

## 1

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

1. Accounting is an information and measurement system that communicates economic information to users.  
True False
2. Accounting information is only relevant for people in business.  
True False
3. The primary objective of accounting is to help people make better decisions.  
True False
4. "Bookkeeping" is another term for "accounting."  
True False
5. A sole proprietorship is a business owned by one or more persons.  
True False
6. A partnership is a business owned by two or more people.  
True False
7. Ownership of a corporation is divided into units called shares.  
True False
8. In the partnership form of business, the owners of a business are called shareholders.  
True False
9. Unlimited liability is an advantage for both a proprietorship and a partnership.  
True False
10. Although a proprietorship is not a separate legal entity, a partnership is.  
True False
11. Limited liability is a key consideration as to why corporations can raise resources from shareholders.  
True False
12. Non-business organizations often operate educational and religious services for profit.  
True False
13. External users include creditors, shareholders, employees, and lawyers.  
True False
14. Internal users include creditors, shareholders, internal auditors and managers.  
True False
15. Managerial accounting is an area of accounting that provides internal reports to assist the decision-making needs of internal users.  
True False
16. Internal operating functions include research and development, distribution, and human resources.  
True False
17. Internal controls include procedures to protect assets and prevent fraud.  
True False
18. The preferred ethical path is to take a course of action that avoids casting doubt on one's decisions.  
True False
19. Ethics and laws often differ.  
True False

20. Ethics and social responsibility are incidental to the primary functions of accounting.
- True False
21. Ethical practices are not necessary to build trust and long-term relationships with customers.
- True False
22. Social responsibility is concern for the impact of our actions on society as a whole.
- True False
23. Private accountants work for several employers.
- True False
24. The primary objective of financial accounting is to provide internal reports called financial statements to help users analyze an organization's activities.
- True False
25. Career opportunities in accounting include auditing, forensic accounting, and tax planning.
- True False
26. Budgeting is the process of developing formal plans for an organization's future activities.
- True False
27. At the request of the Board of Directors, internal auditors perform the audit function to protect shareholder interests.
- True False
28. The purpose of an audit is to add credibility to the financial statements.
- True False
29. Sole proprietorships and partnerships are not subject to income tax in Canada.
- True False
30. The professional designation "CGA" stands for "Chartered General Accountant."
- True False
31. Accounting is an information and measurement system that:
- A. Identifies economic activities.
  - B. Records economic activities.
  - C. Communicates economic information.
  - D. Identifies and records economic activities.
  - E. All of these answers are correct.
32. The recording of financial transactions either manually or electronically is called:
- A. Accounting.
  - B. Bookkeeping.
  - C. Preparing financial statements.
  - D. Auditing.
  - E. Systems design.
33. A business:
- A. Is one or more individuals selling products or services for profit.
  - B. Can only have one legal form of organization.
  - C. Can have adequate financial records without a formal accounting system.
  - D. Has to issue shares before it opens.
  - E. Is one or more individuals selling products or services for profit and has to issue shares before it opens.
34. Businesses can take the following form(s):
- A. Sole proprietorship.
  - B. Not-for-profit.
  - C. Partnership.
  - D. Sole proprietorship and partnership.
  - E. All of these answers are correct.
35. A corporation:
- A. Is a legal entity separate and distinct from its owners.
  - B. Is regulated by Canada Revenue Agency.
  - C. Has shareholders who have unlimited liability for the acts of the corporation.

- D. Can only have two owners.
- E. Is not a legal entity.

36. A partnership:

- A. Is also called a sole proprietorship.
- B. Has unlimited liability.
- C. Has to have a written agreement in order to be legal.
- D. Is a legal organization separate from its owners.
- E. Is a non-business organization.

37. External users of accounting information include:

- A. Shareholders.
- B. Customers.
- C. Creditors.
- D. The press.
- E. All of these answers are correct.

