SS 06 Financial Reporting and Analysis: An Introduction

Question #1 of 82

Question ID: 414058

An analyst is *least* likely to use disclosures of accounting policies and estimates to evaluate:

A) what policies are likely to be modified in future periods.

B) whether the disclosures have changed since the prior period.

C) what policies are discussed.

Question #2 of 82

Question ID: 413994

A company's operating revenues for a reporting period are *most likely* to be shown on its:

A) cash flow statement.

B) balance sheet.

C) income statement.

Question #3 of 82

Question ID: 492014

An analyst who wants to examine a firm's financing transactions during the most recent period is *most likely* to evaluate the firm's statement of:

A) financial position.

B) comprehensive income.

C) cash flows.

Question #4 of 82

Question ID: 414004

Which of the following is an analyst *least likely* to rely on as objective information to include in a company analysis?

A) Corporate press releases.

B) Proxy statements.

C) Government agency statistical data on the economy and the company's industry.

Question #5 of 82

Question ID: 498752

Which of the following is *least likely* one of the general requirements for financial statements under IFRS?

A) Statements should be prepared under a going concern assumption.

B) Statements should be prepared at least quarterly.

C) No offsetting of income against expenses unless a standard permits or requires it.

Question #6 of 82

Question ID: 414028

Which of the following is the *best* description of the flow of information in an accounting system?

A) Trial balance, general ledger, general journal, financial statements.

B) Journal entries, general ledger, trial balance, financial statements.

C) General ledger, trial balance, general journal, financial statements.

Question #7 of 82

Question ID: 414049

Which of the following is a company *least* likely required to present according to International Accounting Standard (IAS) No. 1?

A) A summary of accounting policies.

B) Statement of changes in owners' equity.

C) Disclosures of material events.

Question #8 of 82

Question ID: 414025

Alpha Company reported the following financial statement information:

December 31, 2006:

Assets	$70,000
Liabilities	45,000

December 31, 2007:

Assets	82,000
Liabilities	55,000

During 2007:

Stockholder investments	3,000
Net income	?
Dividends	6,000

Calculate Alpha's net income for the year ended December 31, 2007 and the *change* in stockholders' equity for the year ended December 31, 2007.

	Net income	Change in stockholders' equity
A)	$5,000	$2,000 decrease
B)	$5,000	$2,000 increase
C)	($3,000)	$2,000 increase

Question #9 of 82

Question ID: 414034

Which of the following statements about financial reporting standards is *least* accurate? Reporting standards:

A) ensure that the information is "useful to a wide range of users."

B) narrow the range within which management estimates can be seen as reasonable.

C) are disclosed on Form 8K by publicly traded firms in the United States.

Question #10 of 82

Question ID: 598952

A firm buys a machine that it will use in its factory for five years. This purchase is *most appropriately* classified as a(n):

A) operating activity.

B) financing activity.

C) investing activity.

Question #11 of 82

Question ID: 414053

Characteristics of a coherent financial reporting framework are *best* described as:

A) transparency, consistency, and comprehensiveness.

B) materiality, comprehensiveness, and aggregation.

C) consistency, materiality, and transparency.

Question #12 of 82

Question ID: 485773

Which of the following financial reporting choices is permitted under IFRS but not under U.S. GAAP?

A) Excluding actuarial gains and losses from balance sheet pension items.

B) Netting deferred tax assets with deferred tax liabilities.

C) Revaluing plant and equipment upward.

Question #13 of 82

Question ID: 414031

Reading the footnotes to a company's financial statements and the Management Discussion & Analysis is *least likely* to help an analyst determine:

A) how well the financial statements reflect the company's true performance.

B) the various accruals, adjustments and assumptions that went into the financial statements.

C) the detailed information that underlies the company's accounting system.

Question #14 of 82

Question ID: 414023

Beta Company reported the following financial statement information:

December 31, 2006:	
Assets	$58,000
Liabilities	28,000
December 31, 2007:	
Assets	?
Liabilities	38,000
During 2007:	
Stockholder investments	15,500
Net income	18,000
Dividends	7,750

Calculate Beta's total assets and stockholders' equity as of December 31, 2007.

