

CHAPTER 1

INTRODUCTION TO FINANCIAL STATEMENTS

CHAPTER LEARNING OBJECTIVES

1. **Identify the forms of business organization and the uses of accounting information.** A sole proprietorship is a business owned by one person. A partnership is a business owned by two or more people associated as partners. A corporation is a separate legal entity for which evidence of ownership is provided by shares of stock. Internal users are managers who need accounting information to plan, organize, and run business operations. The primary external users are investors and creditors. Investors (stockholders) use accounting information to decide whether to buy, hold, or sell shares of a company's stock. Creditors (suppliers and bankers) use accounting information to assess the risk of granting credit or loaning money to a business. Other groups who have an indirect interest in a business are taxing authorities, customers, labor unions, and regulatory agencies.
2. **Explain the three principal types of business activity.** Financing activities involve collecting the necessary funds to support the business. Investing activities involve acquiring the resources necessary to run the business. Operating activities involve putting the resources of the business into action to generate a profit.
3. **Describe the four financial statements and how they are prepared.** An income statement presents the revenues and expenses of a company for a specific period of time. A retained earnings statement summarizes the changes in retained earnings that have occurred for a specific period of time. A balance sheet reports the assets, liabilities, and stockholders' equity of a business at a specific date. A statement of cash flows summarizes information concerning the cash inflows (receipts) and outflows (payments) for a specific period of time. Assets are resources owned by a business. Liabilities are the debts and obligations of the business. Liabilities represent claims of creditors on the assets of the business. Stockholders' equity represents the claims of owners on the assets of the business. Stockholders' equity is subdivided into two parts: common stock and retained earnings. The basic accounting equation is $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$. Within the annual report, the management discussion and analysis provides management's interpretation of the company's results and financial position as well as a discussion of plans for the future. Notes to the financial statements provide additional explanation or detail to make the financial statements more informative. The auditor's report expresses an opinion as to whether the financial statements present fairly the company's results of operations and financial position.
- *4. **Explain the career opportunities in accounting.** Accounting offers many different jobs in fields such as public and private accounting, governmental, and forensic accounting. Accounting is a popular major because there are many different types of jobs, with unlimited potential for career advancement.

Difficulties:

Easy: 143

Medium: 101

Hard: 12

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TRUE-FALSE STATEMENTS

1. A business organized as a separate legal entity and owned by stockholders is a partnership.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Partnership, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

2. Corporate stockholders have no personal liability for the debts of the corporation.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

3. The liability of corporate stockholders is limited to the amount of their investment.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

4. The majority of U.S. business is transacted by partnerships.

Ans: F, LO: 1, Bloom: K, Section: Business Organization and Accounting Information Uses, Subsection: Partnership, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

5. Sole proprietorships in the United States generate more revenue than the other two forms of business enterprise.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

6. Owners of business firms are the only people who need accounting information.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Users and Uses of Financial Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

7. Some users of accounting information are internal to the company while others are external.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Users and Uses of Financial Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

8. Management of a business enterprise is the major external user of accounting information.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

9. External users of accounting information include managers who plan, organize, and run a business.

Ans: F, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

10. The accounting information needs and questions of external users vary considerably.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

11. Accounting communicates financial information about a business to both internal and external users.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Users and Uses of Financial Information, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

12. Two primary external users of accounting information are investors and creditors.

Ans: T, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

13. Financing activities for corporations include borrowing money and selling shares of their

own stock.

Ans: T, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

14. Investing activities involve collecting the necessary funds to support the business.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Investing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

15. The purchase of equipment is an example of a financing activity.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

16. Assets are resources owned by a business that provide future services or benefits to the business.

Ans: T, LO: 2, Section: The Three Types of Business Activity, Subsection: Investing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

17. Payments by the business to its owners are operating activities.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

18. The economic resources owned by a business are called stockholders' equity.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Financing Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

19. Operating activities involve putting the resources of the business into action to generate a profit.

Ans: T, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

20. A business is usually involved in only two types of activities—financing and investing.

Ans: F, LO: 2, Section: The Three Types of Business Activity, Subsection: Operating Activities, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

21. Net income for the period is determined by subtracting expenses and dividends from revenues.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

22. A different set of financial statements is usually prepared for each user.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

23. The heading for an income statement prepared for the year ending December 31, 2025 will include the line "As of December 31, 2025."