38. The primary objective of financial accounting is:

- A. To help organizations keep track of financing activities.
- B. To provide external reports to help users analyze an organization's activities.
- C. To help an organization define its ideas, goals, and actions.
- D. To help an organization to keep track of its buying and selling of resources.
- E. To prepare budgets.

39. Internal users of accounting information include:

- A. Shareholders.
- B. Managers.
- C. Creditors.
- D. Investors.
- E. Customers.

40. The area of accounting aimed at serving the decision-making needs of internal users is:

- A. Financial accounting.
- B. Managerial accounting.
- C. Auditing.
- D. Internal control.
- E. Marketing.

41. The internal functions of a business include:

- A. Research and development.
- B. Purchasing.
- C. Marketing.
- D. Servicing.
- E. All of these answers are correct.

42. Internal controls are procedures set up to:

- A. Protect assets.
- B. Ensure accounting reports are reliable.
- C. Promote efficiency.
- D. Ensure company policies are followed.
- E. All of these answers are correct.

43. Ethics:

- A. Are beliefs that separate right from wrong.
- B. And law often coincide.
- C. Help to prevent conflicts of interest.
- D. Are very important considerations for accountants.
- E. All of these answers are correct.

44. Ethical behaviour requires:

- A. Accountants to keep business information confidential.
- B. Auditors to invest in businesses they audit.
- C. Analysts to report information favourable to their companies.
- D. Purchasing agents to favour certain suppliers.
- E. The government to regulate businesses.

45. Social responsibility:

- A. Is a code that helps accountants when dealing with confidential information.
- B. Is a concern for the impact of our actions on society as a whole.
- C. Allows Canada Revenue Agency to regulate businesses.
- D. Requires that all businesses conduct social audits.
- E. Requires analysts to report information favourable to their companies.

46. Career opportunities in accounting include:

- A. Budgeting.
- B. Auditing.
- C. Cost accounting.
- D. Management consulting.
- E. All of these answers are correct.

47. An audit:

- A. Is required for every business.
- B. Is an independent review of an organization's accounting systems and records.
- C. Is performed to add credibility to the financial statements.
- D. Is only performed for companies with computerized accounting systems.
- E. Is an independent review of an organization's accounting systems and records and is performed to add credibility to the financial statements.

48. Professional accountants can be:

- A. Chartered Accountants.
- B. Certified General Accountants.
- C. Certified Management Accountants.
- D. Any of the above.

49. Describe accounting and its objective.

50. Match the following terms with the appropriate definition.

1. Accounting	An information and measurement system that identifies, records and communicates relevant information to people to help them make better decisions.	_____
2. Bookkeeping	The part of accounting that involves recording economic transactions and events, either electronically or manually.	_____
3. Social responsibility	Persons using accounting information who are not directly involved in the running of the organization.	_____
4. Internal users	Persons using accounting information who are directly involved in managing and operating an organization.	_____
5. Ethics	Codes of conduct by which actions are judged as right or wrong, fair or unfair, honest or dishonest.	_____
6. External users	Involves considering the impact of and being accountable for the effects that actions might have on society.	_____

51. Match the following terms with the appropriate definitions.

1. Audit	The area of accounting aimed at serving the decision-making needs of internal users.	_____
2. Financial accounting	A check of an organization's accounting systems and records.	_____
3. Controller	The process of developing formal plans for future activities, which often serve as a basis for evaluating actual performance.	_____
4. Managerial accounting	The area of accounting aimed at serving external users.	_____
5. Budgeting	The chief accounting officer of an organization.	_____

52. Identify the three forms of business organizations.

53. Describe non-business organizations, including their ownership and accountability.

54.

Identify the form of business organization(s) to which the following characteristics apply.

- (a) Is a separate business entity.
- (b) Can be owned by one person.
- (c) Owner or owners are personally liable for debts of the business.
- (d) Is a taxable entity.

