Accounting principles and procedures mcqs pdf

You read a free preview pages 5 through 9 do not appear in this preview. You've already completed the quiz before. Therefore, you cannot start it again. You must sign in or register to start the quiz. You must complete the following quiz, to start this quiz: Back to Principles of Accounting Financing Multiple Choice Questions (MCQs) 1. The company's personal assets will not appear in the company's balance sheet due to what principle/guideline? Cost wrong. The cost principle is related to the capitalized amounts for the business assets. Economic entity Right! The owner's assets do not appear in the balance sheet of the business. This applies even if the business is a sole proprietorship. Monetary unit error. Monetary unit implies expression of amounts in dollars and the assumption that the dollar's purchasing power does not change (no inflation). 2. What principle/guideline requires a company's balance sheet to report its land to the amount the company paid to buy the land, even if the plot could be sold today at a significantly higher amount? Cost right! The cost principle requires that the accountant display assets at cost and cost cost expenses instead of to higher amounts. Accountants are not allowed to recognize gains from just keeping the country. In order to recognize a gain in the country, the company had to sell the land. Financial unit error. The prerequisite for the financial entity involves keeping the owner's personal transactions separate from the business transactions. Monetary unit error. A better answer is the cost principle. Keeping the fixed asset amount to cost is due to the cost principle. The monetary unit assumption is that the dollar is stable over time – no inflation. 3. What principle/guideline does it allow a company to ignore the change in the dollar's purchasing power over time? Cost wrong. A better answer is monetary unity assumption. The cost principle requires accountants to record transactions at cost (an objective measurement) and keep the fixed asset at cost price. Financial unit error. The prerequisite for the financial entity involves keeping the owner's personal transactions separate from the business transactions. Monetary unity right! The monetary unit assumption is that the dollar is stable over time – no inflation. 4. What principle/guideline requires that the company's financial statements have footnotes that contain information that is important to users of the financial statements? Conservatism Wrong. Conservatism involves choosing between acceptable options. In other words, conservatism is used to break a tie between two acceptable choices of how to pay attention to something. It is also associated with recognizing losses, but not gains for certain situations. Financial unit error. The prerequisite for the financial entity involves keeping the owner's personal transactions separate from the business transactions. Full disclosure right! The full disclosure principle requires companies to disclose information relevant to decisions of investors and creditors. 5. What principle/guideline justifies a company that violates an accounting principle because the amounts are immaterial? Conservatism Wrong. Conservatism involves choosing between acceptable options. In other words, conservatism is used to break a tie between two acceptable choices of how to pay attention to something. That is also associated with recognizing losses, but not gains for certain situations. Full disclosure error. The full disclosure principle requires companies to provide information relevant to decisions made by investors and creditors. Materiality Right! When an amount is so small/immaterial, an accountant may decide to ignore an accounting principle. For example, a large company can buy a $300 digital camera to be used over the next five years. The principle of conformity requires an expense (depreciation) of USD 60 per year for five years. Most accountants would violate the matching principle and spend the entire $300 a year it is purchased. The rationale is that policymakers would not be misled by the small differences of $240 a year purchased and $60 per year in each of the following four years. 6. What principle/guideline is related to the assumption that the company will continue long enough to implement its objectives and obligations? Financial unit error. The prerequisite for the financial entity involves keeping the owner's personal transactions separate from the business transactions. Going worry right! This is the right answer. Time period error. The prerequisite for the time period (also known as periodicity) is the assumption that the ongoing business activity can be segregated for time periods of a year, one month, one week, etc. 7. A very large company's accounting has dollar amounts rounded to the nearest $1,000. Which accounting principle/guideline does not justify reporting the amounts to the crown? Full disclosure error. Full disclosure is related to adequate reporting of information relevant to readers of the financial statements. This is often carried out in the notes (footnotes) of the annual accounts. Materiality Right! As long as the digits excluded are small relative to the true amounts, the companies will round numbers to emphasize the relevant digits. The rationale is that no one will be misled by the omission of the insignificant digits. Monetary unit error. In the US, the monetary unit is related to reporting all items in US dollars, and that the US dollar's purchasing power does not change over time. 8. Accountants may recognize losses, but not gains in certain situations. For example, the company can write down the inventory cost, but does not want to write up inventory costs. What principle/guideline is associated with this action? Conservatism Right! Conservatism involves choosing between acceptable options. In other words, conservatism is used to break a tie between two choosing how to account for something. It is also associated with recognizing losses, but not gains for certain situations. Materiality Error. Materiality involves insignificant amounts. For example, many companies report their accounts in thousands of dollars. The reason is that pennies, dollars and hundreds of dollars are not essential to the decision-makers who use the accounts. Another example is the immediate expensing of a $15 stapler instead of depreciing the stapler over its lifetime of 5 years. Monetary unit error. Monetary unit implies expression of amounts in dollars and the assumption that the dollar's purchasing power does not change (no inflation). 9. What principle/guideline does a company ask to show all expenses related to the earnings in a particular period even if the expenses were not paid during that period? Cost wrong. The cost principle requires the accountant to display assets and cost expenses instead of to higher amounts. Matching right! This is the right answer. Monetary unit error. Monetary unit implies expression of amounts in dollars and the assumption that the dollar's purchasing power does not change (no inflation). 10. When the accountant must choose between two acceptable options, the accountant should select the option that will report smaller profits, smaller fixed asset amounts or a larger liability amount. This is based on what principle/guideline? Conservatism Right! Conservatism is used to break a tie. Accountants should strive to be objective and to use conservatism when there are doubts between two options. Cost wrong. The cost involves registering transactions to cash value at the time of the transaction. Materiality Error. Materiality implies negligible amounts and accounting for these amounts. 