<u>Total assets</u>	<u>Stockholders'</u>

		equity
A)	$93,750	$55,750
B)	$93,750	$30,000
C)	$79,250	$55,750

Question #15 of 82

Question ID: 414007

The step in the financial statement analysis framework that includes making any appropriate adjustments to the financial statements and calculating ratios is *best* described as:

A) processing the data.

B) analyzing and interpreting the data.

C) gathering the data.

Question #16 of 82

Question ID: 414013

In the expanded form of the accounting equation, assets equal liabilities plus contributed capital plus:

A) ending retained earnings.

B) beginning retained earnings plus revenue minus expenses.

C) ending retained earnings minus beginning retained earnings.

Question #17 of 82

Question ID: 413999

The Management Discussion and Analysis (MD&A) portion of the financial disclosure is *least likely* required to discuss:

A) capital resources and liquidity.

B) unusual or infrequent items.

C) results of operations.

Question #18 of 82

Question ID: 414016

A furniture store acquires a set of chairs for $750 cash and sells them for $1000 cash. These transactions are *most likely* to affect which accounts?

	Purchase	Sale
A)	Assets only	Assets, revenue, expenses, owners' equity
B)	Assets only	Assets and revenues only
C)	Assets and expenses	Assets, revenue, expenses, owners' equity

Question #19 of 82

Question ID: 485772

According to the IASB Conceptual Framework for Financial Reporting, one of the qualitative characteristics of financial statements is:

A) timeliness.

B) going concern.

C) faithful representation.

Question #20 of 82

Question ID: 414047

Which of the following is *least likely* a qualitative characteristic accounting information must possess in order to provide useful information to an analyst, according to the IASB Conceptual Framework?

A) Conservatism.

B) Faithful representation.

C) Relevance.

Question #21 of 82

Question ID: 414057

Management disclosure of the likely impact of implementing recently issued accounting standards is *least* likely to:

A) conclude that the standard does not apply.

B) conclude that the standard will not affect the financial statements materially.

C) state that the impact of the standard is impossible to determine.

Question #22 of 82

Question ID: 414032

Sergey Martinenko is an investment analyst with Profis, Martinenko and Verona. He is explaining to his new assistant, John Stevenson, why it is crucial for an investment analyst to read the footnotes to a firm's financial statement and the Management Discussion and Analysis (MD&A) before making an investment decision. Which rationale is Martinenko *least likely* to provide to Stevenson regarding the importance of analyzing the footnotes and MD&A?

A) Accruals, adjustments and assumptions are often explained in the footnotes and MD&A.

B) Evaluating the footnotes helps the analyst assess whether management is manipulating earnings.

C) The footnotes disclose whether or not the company is adhering to GAAP.

Question #23 of 82

Question ID: 498753

Significant accounting choices are most likely to be disclosed in the management commentary under:

A) U.S. GAAP only.

B) IFRS only.

C) both U.S. GAAP and IFRS.

Question #24 of 82

Question ID: 485770

A company collects cash from a customer to settle an account receivable. What effect does this transaction have on the company's total assets and total shareholders' equity?

	Assets	Equity
A)	No effect	No effect
B)	Increase	Increase
C)	No effect	Increase

Question #25 of 82

Question ID: 414019

Which of the following *least* accurately describes a correct use of double-entry accounting?

A) A transaction may be recorded in more than two accounts.

B) An increase in an asset account may be balanced by an increase in an owner's equity account.

C) A decrease in a liability account may be balanced by a decrease in another liability account.

Question #26 of 82

Question ID: 683841

The Management Discussion and Analysis (MD&A) portion of the financial statements:

A) includes audited disclosures that help explain the information summarized in the financial statements.

B) is not required by the SEC.

C) includes such items as discontinued operations and other unusual or infrequent events.

