

CMA

MCQ TEST BANK

PART 1

**Financial Planning, Performance,
& Analytics**

VOLUME 1

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1: (217) External Financial Statements

- 1: (10) Concepts of Financial Accounting
- 2: (29) Statement of Financial Position (Balance Sheet)
- 3: (33) Income Statement and Statement of Comprehensive Income
- 4: (46) Statement of Changes in Equity and Equity Transactions
- 5: (69) Statement of Cash Flows
- 6: (30) Consolidation Accounting

1: (217) External Financial Statements

1: (10) Concepts of Financial Accounting

Study Unit 1: External Financial Statements | Subunit 1: Concepts of Financial Accounting

- 1) A primary objective of external financial reporting is
 - A. Direct measurement of the value of a business enterprise.

- B. Provision of information that is useful to present and potential investors, creditors, and others in making rational financial decisions regarding the enterprise.

Answer (B) is **correct**.

According to the FASB's Conceptual Framework, the objectives of external financial reporting are to provide information that (1) is useful to present and potential investors, creditors, and others in making rational financial decisions regarding the enterprise; (2) helps those parties in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from sale, redemption, or maturity of securities or loans; and (3) concerns the economic resources of an enterprise, the claims thereto, and the effects of transactions, events, and circumstances that change its resources and claims thereto.

- C. Establishment of rules for accruing liabilities.
- D. Direct measurement of the enterprise's stock price.
- 2) The accounting measurement that is **not** consistent with the going concern concept is
- A. Historical cost.

- B. Realization.
- C. The transaction approach.
- D. Liquidation value.

Answer (D) is **correct**.

Financial accounting principles assume that a business entity is a going concern in the absence of evidence to the contrary. The concept justifies the use of depreciation and amortization schedules, and the recording of assets and liabilities using attributes other than liquidation value.

- 3) An objective of financial reporting is
- A. Providing information useful to investors, creditors, donors, and other users for decision making.

Answer (A) is **correct**.

The objective is to report financial information that is useful in making decisions about providing resources to the reporting entity. Primary users of financial information are current or prospective investors and creditors who cannot obtain it directly. Their decisions depend on expected returns.

- B. Assessing the adequacy of internal control.
- C. Evaluating management results compared with standards.

- D. Providing information on compliance with established procedures.
- 4) The financial statements included in the annual report to the shareholders are least useful to which one of the following?
- A. Stockbrokers.
- B. Bankers preparing to lend money.
- C. Competing businesses.
- D. Managers in charge of operating activities.

Answer (D) is **correct**.

Accrual-basis amounts used in financial reporting are not useful to managers making day-to-day operating decisions. The practice of management accounting fulfills the needs of these users.

- 5) Which of the following is a true statement about the objective of general-purpose financial reporting?
- A. Financial reporting is ordinarily focused on industries rather than individual entities.
- B. The objective applies only to information that is useful for investment professionals.

- C. Financial reporting directly measures management performance.
- D. The information provided relates to the entity's economic resources and claims.

Answer (D) is **correct**.

The information reported relates to the entity's economic resources and claims to them (financial position) and to changes in those resources and claims.

- 6) Which basis of accounting is most likely to provide the best assessment of an entity's past and future ability to generate net cash inflows?
 - A. Cash basis of accounting.
 - B. Modified cash basis of accounting.
 - C. Accrual basis of accounting.

Answer (C) is **correct**.

Accrual accounting reports the effects of transactions and other events and circumstances even if the resulting cash flows occur in a different period. The advantage of accrual accounting is that information about an entity's economic resources and claims and changes in them during a period

provides a better basis for assessing past and future performance than information solely about cash flows.

- D. Tax basis of accounting.
- 7) All of the following support the objective of financial reporting except providing information that
- A. Is useful for making investment and credit decisions.
- B. Helps management evaluate alternative projects.

Answer (B) is **correct**.

The role of general purpose external financial reporting is to provide information that is useful to current and potential investors and creditors, not merely to management.

- C. Concerns enterprise resources and claims to those resources.
- D. Helps investors and creditors predict future cash flows.
- 8) General purpose external financial reporting of a corporation focuses primarily on the needs of which of the following users?
- A. Regulatory and taxing authorities.
- B. Investors and creditors and their advisors.
-

Answer (B) is **correct**.

The objective is to report financial information that is useful in making decisions about providing resources to the reporting entity. Primary users of financial information are current and potential investors and creditors who cannot obtain it directly.

- C. The board of directors of the corporation.
 - D. The management of the corporation.
- 9) For financial reporting to be useful, it must
- A. Be in accordance with generally accepted accounting principles.
 - B. Provide information useful for making business and investment decisions.

Answer (B) is **correct**.

The objective of general-purpose financial reporting is to report financial information that is useful in making decisions about providing resources to the reporting entity. This information must have the fundamental qualitative characteristics of relevance and faithful representation.

- C. Be understandable to those who have a limited knowledge of business activities.

- D. Directly measure the value of the entity being reported on.
- 10) What is the primary objective of financial reporting?
- A. To provide economic information that is comprehensible to all users.
- B. To provide management with an accurate evaluation of their financial performance.
- C. To provide forecasts for future cash flows and financial performance.
- D. To provide information that is useful for economic decision making.

Answer (D) is **correct**.

The overall objective is to report financial information that is useful to current and potential investors and creditors in making decisions about providing resources to an individual reporting entity.

1: (217) External Financial Statements

2: (29) Statement of Financial Position (Balance Sheet)

Study Unit 1: External Financial Statements | Subunit 2: Statement of Financial Position (Balance Sheet)

- 1) When classifying assets as current and noncurrent for reporting purposes,
 - A. The amounts at which current assets are carried and reported must reflect realizable cash values.
 - B. Prepayments for items such as insurance or rent are included in an “other assets” group rather than as current assets as they will ultimately be expensed.
 - C. The time period by which current assets are distinguished from noncurrent assets is determined by the seasonal nature of the business.
 - D. Assets are classified as current if they are reasonably expected to be realized in cash or consumed during the normal operating cycle.

Answer (D) is **correct**.

For financial reporting purposes, current assets consist of cash and other assets or resources expected to be realized in cash, sold, or consumed during the longer of 1 year or the normal operating cycle of the business.