- (e) Is created by a charter from a provincial or the federal government.
- (f) Keeps the accounting of its transactions separate from the owner's(s') personal transactions.
- (g) May have a contract specifying the division of profits among the owners.
- (h) Owner or owners are not personally liable for debts of the business.

Use the following format to indicate whether or not a characteristic applies to each type of business organization.

	Proprietorship	Partnership	Corporation
a.			
b.			
c.			
d.			
e.			
f.			
g.			
h.			

55. The following is a list of users of accounting information. Match the appropriate user groups to the following information needs. NOTE: Some needs may apply to more than one user group.

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>1. Lenders, External auditors, Suppliers, Regulators, Shareholders</li> <li>2. Managers</li> <li>3. Lenders, Managers, Regulators, Shareholders</li> <li>4. Managers</li> <li>5. Lenders, Managers</li> <li>6. Employees</li> <li>7. Lenders</li> <li>8. Shareholders</li> </ul> | <ul style="list-style-type: none"> <li>The level of sales necessary to break even. _____</li> <li>Verification that external reports are accurate. _____</li> <li>Computation of taxes. _____</li> <li>The ability of a company to repay its loans. _____</li> <li>The amount of current income. _____</li> <li>Fairness of wages. _____</li> <li>Promptness of customer payment of bills. _____</li> <li>Profit outlook. _____</li> </ul> |
|---|--|

56. Describe the main user groups, their members, and their uses of accounting information.

57. Explain why ethics and social responsibility are an integral part of accounting.

58. Identify several opportunities in accounting and its related fields.

59. Explain the difference between the functions of an internal auditor and an external auditor.

60. Accounting is an \_\_\_\_\_ that identifies, records, and communicates relevant, reliable and comparable information about an organization's economic activities.

\_\_\_\_\_

61. The primary objective of accounting is \_\_\_\_\_.

\_\_\_\_\_

62. A(n) \_\_\_\_\_ is a business owned by one person.

\_\_\_\_\_

63. When a corporation issues only one class of shares they are called \_\_\_\_\_ shares.

\_\_\_\_\_

64. \_\_\_\_\_ of accounting information are not directly involved in running the organization.

\_\_\_\_\_

65. \_\_\_\_\_ is the area of accounting aimed at serving external users.

\_\_\_\_\_

66. Persons using accounting information who are directly involved in the running of the organization are called \_\_\_\_\_.

\_\_\_\_\_

67. \_\_\_\_\_ are beliefs that separate right from wrong.

\_\_\_\_\_

68. An audit is \_\_\_\_\_ of an organization's accounting systems and records.

\_\_\_\_\_

## **1 KEY**

1. Accounting is an information and measurement system that communicates economic information to users.

**TRUE**

*Difficulty: Easy  
Larson - Chapter 01 #1  
Learning Objective: 1  
Type: Knowledge*

2. Accounting information is only relevant for people in business.

**FALSE**

*Difficulty: Easy  
Larson - Chapter 01 #2  
Learning Objective: 1  
Type: Knowledge*

3. The primary objective of accounting is to help people make better decisions.

**TRUE**

*Difficulty: Easy  
Larson - Chapter 01 #3  
Learning Objective: 1  
Type: Knowledge*

4. "Bookkeeping" is another term for "accounting."

**FALSE**

*Difficulty: Easy  
Larson - Chapter 01 #4  
Learning Objective: 1  
Type: Knowledge*

5. A sole proprietorship is a business owned by one or more persons.

**FALSE**

*Difficulty: Easy  
Larson - Chapter 01 #5  
Learning Objective: 2  
Type: Knowledge*

6. A partnership is a business owned by two or more people.

**TRUE**

*Difficulty: Easy  
Larson - Chapter 01 #6  
Learning Objective: 2  
Type: Knowledge*

7. Ownership of a corporation is divided into units called shares.

**TRUE**

*Difficulty: Easy  
Larson - Chapter 01 #7  
Learning Objective: 2  
Type: Knowledge*