Question #27 of 82

Question ID: 414050

Which of the following financial reporting choices is permitted under IFRS but not under U.S. GAAP?

A) Netting deferred tax assets with deferred tax liabilities.

B) Revaluing plant and equipment upward.

C) Excluding actuarial gains and losses from balance sheet pension items.

Question #28 of 82

Question ID: 414054

Which of the following is *least* likely to be considered a characteristic of a coherent financial reporting framework?

A) Transparency.

B) Stability.

C) Comprehensiveness.

Question #29 of 82

Question ID: 414039

When a publicly traded U.S. company prepares a proxy statement for its shareholders prior to the annual meeting or other shareholder vote, it also files the statement with the SEC as Form:

A) 144.

B) DEF-14A.

C) 8-K.

Question #30 of 82

Question ID: 414026

The *best* description of the general ledger is that it:

A) groups accounts into the categories that are presented in the financial statements.

B) sorts the entries in the general journal by account.

C) is where journal entries are first recorded.

Question #31 of 82

Question ID: 414037

Desirable attributes of accounting standard-setting bodies *least likely* include:

A) making decisions that are in the public interest.

B) having clear and consistent standard-setting processes.

C) operating independently of interested stakeholders.

Question #32 of 82

Question ID: 414018

The purchase of equipment for $25,000 cash is *most likely* to be recorded as:

A) an increase in two asset accounts.

B) an increase in an asset account and an increase in a liability account.

C) an increase in one asset account and a decrease in another asset account.

Question #33 of 82

Question ID: 414035

Which description of the objective of financial statements is *most* accurate? The objective of financial statements is:

A) to provide a wide range of users with information about a firm's financial prospects.

B) to provide securities analysts with objective data about a firm's financial prospects.

C) to provide economic decision makers with useful information about a firm's financial performance and changes in financial position.

Question #34 of 82

Question ID: 414040

Which of the following is *least* likely to be considered a stated goal of the International Accounting Standards Board (IASB)?

A) Develop global accounting standards requiring transparency, comparability, and high quality in financial statements.

B) Remain neutral in the debate on the use of global accounting standards to avoid appearance of a conflict of interest.

C) Account for the needs of emerging markets and small firms when implementing global accounting standards.

Question #35 of 82

Question ID: 414017

Washburn Motors signs a contract to sell a $100,000 luxury sedan to be delivered next month, and receives a $20,000 cash down payment from the buyer. How will the transaction *most likely* affect Washburn's assets and liabilities?

	Assets	Liabilities
A)	Unchanged	Unchanged
B)	Increase	Increase
C)	Increase	Unchanged

Question #36 of 82

Question ID: 414036

Which of the following statements about financial statements and reporting standards is *least* accurate?

A) Financial statements could potentially take any form if reporting standards didn't exist.

B) The objective of financial statements is to provide economic decision makers with useful information.

C) Reporting standards focus mostly on format and presentation and allow management wide latitude in assumptions.

Question #37 of 82

Question ID: 414051

Under which framework for financial reporting systems are the financial statement elements related to performance defined as revenues, expenses, gains, losses, and comprehensive income?

A) FASB framework.

B) Both IASB and FASB frameworks.

C) IASB framework.

Question #38 of 82

Question ID: 414003

Which of the following statements about proxy statements is *least* accurate? Proxy statements are:

A) not filed with the SEC.

B) a good source of information about the qualifications of board members and management.

C) available on the EDGAR web site.

Question #39 of 82

Question ID: 414048

Required financial statements, according to International Accounting Standard (IAS) No. 1, include a(n):

A) cash flow statement and auditor's report.

B) balance sheet and explanatory notes.

C) income statement and working capital summary.

Question #40 of 82

Question ID: 413993

According to the IASB, which of the following *least* accurately describes financial reporting? Financial reporting:

A) uses the information in a company's financial statements to make economic decisions.

B) provides information about changes in financial position of an entity.

C) is useful to a wide range of users.