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

24. Net income is another term for revenue.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Income Statement, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

25. Cash is another term for stockholders' equity.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

26. The primary purpose of the statement of cash flows is to provide information about the

cash receipts and cash payments of a company for a specific period of time.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Statement of Cash Flows, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

27. The balance sheet reports assets and claims to those assets at a specific point in time.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

28. The basic accounting equation states that Assets = Liabilities.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

29. One way of stating the accounting equation is Assets + Liabilities = Stockholders' Equity.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

30. The accounting equation can be expressed as Assets - Stockholders' Equity = Liabilities.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Minutes: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

31. The accounting equation can be expressed as Assets - Liabilities = Stockholders' Equity.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

32. If the assets of a business total \$150,000 and liabilities total \$105,000, then its stockholders' equity totals \$45,000.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $\$150,000 - \$105,000 = \$45,000$
Total assets - Total liabilities

33. If the assets owned by a business total \$100,000 and liabilities total \$65,000, then stockholders' equity totals \$35,000.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

Solution: $\$100,000 - \$65,000 = \$35,000$
Total assets - Total liabilities

34. Claims of creditors and owners on the assets of a business are called liabilities.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

35. Creditors' rights to assets supersede owners' rights to the assets.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Balance Sheet, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

36. All publicly traded U.S. companies must provide their stockholders with an annual report each year.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Elements of an Annual Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

37. Information in the notes to the financial statements has to be quantifiable (numeric).

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Notes to the Financial Statements, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

38. An auditor is an accounting professional who conducts an independent examination of a company's financial statements.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Auditor's Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Professional Demeanor, IMA: Reporting and Control

39. The auditor's report states the auditor's opinion as to the fairness of the presentation of the financial position and results of operations and their conformance with generally accepted accounting principles.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Auditor's Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Professional Demeanor, IMA: Reporting and Control

40. The management discussion and analysis (MD&A) section of an annual report covers various financial aspects of a company.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Management Discussion and Analysis, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

41. Explanatory notes and supporting schedules are an optional part of an annual report.

Ans: F, LO: 3, Section: The Four Financial Statements, Subsection: Elements of an Annual Report, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

42. Examples of notes are descriptions of the significant accounting policies and methods used in preparing the statements, explanations of contingencies, and various statistics.

Ans: T, LO: 3, Section: The Four Financial Statements, Subsection: Notes to the Financial Statements Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

43. The demand for accountants was increased by passage of the Sarbanes-Oxley Act (SOX) which significantly increased the accounting and internal control requirements for corporations.

Ans: T, LO: 4, Section: Career Opportunities in Accounting, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Communication, IMA: Reporting and Control

MULTIPLE CHOICE QUESTIONS

44. The sole proprietorship form of business organization
- must have at least two owners in most states.
 - generally receives favorable tax treatment relative to a corporation.
 - combines the records of the business with the personal records of the owner.
 - is classified as a separate legal entity.

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

45. A business organized as a corporation
- is not a separate legal entity in most states.
 - requires that stockholders be personally liable for the debts of the business.
 - is owned by its stockholders.
 - has tax advantages over a proprietorship or partnership.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

46. The partnership form of business organization
- is a separate legal entity.
 - is a common form of organization for service-type businesses.
 - enjoys an unlimited life.
 - has limited liability.

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Partnership, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

47. Which of the following is **not** one of the three forms of business organization?
- a. Corporation
 - b. Partnership
 - c. Proprietorship
 - d. Investors

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Forms of Business Organization, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

48. The main forms of business organizations include all of the following except
- a. limited liability corporation.
 - b. partnership.
 - c. sole proprietorship.
 - d. corporation.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Forms of Business Organization, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

49. Most business enterprises in the United States are
- a. proprietorships and partnerships.
 - b. partnerships.
 - c. corporations.
 - d. government units.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

50. A business organized as a separate legal entity is a
- a. corporation.
 - b. proprietor.
 - c. government unit.
 - d. partnership.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

51. Which of the following is **not** an advantage of the corporate form of business organization?
- a. No personal liability
 - b. Easy to transfer ownership
 - c. Favorable tax treatment
 - d. Easy to raise funds

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

52. An advantage of the corporate form of business is that
- a. it has limited life.
 - b. its owner's personal resources are at stake.
 - c. its ownership is easily transferable via the sale of shares of stock.
 - d. it is simple to establish.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

53. Which of the following has the advantage of enabling a business to raise funds most easily?
- a. Entity
 - b. Sole proprietorship
 - c. Corporation
 - d. Partnership

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

54. Which of the following is an advantage of corporations relative to partnerships and sole proprietorships?
- a. Reduced legal liability for investors
 - b. Harder to transfer ownership
 - c. Lower taxes
 - d. Most common form of organization

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Forms of Business Organization, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

55. Which of the following set of characteristics describes a corporation?
- a. Shared control, tax advantages, increased skills and resources
 - b. Simple to set up and maintains control with founder
 - c. Easier to transfer ownership and raise funds, no personal liability
 - d. Harder to raise funds and gives owner control

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

56. A small neighborhood barber shop that is operated by its two owners would likely be organized as a
- a. joint venture.
 - b. partnership.
 - c. corporation.
 - d. proprietorship.