8. In the partnership form of business, the owners of a business are called shareholders.

**FALSE**

*Difficulty: Easy  
Larson - Chapter 01 #8  
Learning Objective: 2  
Type: Knowledge*

9. Unlimited liability is an advantage for both a proprietorship and a partnership.

**FALSE**

*Difficulty: Moderate  
Larson - Chapter 01 #9  
Learning Objective: 2  
Type: Knowledge*

10. Although a proprietorship is not a separate legal entity, a partnership is.

**FALSE**

*Difficulty: Moderate  
Larson - Chapter 01 #10  
Learning Objective: 2  
Type: Knowledge*

11. Limited liability is a key consideration as to why corporations can raise resources from shareholders.

**TRUE**

*Difficulty: Moderate  
Larson - Chapter 01 #11  
Learning Objective: 2  
Type: Knowledge*

12. Non-business organizations often operate educational and religious services for profit.

**FALSE**

*Difficulty: Moderate  
Larson - Chapter 01 #12  
Learning Objective: 2  
Type: Knowledge*

13. External users include creditors, shareholders, employees, and lawyers.

**TRUE**

*Difficulty: Easy  
Larson - Chapter 01 #13  
Learning Objective: 3  
Type: Knowledge*

14. Internal users include creditors, shareholders, internal auditors and managers.

**FALSE**

*Difficulty: Moderate  
Larson - Chapter 01 #14  
Learning Objective: 3  
Type: Knowledge*

15. Managerial accounting is an area of accounting that provides internal reports to assist the decision-making needs of internal users.

**TRUE**

*Difficulty: Easy  
Larson - Chapter 01 #15  
Learning Objective: 3  
Type: Knowledge*

16. Internal operating functions include research and development, distribution, and human resources.

**TRUE**

*Difficulty: Easy  
Larson - Chapter 01 #16  
Learning Objective: 3  
Type: Knowledge*

17. Internal controls include procedures to protect assets and prevent fraud.

**TRUE**

*Difficulty: Moderate  
Larson - Chapter 01 #17  
Learning Objective: 3  
Type: Knowledge*

18. The preferred ethical path is to take a course of action that avoids casting doubt on one's decisions.

**TRUE**

*Difficulty: Moderate  
Larson - Chapter 01 #18  
Learning Objective: 4  
Type: Knowledge*

19. Ethics and laws often differ.

**FALSE**

*Difficulty: Easy  
Larson - Chapter 01 #19  
Learning Objective: 4  
Type: Knowledge*

20. Ethics and social responsibility are incidental to the primary functions of accounting.

**FALSE**

*Difficulty: Moderate  
Larson - Chapter 01 #20  
Learning Objective: 4  
Type: Knowledge*

21. Ethical practices are not necessary to build trust and long-term relationships with customers.

**FALSE**

*Difficulty: Moderate  
Larson - Chapter 01 #21  
Learning Objective: 4  
Type: Knowledge*

22. Social responsibility is concern for the impact of our actions on society as a whole.

**TRUE**

*Difficulty: Easy  
Larson - Chapter 01 #22  
Learning Objective: 4  
Type: Knowledge*

23. Private accountants work for several employers.

**FALSE**

Difficulty: Moderate  
 Larson - Chapter 01 #23  
 Learning Objective: 5  
 Type: Knowledge

24. The primary objective of financial accounting is to provide internal reports called financial statements to help users analyze an organization's activities.

**FALSE**

Difficulty: Hard  
 Larson - Chapter 01 #24  
 Learning Objective: 5  
 Type: Knowledge

25. Career opportunities in accounting include auditing, forensic accounting, and tax planning.

**TRUE**

Difficulty: Moderate  
 Larson - Chapter 01 #25  
 Learning Objective: 5  
 Type: Knowledge

26. Budgeting is the process of developing formal plans for an organization's future activities.

**TRUE**

Difficulty: Easy  
 Larson - Chapter 01 #26  
 Learning Objective: 5  
 Type: Knowledge

27. At the request of the Board of Directors, internal auditors perform the audit function to protect shareholder interests.