Question #41 of 82

Question ID: 598951

An equipment manufacturer builds a machine and sells it to a firm that will use it for five years. For the manufacturer, this sale is classified as a(n):

A) operating activity.

B) financing activity.

C) investing activity.

Question #42 of 82

Question ID: 414055

Disagreements that inhibit development of a coherent financial reporting framework are *least* likely to involve which of the following?

A) Transparency.

B) Standard setting.

C) Valuation.

Question #43 of 82

Question ID: 414033

Jack Rivers is an investment analyst for the equity fund of a family office. The head of the family, Charlotte Blackmon, is concerned that management may be manipulating the earnings of some of the companies that the fund invests in. Rivers explains to Blackmon, "Even though we don't have access to the detailed transactions that underlie the financial statements, we can be sure that management is not manipulating earnings because I read the footnotes to the financial statements of every company we invest in. The footnotes would disclose any deviation from appropriate accounting parameters." Rivers is:

A) incorrect because deviation from appropriate accounting parameters is addressed in the auditor's report, so a qualified opinion in the auditor's report ensures that management is not manipulating earnings.

B) incorrect because even within appropriate accounting parameters, management can manipulate earnings through the assumptions that rely on their discretion.

C) correct.

Question #44 of 82

Question ID: 414002

Which of the following is an independent auditor *least likely* to do with respect to a company's financial statements?

A) Prepare and accept responsibility for them.

B) Provide an opinion concerning their fairness and reliability.

C) Confirm assets and liabilities contained in them.

Question #45 of 82

Question ID: 414009

In the financial statement analysis framework, using the data to address the objectives of the analysis and deciding what conclusions or recommendations the information supports is *best* described as:

A) analyzing and interpreting the data.

B) reporting the conclusions.

C) processing the data.

Question #46 of 82

Question ID: 414027

A listing of all the firm's journal entries by date is called the:

A) adjusted trial balance.

B) general ledger.

C) general journal.

Question #47 of 82

Question ID: 414001

Which of the following would NOT require an explanatory paragraph added to the auditors' report?

A) Doubt regarding the "going concern" assumption.

B) Statements that the financial information was prepared according to GAAP.

C) Uncertainty due to litigation.

Question #48 of 82

Question ID: 414011

Accumulated depreciation and treasury stock are *most likely* to be shown as what types of accounts?

	Accumulated depreciation	Treasury stock
A)	Contra-asset	Contra-equity
B)	Contra-asset	Equity
C)	Liability	Equity

Question #49 of 82

Question ID: 414010

Allowance for bad debts and investment in affiliates are *most likely* to be shown as what types of accounts?

	Allowance for bad debts	Investment in affiliates
A)	Contra-asset	Asset

B)	Liabilities	Asset
C)	Contra-asset	Liabilities

Question #50 of 82

Question ID: 414038

Professional organizations of accountants and auditors that establish financial reporting standards are called:

A) Regulatory authorities.
B) International organizations of securities commissions.
C) Standard setting bodies.

Question #51 of 82

Question ID: 434268

An analyst can find a company's accounting policies that require significant judgement or estimates in:

A) both the footnotes to the financial statements and Management's Discussion and Analysis.
B) both the footnotes and in the auditor's opinion.
C) only the footnotes.

Question #52 of 82

Question ID: 485769

In addition to the audited financial statements included in a firm's annual report, which of the following sources of information is *most likely* to contain audited data?

A) Interim financial statements filed with the SEC.
B) Footnotes to the annual financial statements.
C) Management's commentary.

Question #53 of 82

Question ID: 414030

Regarding the use of financial statements in security analysis and selection, it would be *most* accurate to say that:

A) analysts can use footnotes and Management's Discussion and Analysis to better understand assumptions used in the financial statements.
B) analysts can verify the accuracy of financial statements by using a firm's detailed accounting system information.

C) further analysis of a firm's financial statements is typically not necessary if the firm has conformed to applicable accounting principles.