11. Public power balances show the fixed assets before the current assets. This is acceptable according to which accounting principle/guideline? Industry practice right! Some industries (usually those regulated by the government) have unique reporting requirements that are followed by the annual accounts as well as the government's reports. 12. A large company buys a $250 digital camera and expenses it immediately instead of registering it as a resource and writing it off over its lifetime. This practice may be acceptable because of what principle/guideline? Cost wrong. The cost involves registering transactions to cash value at the time of the transaction. Matching errors. The compliance principle will emphasize depreciation, such as matching $50 of depreciation costs each year for five years with earnings during those five years. Materiality Right! Because this is a large company, $250 is considered to be an insignificant amount. Therefore, if the company writes off the camera at $50 per year for five years or expenses $250 a year it is purchased, an investor or lender would not be misled by cost of $ 200 per year in the first year and $ 50 difference in the next four years. 13. A company pays its annual property tax bill of about $12,000 in one payment every December 28. During the year, the company's monthly income statement reports property tax expense of $1,000. This is an example of which accounting principle/guideline? Conservatism Wrong. Conservatism requires that when two acceptable accounting options are available, the accountant should choose the option that results in smaller assets, smaller profits or a larger amount of liability to break the tie between options. Matching right! The matching principle requires the company to match 1/12 of the annual property tax of each month when the proceeds are earned as a result of the property. Monetary unit error. In the US, the monetary unit is related to reporting all items in US dollars, and that the US dollar's purchasing power does not change over time. 14. A company sold goods of $8,000 to a customer in December. The company's terms of sale require the customer to pay the company in 30 days. The company's financial statements reported the sale in December. This is correct under which accounting principle/guideline? Full disclosure error. Full disclosure involves communicating information so that readers of the financial statements can make informed decisions. Monetary unit error. In the US, the monetary unit is related to reporting all items in US dollars, and that the US dollar's purchasing power does not change over time. Income recognition right! The revenue recognition principle requires that revenue be reported when revenue is earned (when goods are sold or services are delivered) and not at the time the payment is received. 15. Provision accounting is based on this principle/guideline. Cost wrong. The cost involves registering transactions to cash value at the time of the transaction. Full disclosure error. Full disclosure involves communicating information so that readers of the financial statements can make informed decisions. Matching right! The compliance principle requires that expenses match the related earnings or fiscal period when expenses are incurred. When the expenses are paid for is not relevant. 16. The creative CEO of a company that is personally responsible for a number of inventions and innovations is not reported as a resource in the company's balance sheet. The accounting principle/guideline that prevents the company from reporting this person as a fixed asset is conservatism wrong. Conservatism requires that when two acceptable accounting options are available, the accountant should choose the option that results in smaller assets, smaller profits or a larger amount of liability to break the tie between options. Cost right! The cost principle requires that fixed assets and other transactions be recorded at cost price. Ceo was not purchased at costs and is therefore not reported as an asset in the company's balance sheet. The monetary unit assumption is also another reason why the executive is not registered – we do not know how to measure the executive in US dollars. Worries go wrong. Growing concern is an assumption that the company will continue long enough to implement its goals and obligations. 17. An asset with a cost of $120,000 is depreciated over its life span of 10 years instead of expensing the full amount once it is purchased. This is consistent with which principle/guideline? Cost wrong. The cost involves registering transactions at cost or cash value at the time of the transaction. Full disclosure error. Full disclosure involves communicating information so that readers of the financial statements can make informed decisions. Matching right! The compliance principle requires that expenses match the related earnings or fiscal period when expenses are incurred. When the expenses are paid for is not relevant. 18. Towards the end of the current year, a company required a customer to pay $200,000 as a deposit for work to begin in the following year. At the end of the current year, the company reported $200,000 as a liability on its balance sheet. Which accounting principle/guideline prevented the company from reporting $200,000 on its financial statements for the current year? Going worry wrong. Growing concern is an assumption that the company will continue long enough to implement its goals and obligations. Materiality Error. Materiality implies negligible amounts and accounting for these amounts. Income recognition right! The income recognition principle requires that the income be accounted for when they are earned, not when cash is received. 19. A retailer wants to report its inventory on the balance sheet to its retail value. This will be contrary to which accounting principle/guideline? Cost right! The cost principle requires that assets be registered at their cost when they are acquired. The cost principle prohibits increasing the cost of items in stock before an item is sold. Full disclosure error. Full disclosure involves communicating information so that readers of the financial statements can make informed decisions. Monetary unit error. In the US, the monetary unit is related to reporting all items in US dollars, and that the US dollar's purchasing power does not change over time. 20. A company borrowed $100,000 in December and will make its only payment for interest when the note comes due six months later. The total interest rate for the six months will be $3,600. On December the income statement accountant reported interest expenses of $600. This action was the result of which accounting principle/guideline? Cost wrong. The cost involves registering transactions at cost or cash value at the time of the transaction. Matching right! The principle of conformity requires expenses are matched by the related revenues or to the correct period of time. In this case, the company incurs interest expenses every minute that it has the loan. For a month's use of the money, the company has interest expenses of $600, and it must be reported on the December income statement to comply with the matching principle and provision basis for accounting. Revenue recognition error. The revenue recognition principle requires that revenue be reported when revenue is earned (when goods are sold or services are delivered) and not at the time the payment is received. Received.