**FALSE**

Difficulty: Moderate  
 Larson - Chapter 01 #27  
 Learning Objective: 5  
 Type: Knowledge

28. The purpose of an audit is to add credibility to the financial statements.

**TRUE**

Difficulty: Moderate  
 Larson - Chapter 01 #28  
 Learning Objective: 5  
 Type: Knowledge

29. Sole proprietorships and partnerships are not subject to income tax in Canada.

**TRUE**

Difficulty: Moderate  
 Larson - Chapter 01 #29  
 Learning Objective: 5  
 Type: Knowledge

30. The professional designation "CGA" stands for "Chartered General Accountant."

**FALSE**

Difficulty: Easy  
 Larson - Chapter 01 #30  
 Learning Objective: 5  
 Type: Knowledge

31. Accounting is an information and measurement system that:

- A. Identifies economic activities.
- B. Records economic activities.
- C. Communicates economic information.
- D.** Identifies and records economic activities.
- E. All of these answers are correct.

Difficulty: Moderate  
 Larson - Chapter 01 #31  
 Learning Objective: 1  
 Type: Knowledge

32. The recording of financial transactions either manually or electronically is called:

- A. Accounting.
- B.** Bookkeeping.
- C. Preparing financial statements.
- D. Auditing.
- E. Systems design.

Difficulty: Easy  
 Larson - Chapter 01 #32  
 Learning Objective: 1  
 Type: Knowledge

33. A business:

- A.** Is one or more individuals selling products or services for profit.
- B. Can only have one legal form of organization.
- C. Can have adequate financial records without a formal accounting system.
- D. Has to issue shares before it opens.
- E. Is one or more individuals selling products or services for profit and has to issue shares before it opens.

*Difficulty: Moderate  
Larson - Chapter 01 #33  
Learning Objective: 2  
Type: Knowledge*

34. Businesses can take the following form(s):

- A. Sole proprietorship.
- B. Not-for-profit.
- C. Partnership.
- D.** Sole proprietorship and partnership.
- E. All of these answers are correct.

*Difficulty: Moderate  
Larson - Chapter 01 #34  
Learning Objective: 2  
Type: Knowledge*

35. A corporation:

- A.** Is a legal entity separate and distinct from its owners.
- B. Is regulated by Canada Revenue Agency.
- C. Has shareholders who have unlimited liability for the acts of the corporation.
- D. Can only have two owners.
- E. Is not a legal entity.

*Difficulty: Moderate  
Larson - Chapter 01 #35  
Learning Objective: 2  
Type: Knowledge*

36. A partnership:

- A. Is also called a sole proprietorship.
- B.** Has unlimited liability.
- C. Has to have a written agreement in order to be legal.
- D. Is a legal organization separate from its owners.
- E. Is a non-business organization.

*Difficulty: Moderate  
Larson - Chapter 01 #36  
Learning Objective: 2  
Type: Knowledge*

37. External users of accounting information include:

- A. Shareholders.
- B. Customers.
- C. Creditors.
- D. The press.
- E.** All of these answers are correct.

*Difficulty: Easy  
Larson - Chapter 01 #37  
Learning Objective: 3  
Type: Knowledge*

38. The primary objective of financial accounting is:

- A. To help organizations keep track of financing activities.
- B.** To provide external reports to help users analyze an organization's activities.
- C. To help an organization define its ideas, goals, and actions.
- D. To help an organization to keep track of its buying and selling of resources.
- E. To prepare budgets.

*Difficulty: Moderate  
Larson - Chapter 01 #38  
Learning Objective: 3  
Type: Knowledge*

39. Internal users of accounting information include:

- A. Shareholders.
- B.** Managers.
- C. Creditors.
- D. Investors.
- E. Customers.