Question #54 of 82

Question ID: 414005

Which of the following is *least likely* to be available on EDGAR (Electronic Data Gathering, Analysis, and Retrieval System)?

A) Form 10Q.

B) Corporate press releases.

C) SEC filings.

Question #55 of 82

Question ID: 414043

The process of developing one universally accepted set of accounting standards is *best* described as:

A) unification.

B) convergence.

C) IASB.

Question #56 of 82

Question ID: 413990

Which of the following statements about financial statement analysis and reporting is *least* accurate?

A) Providing information about changes in a company's financial position is a role of financial reporting.

B) Financial statement analysis focuses on the way companies show their financial performance to investors by preparing and presenting financial statements.

C) Deciding whether to recommend a company's securities to investors is a role of financial statement analysis.

Question #57 of 82

Question ID: 414046

According to the IFRS framework, timeliness is a characteristic that enhances:

A) relevance.

B) both relevance and faithful representation.

C) faithful representation.

Question #58 of 82

Question ID: 414052

Which of the following statements about the elements of financial statements under the FASB and IASB frameworks is *least* accurate?

A) The IASB framework lists income and expenses as the elements related to performance.

B) The IASB framework does not allow the values of assets to be adjusted upward.

C) The word "probable" is used by the FASB to define assets and liabilities.

Question #59 of 82

Question ID: 414029

Prema Singh is the bookkeeper for Octabius Industries. Singh has been asked by the CFO of Octabius to review all purchases that occurred between February 1 and February 8 to investigate an error on the receiving dock. Singh will *most likely* look at the:

A) general ledger.

B) initial trial balance.

C) general journal.

Question #60 of 82

Question ID: 414042

Which of the following is *most* likely to be considered a barrier to developing one universally recognized set of reporting standards?

A) Reluctance of firms to adhere to a single set of reporting standards.

B) GATT already requires sufficient agreement.

C) Different standard-setting bodies of different countries disagree on the best treatment of a particular issue.

Question #61 of 82

Question ID: 414024

Wichita Corporation reported the following balances as of December 31, 2007:

Cash	$?
Accounts payable	16,000
Accounts receivable	58,000
Additional paid-in capital	42,000

Common stock	19,600
Inventory	12,000
Plant and equipment	26,800
Notes payable	20,000
Retained earnings	32,000

Calculate Wichita's cash and total assets as of December 31, 2007 based only on these entries.

	Cash	Total assets
A)	$32,800	$113,600
B)	$16,000	$129,600
C)	$32,800	$129,600

Question #62 of 82

Question ID: 413991

Which of the following *best* describes financial reporting and financial statement analysis?

A) The objective of financial analysis is to provide information about the financial position of an entity that is useful to a wide range of users.

B) Financial reporting refers to how companies show their financial performance and financial analysis refers to using the information to make economic decisions.

C) Financial reports assess a company's past performance in order to draw conclusions about the company's ability to generate cash and profits in the future.

Question #63 of 82

Question ID: 413995

Which of the following statements represents information at a specific point in time?

A) The balance sheet.

B) The income statement.

C) The income statement and the balance sheet.

Question #64 of 82

Question ID: 414045

According to the IASB conceptual framework, characteristics that enhance relevance and faithful representation include:

A) timeliness and verifiability.

B) assurance and understandability.

C) comparability and thoroughness.

Question #65 of 82

Question ID: 713757

Which of the following statements regarding footnotes to the financial statements is *least* accurate? Financial statement footnotes:

A) typically include a discussion of the firm's past performance and future outlook.

B) provide information about assumptions and estimates used by management.

C) may contain information regarding contingent losses.

Question #66 of 82

Question ID: 414020

An accounting entry that updates the historical cost of an asset to current market levels is *best* described as:

A) accumulated depreciation.

B) a contra account.

C) a valuation adjustment.

Question #67 of 82

Question ID: 414041

The term "convergence" is *most* accurately used to describe:

A) the reduction of the premium on a bond as it nears maturity.

