guidance is organized into all of the following **except**
- A. chapters.**
  - B. topics.
  - C. sections.
  - D. paragraphs.

AACSB: Reflective thinking  
AICPA FN: Research  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #135

136. ASC content is organized
- A. alphabetically by topic.
  - B. in chronological order based on the issue date of the major pronouncement on which the content is based.
  - C.** without regard to the original standard from which the content was derived.
  - D. in the manner prescribed by the IASB.

AACSB: Reflective thinking  
AICPA FN: Research  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #136

137. GAAP's flexibility in its reporting standards allows companies to
- A.** smooth reported earnings over several reporting periods.
  - B. change accounting estimates to meet target sales or earnings.
  - C. change accounting principles to improve reported earnings.
  - D. avoid adopting specific accounting techniques and reporting procedures.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #137

138. Financial statements follow
- A. rigid guidelines that require specific adherence to regulated procedures.
  - B.** generally accepted guidelines that allow management to choose among different procedures.
  - C. general guidelines with little choice among different procedures.
  - D. legal requirements for uniform presentation and disclosure.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #138

139. A company manages a large portfolio of marketable securities and sells only stocks with substantial gains in poor income years or sells only stocks with substantial losses in good income years. This strategy is an indication of
- A. securities fraud.
  - B. unstable portfolio management.
  - C.** income smoothing.
  - D. violating security trading laws.

AACSB: Analytic  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #139

140. Identify the correct order of the three steps constituting the FASB's "due process" procedure.
- A. Public-hearing stage, exposure-draft stage, and voting stage.
  - B. Discussion-memorandum stage, public-hearing stage, and voting stage.
  - C. Exposure-draft stage, discussion-memorandum stage, and voting stage.
  - D.** Discussion-memorandum stage, exposure-draft stage, and voting stage.

AACSB: Reflective thinking  
AICPA BB: Legal  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.  
Revsine - Chapter 01 #140

141. The Securities and Exchange Act of 1934 required all publicly traded firms to
- A. purchase insurance against corporate bankruptcy.
  - B. register with an authorized stock exchange.
  - C. provide annual financial statements audited by independent accountants.**
  - D. file balance sheets, income statements, and statements of cash flow with the SEC each year.

AACSB: Reflective thinking  
AICPA BB: Legal  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #141

142. The Financial Accounting Standards Board has responsibility for the establishment of U. S. accounting standards and
- A. full statutory power to enforce compliance with GAAP.
  - B. authority from the SEC to enforce compliance with GAAP.
  - C. no authority or responsibility to enforce compliance with GAAP.**
  - D. responsibility imposed by AICPA to enforce compliance with GAAP.

AACSB: Reflective thinking  
AICPA BB: Legal  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #142

143. When financial information is measured and reported in a similar manner across different companies in the same industry it is
- A. consistent.
  - B. comparable.**
  - C. neutral.
  - D. faithfully represented.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #143

144. When a company changes from straight-line to the declining balance method of accounting for depreciation, the financial statements lack
- A. comparability.
  - B. consistency.**
  - C. neutrality.
  - D. faithful representation.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #144

145. The network of conventions, rules, guidelines, and procedures used by the accounting profession is known as generally accepted
- A. auditing standards.
  - B. accounting procedures.
  - C. accounting principles.**
  - D. auditing principles.

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #145

146. When a financial statement contains omissions or misstatements that would alter the judgment of a reasonable person, it violates
- A. neutrality.
  - B. consistency.
  - C. conservatism.
  - D. materiality.**

AACSB: Reflective thinking  
AICPA FN: Measurement  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-04 How accounting rules are established; and why management can shape the financial information communicated to outsiders and still be within those rules.

Revsine - Chapter 01 #146

147. Some countries' philosophy of financial reporting differs from U.S. GAAP because their financial reports are required to
- A. be verifiable.
  - B. conform to tax and/or commercial law.**
  - C. be reported and measured in a similar manner across companies.
  - D. use the same accounting methods for similar events period to period.