*Difficulty: Easy  
Larson - Chapter 01 #39  
Learning Objective: 3  
Type: Knowledge*

40. The area of accounting aimed at serving the decision-making needs of internal users is:

- A. Financial accounting.
- B.** Managerial accounting.
- C. Auditing.

- D. Internal control.
- E. Marketing.

*Difficulty: Moderate  
Larson - Chapter 01 #40  
Learning Objective: 3  
Type: Knowledge*

41. The internal functions of a business include:

- A. Research and development.
- B. Purchasing.
- C. Marketing.
- D. Servicing.
- E.** All of these answers are correct.

*Difficulty: Moderate  
Larson - Chapter 01 #41  
Learning Objective: 3  
Type: Knowledge*

42. Internal controls are procedures set up to:

- A. Protect assets.
- B. Ensure accounting reports are reliable.
- C. Promote efficiency.
- D. Ensure company policies are followed.
- E.** All of these answers are correct.

*Difficulty: Moderate  
Larson - Chapter 01 #42  
Learning Objective: 3  
Type: Knowledge*

43. Ethics:

- A. Are beliefs that separate right from wrong.
- B. And law often coincide.
- C. Help to prevent conflicts of interest.
- D. Are very important considerations for accountants.
- E.** All of these answers are correct.

*Difficulty: Moderate  
Larson - Chapter 01 #43  
Learning Objective: 4  
Type: Knowledge*

44. Ethical behaviour requires:

- A.** Accountants to keep business information confidential.
- B. Auditors to invest in businesses they audit.
- C. Analysts to report information favourable to their companies.
- D. Purchasing agents to favour certain suppliers.
- E. The government to regulate businesses.

*Difficulty: Easy  
Larson - Chapter 01 #44  
Learning Objective: 4  
Type: Knowledge*

45. Social responsibility:

- A. Is a code that helps accountants when dealing with confidential information.
- B.** Is a concern for the impact of our actions on society as a whole.
- C. Allows Canada Revenue Agency to regulate businesses.
- D. Requires that all businesses conduct social audits.
- E. Requires analysts to report information favourable to their companies.

*Difficulty: Moderate  
Larson - Chapter 01 #45  
Learning Objective: 4  
Type: Knowledge*

46. Career opportunities in accounting include:

- A. Budgeting.
- B. Auditing.
- C. Cost accounting.
- D. Management consulting.
- E.** All of these answers are correct.

*Difficulty: Easy  
Larson - Chapter 01 #46  
Learning Objective: 5  
Type: Knowledge*

47. An audit:

- A. Is required for every business.
- B. Is an independent review of an organization's accounting systems and records.
- C. Is performed to add credibility to the financial statements.
- D. Is only performed for companies with computerized accounting systems.
- E.** Is an independent review of an organization's accounting systems and records and is performed to add credibility to the financial statements.

Difficulty: Hard  
Larson - Chapter 01 #47  
Learning Objective: 5  
Type: Knowledge

48. Professional accountants can be:

- A. Chartered Accountants.
- B. Certified General Accountants.
- C. Certified Management Accountants.
- D.** Any of the above.

Difficulty: Moderate  
Larson - Chapter 01 #48  
Learning Objective: 5  
Type: Knowledge

49. Describe accounting and its objective.

Accounting is an information and measurement system. It provides organizations with the tools to identify, record, and communicate relevant, reliable, and comparable information about economic activities. Accounting helps organizations to better assess opportunities, products, investments, and social and community responsibilities.