B) the process of developing one universally accepted set of accounting standards.

C) when expected return and required return are equal.

Question #68 of 82

Question ID: 413997

Which of the following statements concerning the notes to the audited financial statements of a company is *least* accurate? Financial statement notes:

A) contain information about contingent losses that may occur.

B) include management's assessment of the company's operating performance and financial results.

C) are audited.

Question #69 of 82

Question ID: 414044

Two underlying assumptions of financial statements, according to the IASB conceptual framework, are:

A) going concern and accrual accounting.

B) historical cost and going concern.

C) accrual accounting and historical cost.

Question #70 of 82

Question ID: 414021

Accruals are *best* described as requiring an accounting entry:

A) only when a good or service has been provided.

B) when an expense has been incurred.

C) when the earliest event in a transaction occurs.

Question #71 of 82

Question ID: 414000

The standard auditor's report is *most likely* required to:

A) provide reasonable assurance that the financial statements contain no material errors.

B) provide an "unqualified" opinion if material uncertainties exist.

C) provide reasonable assurance that management is reliable.

Question #72 of 82

Question ID: 414015

The following amounts were drawn from the records of JME Company: total assets = $1,200; total liabilities = $750; contributed capital = $600. Based on this information alone, retained earnings must be equal to:

A) $450.

B) $150.

C) −$150.

Question #73 of 82

Question ID: 460643

Information about a company's financial position at a point in time is *most likely* found in the:

A) income statement.

B) cash flow statement.

C) balance sheet.

Question #74 of 82

Question ID: 414006

Which of the following is the *best* description of the financial statement analysis framework?

A) State the objective and context, gather data, process the data, analyze and interpret the data, report the conclusions or recommendations, update the analysis.

B) Gather data, analyze and interpret the data, process the conclusions, assess the context, report the recommendations, update the analysis.

C) Gather data, analyze and interpret the data, determine the context, report the conclusions, update the analysis.

Question #75 of 82

Question ID: 413992

Which of the following is *least likely* to be considered a role of financial statement analysis?

A) Assessing the management skill of the company's executives.

B) To make economic decisions.

C) Determining whether to invest in the company's securities.

Question #76 of 82

Question ID: 492015

A firm's internal controls are *most accurately* described as:

A) directly affecting the firm's financial reporting quality.

B) outside the scope of an audit report under IFRS and U.S. GAAP.

C) a responsibility of the firm's board of directors.

Question #77 of 82

Question ID: 414022

Which of the following is the *least likely* to be considered an accrual for accounting purposes?

A) Accumulated depreciation.

B) Unearned revenue.

C) Wages payable.

Question #78 of 82

Question ID: 414012

A company's chart of accounts is:

A) used for entries that offset other accounts.

B) the set of journal entries that makes up the components of owners' equity.

C) a detailed list of the accounts that make up the five financial statement elements.

Question #79 of 82

Question ID: 414014

What is the fundamental balance sheet equation?

A) Assets = Liabilities + Stockholders' Equity (A = L + E).

B) Assets = Stockholders' Equity - Liabilities (A = E - L).

C) Liabilities = Assets + Stockholders' Equity (L = A + E).

Question #80 of 82

Question ID: 414056

A firm engages in a new type of financial transaction that has a material effect on its earnings. An analyst should *most likely* be suspicious of the new transaction if:

A) the transaction is not governed by existing regulations.

B) no accounting standard exists that applies to the transaction.

C) management has not explained its business purpose.

Question #81 of 82

Question ID: 414008

The step in the financial statement analysis framework of "processing the data" is *least likely* to include which activity?

A) Acquiring the company's financial statements.

B) Making appropriate adjustments to the financial statements.

C) Preparing exhibits such as graphs.

Question #82 of 82

Question ID: 485771

Making a profitable sale on credit is *most likely* to have which of the following effects?

A) Increase assets and increase equity.

B) Increase assets and decrease liabilities.

C) Decrease assets and increase equity.