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #147

148. Depending on the home-country of a reporting entity, historically (e.g., pre-IFRS) its financial statements might have been
- A. intended to capture and reflect the underlying performance and condition of the reporting entity.
  - B. in conformity with mandated laws or detailed tax rules.
  - C. either a. or b.**
  - D. none of the above.

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #148

149. Financial reporting philosophies differ across countries. These philosophies evolve from and reflect several factors including all of the following **except**
- A. the language(s) spoken in the country.**
  - B. the specific political institutions within the country.
  - C. the specific financial institutions within the country.
  - D. the country's social customs.

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #149

150. Companies needing to access new and ever larger sources of capital in response to increased international competitiveness face a severe disadvantage if their financial reporting
- A. is in accordance with IFRS.
  - B. is in accordance with U.S. GAAP.
  - C. is based on a commercial and tax law approach.**
  - D. is based on an economic performance approach.

AACSB: Diversity  
AICPA BB: Global, Resource management  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-05 Why financial reporting philosophies and detailed accounting practices sometimes differ across countries.

Revsine - Chapter 01 #150



151. International accounting rules are currently established by the  
A. IASC.  
**B. IASB.**  
C. FASB.  
D. none of the above.

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #151

152. IFRS frequently  
A. upon issue are automatically approved for any foreign listed company.  
B. permit only one accounting treatment for similar business transactions and events to promote comparability.  
C. allow firms less latitude when compared to U.S. GAAP.  
**D. follow a more generalized overview approach than do U.S. GAAP counterpart standards.**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Comprehension  
Difficulty: Medium

Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #152

153. IFRS are  
**A. built on broad principles.**  
B. rules-based.  
C. narrowly defined, detailed standards.  
D. seldom different than those issued by the FASB.

AACSB: Diversity  
Blooms: Knowledge  
Difficulty: Easy

Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #153

154. The SEC has issued a proposed roadmap for the adoption of IFRS by U.S. public companies, specifying adoption by the end of  
A. 2011.  
B. 2014.  
C. 2015.  
**D. The roadmap does not specify a "date certain" for adoption.**

AACSB: Diversity  
AICPA BB: Global  
Blooms: Knowledge  
Difficulty: Medium

Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #154

155. Stock markets are common in many countries and economies. Explain the need for and use of a stock market in an economy.

A stock market enables an efficient allocation of capital. It serves as a market place for buyers and sellers to meet and provides liquidity.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Hard

Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #155

156. A tremendous amount of time, money, and effort are spent on the compilation of quarterly and yearly financial reports. Correspondingly, they attract a lot of attention and scrutiny. Explain the role and importance of financial reports in capital markets.

Financial reports provide relevant information on companies' financial condition and performance to current and potential stakeholders; this, in turn, facilitates efficient decision making.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #156

157. Financial reporting is arguably one of the most heavily regulated areas of business activity. Provide the main reasons why accounting information is so heavily regulated. In your answer try to address the intended consequences of such regulation.

Accounting information is regulated with the intention of increasing efficiency, preventing market failure, and preventing abuse given that the incentives of information producers are not aligned with those of users. Regulation also promotes reliability and comparability.

AACSB: Reflective thinking  
AICPA BB: Critical Thinking  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-02 How the demand for financial information comes from its ability to improve decision making and monitor managers activities.  
Revsine - Chapter 01 #157

158. Briefly explain the forces behind the rise of IFRS.

Global economic expansion fueled a need for companies to access new and ever larger sources of capital. Global capital formation, however, is hampered when significant financial reporting variation exists as potential investors find it hard to compare the risks and potential rewards of investment alternatives in different countries. The IASB intends to solve this problem by issuing high quality, understandable, enforceable, and globally accepted international financial reporting standards.

AACSB: Diversity  
AICPA BB: Global, Resource management  
Blooms: Comprehension  
Difficulty: Medium  
Learning Objective: 01-06 The reasons for the increased importance of the International Accounting Standards Board (IASB) and why International Financial Reporting Standards (IFRS) may soon alter the accounting practices of U.S. companies.  
Revsine - Chapter 01 #158

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