Difficulty: Moderate  
Larson - Chapter 01 #49  
Learning Objective: 1  
Type: Knowledge

50. Match the following terms with the appropriate definition.

- |                          |  |          |
|--------------------------|--|----------|
| 1. Accounting            | An information and measurement system that identifies, records and communicates relevant information to people to help them make better decisions. | <u>1</u> |
| 2. Bookkeeping           | The part of accounting that involves recording economic transactions and events, either electronically or manually.                                | <u>2</u> |
| 3. Social responsibility | Persons using accounting information who are not directly involved in the running of the organization.   | <u>6</u> |
| 4. Internal users        | Persons using accounting information who are directly involved in managing and operating an organization.  | <u>4</u> |
| 5. Ethics                | Codes of conduct by which actions are judged as right or wrong, fair or unfair, honest or dishonest.   | <u>5</u> |
| 6. External users        | Involves considering the impact of and being accountable for the effects that actions might have on society.                                       | <u>3</u> |

Difficulty: Moderate  
Larson - Chapter 01 #50  
Learning Objective: 1-4  
Type: Knowledge

51. Match the following terms with the appropriate definitions.

- |                          |   |          |
|--------------------------|---|----------|
| 1. Audit                 | The area of accounting aimed at serving the decision-making needs of internal users.  | <u>4</u> |
| 2. Financial accounting  | A check of an organization's accounting systems and records.  | <u>1</u> |
| 3. Controller            | The process of developing formal plans for future activities, which often serve as a basis for evaluating actual performance. | <u>5</u> |
| 4. Managerial accounting | The area of accounting aimed at serving external users.   | <u>2</u> |
| 5. Budgeting             | The chief accounting officer of an organization.  | <u>3</u> |

Difficulty: Moderate  
Larson - Chapter 01 #51  
Learning Objective: 1-5  
Type: Knowledge

52. Identify the three forms of business organizations.

The three forms of business organizations are sole proprietorships, partnerships, and corporations.

Difficulty: Easy  
Larson - Chapter 01 #52  
Learning Objective: 2  
Type: Knowledge

53. Describe non-business organizations, including their ownership and accountability.

Non-business organizations operate not for profit, but rather for other goals such as health, education, cultural and social activities. Many are charitable organizations. They do not have an identifiable owner, but they are still accountable to taxpayers, donors, lenders, legislators, and other stakeholders.

Difficulty: Moderate  
Larson - Chapter 01 #53  
Learning Objective: 2  
Type: Knowledge

54. Identify the form of business organization(s) to which the following characteristics apply.

- (a) Is a separate business entity.
- (b) Can be owned by one person.
- (c) Owner or owners are personally liable for debts of the business.
- (d) Is a taxable entity.
- (e) Is created by a charter from a provincial or the federal government.

- (f) Keeps the accounting of its transactions separate from the owner's(s') personal transactions.  
 (g) May have a contract specifying the division of profits among the owners.  
 (h) Owner or owners are not personally liable for debts of the business.

Use the following format to indicate whether or not a characteristic applies to each type of business organization.

	Proprietorship	Partnership	Corporation
a.			
b.			
c.			
d.			
e.			
f.			
g.			
h.			

	Proprietorship	Partnership	Corporation
a.	yes	yes	yes
b.	yes	no	yes
c.	yes	yes	no
d.	no	no	yes
e.	no	no	yes
f.	yes	yes	yes
g.	no	yes	no
h.	no	no	yes

*Difficulty: Moderate*  
*Larson - Chapter 01 #54*  
*Learning Objective: 2*  
*Type: Knowledge*

55. The following is a list of users of accounting information. Match the appropriate user groups to the following information needs. NOTE: Some needs may apply to more than one user group.

1. Lenders, External auditors, Suppliers, Regulators, Shareholders	The level of sales necessary to break even. <u>2</u>
2. Managers	Verification that external reports are accurate. <u>1</u>
3. Lenders, Managers, Regulators, Shareholders	Computation of taxes. <u>2</u>
4. Managers	The ability of a company to repay its loans. <u>7</u>
5. Lenders, Managers	The amount of current income. <u>3</u>
6. Employees	Fairness of wages. <u>6</u>
7. Lenders	Promptness of customer payment of bills. <u>5</u>
8. Shareholders	Profit outlook. <u>8</u>

*Difficulty: Hard*  
*Larson - Chapter 01 #55*  
*Learning Objective: 3*  
*Type: Knowledge*

56. Describe the main user groups, their members, and their uses of accounting information.

There are two types of users of accounting information. Internal users are managers, officers, and owners of businesses. They require information about business activities in order to make decisions about planning, monitoring, and control. External users include lenders, shareholders, and employees. Lenders need information for measuring the risk and return of loans. Shareholders need information for assessing the risk and return in owning shares. Employees need information about employment opportunities.