Ans: B, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Partnership, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

57. A local retail shop has been operating as a sole proprietorship. The business is growing and now the owner wants to incorporate. Which of the following is **not** a reason for this owner to incorporate?
- a. Ability to raise capital for expansion
 - b. Desire to limit the owner's personal liability
 - c. The prestige of operating as a corporation
 - d. The ease in transferring shares of the corporation's stock

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Corporation, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

58. All of the following are advantages for organizing a business as a sole proprietorship **except**
- a. a sole proprietorship is a simple form of business to set up.
 - b. a sole proprietorship gives the owner control of the business.

- c. a sole proprietorship receives more favorable tax treatment.
- d. a sole proprietorship allows for an easy transfer of ownership through stock sales.

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

59. Jack and Jill form a partnership. Jack runs the business in New York, while Jill vacations in Hawaii. During the time Jill is away from the business, Jack increases the debts of the business by \$20,000. Which of the following statements is **true** regarding this debt?
- a. Only Jack is personally liable for the debt, since he has been the managing partner during that time.
 - b. Only Jill is personally liable for the debt of the business, since Jack has been working and she has not.
 - c. Both Jack and Jill are personally liable for the business debt.
 - d. Neither Jack nor Jill is personally liable for the business debt, since the partnership is a separate legal entity.

Ans: C, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Sole Proprietorship, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

60. Hybrid forms of business organization include
- a. limited liability companies.
 - b. sole proprietorships.
 - c. partnerships
 - d. all of these are hybrid forms of business organization.

Ans: A, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Hybrid Forms of Organization, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

61. Hybrid forms of business organization
- a. are not allowed in many states.
 - b. account for the majority of U.S. business transactions.
 - c. combine the tax advantages of corporations with the limited liability advantage of partnerships.
 - d. combine the tax advantages of partnerships with the limited liability advantage of corporations.

Ans: D, LO: 1, Section: Business Organization and Accounting Information Uses, Subsection: Hybrid Forms of Organization, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

62. Which one of the following questions is **most** likely asked by an internal human resources director for the company?
- a. Which product line is most profitable?
 - b. What price for our product will maximize the company income?
 - c. What average pay raise is affordable for employees this year?
 - d. Should any product lines be eliminated?

Ans: C, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

63. Which of the following are reports that accounting provides to internal users?
- a. Forecasts of cash needs for next year only
 - b. Financial comparisons of operating activity alternatives only
 - c. Both forecasts of cash needs and financial comparisons
 - d. Neither forecasts of cash needs nor financial comparisons

Ans: C, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

64. Which of the following is the **best** description of an internal user of accounting information?
- a. Investors who use accounting information to decide whether to buy or sell stock
 - b. Creditors, such as banks, that use accounting information to evaluate the risk of lending money
 - c. Labor unions who use accounting information to examine the ability of the company to pay increased wages and benefits
 - d. Managers who use accounting information to plan, organize, and run a business

Ans: D, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Internal Users, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

65. An external user of accounting information like the Internal Revenue Service is most commonly known as a
- a. taxing authority.
 - b. labor union.
 - c. customer.
 - d. regulatory agency.

Ans: A, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: External Users, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

66. Types of data analytics include all of the following except
- a. prescriptive.
 - b. predictive.
 - c. authoritative.
 - d. diagnostic.

Ans: C, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

67. Predictive analytics can be used to answer the question
- a. "What is likely to happen?"
 - b. "Why did it happen?"
 - c. "What should we do about it?"
 - d. "What happened?"

Ans: A, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

68. Prescriptive analytics can be used to answer the question
- a. "What is likely to happen?"
 - b. "Why did it happen?"
 - c. "What should we do about it?"
 - d. "What happened?"

Ans: C, LO: 1, Source: Business Organization and Accounting Information Uses, Subsection: Data Analytics, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting and Control

69. Descriptive analytics can be used to answer the question
- a. "What is likely to happen?"
 - b. "Why did it happen?"
 - c. "What should we do about it?"