*Difficulty: Hard*  
*Larson - Chapter 01 #56*  
*Learning Objective: 3*  
*Type: Knowledge*

57. Explain why ethics and social responsibility are an integral part of accounting.

The purpose of accounting is to provide useful information for decision makers. For information to be useful, it must be trustworthy and reliable. This requires ethical and socially responsible behaviour by accountants and managers in all phases of gathering, analyzing, and reporting financial information.

*Difficulty: Hard*  
*Larson - Chapter 01 #57*  
*Learning Objective: 4*  
*Type: Knowledge*

58. Identify several opportunities in accounting and its related fields.

The traditional areas of accounting include financial accounting, managerial accounting, auditing, and taxation. Other opportunities include management advising, investigations, and planning. Work in related fields includes consulting, underwriting, appraisals and trading.

Difficulty: Moderate  
Larson - Chapter 01 #58  
Learning Objective: 5  
Type: Knowledge

59. Explain the difference between the functions of an internal auditor and an external auditor.

An internal auditor is employed within the organization for the purpose of evaluating the efficiency and effectiveness of organizational procedures.

An external auditor performs an audit of the company's records at the request of the Board of Directors to protect shareholder interests.

Difficulty: Moderate  
Larson - Chapter 01 #59  
Learning Objective: 5  
Type: Knowledge

60. Accounting is an \_\_\_\_\_ that identifies, records, and communicates relevant, reliable and comparable information about an organization's economic activities.

### **Information system**

Difficulty: Hard  
Larson - Chapter 01 #60  
Learning Objective: 1  
Type: Knowledge

61. The primary objective of accounting is \_\_\_\_\_.

### **To help people make better decisions.**

Difficulty: Easy  
Larson - Chapter 01 #61  
Learning Objective: 1  
Type: Knowledge

62. A(n) \_\_\_\_\_ is a business owned by one person.

### **Sole proprietorship**

Difficulty: Easy  
Larson - Chapter 01 #62  
Learning Objective: 2  
Type: Knowledge

63. When a corporation issues only one class of shares they are called \_\_\_\_\_ shares.

### **Common**

Difficulty: Easy  
Larson - Chapter 01 #63  
Learning Objective: 2  
Type: Knowledge

64. \_\_\_\_\_ of accounting information are not directly involved in running the organization.

### **External users**

Difficulty: Moderate  
Larson - Chapter 01 #64  
Learning Objective: 3  
Type: Knowledge

65. \_\_\_\_\_ is the area of accounting aimed at serving external users.

### **Financial accounting**

Difficulty: Moderate  
Larson - Chapter 01 #65  
Learning Objective: 3  
Type: Knowledge

66. Persons using accounting information who are directly involved in the running of the organization are called \_\_\_\_\_.

### **Internal users**

Difficulty: Easy  
Larson - Chapter 01 #66  
Learning Objective: 3  
Type: Knowledge

67. \_\_\_\_\_ are beliefs that separate right from wrong.

### **Ethics**

Difficulty: Easy  
Larson - Chapter 01 #67  
Learning Objective: 4  
Type: Knowledge

68. An audit is \_\_\_\_\_ of an organization's accounting systems and records.

### **A check or review**

Difficulty: Easy  
Larson - Chapter 01 #68  
Learning Objective: 5  
Type: Knowledge

# **1 Summary**

<u>Category</u>	<u># of Questions</u>
Difficulty: Easy	27
Difficulty: Hard	6
Difficulty: Moderate	35
Larson - Chapter 01	68
Learning Objective: 1	9
Learning Objective: 1-4	1
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