

SURVEY OF ACCOUNTING · CHAPTER 1 · LO 1-1

Interactive Assessment — LO 1-1

Work these on your own, then we'll go through them together on the screen.

Name _____ Date _____ Section _____

LO 1-1 Identify the ways accounting benefits society.**1 Whose information is this?**

The regional manager of Iron City Coffee wants a report showing the profit of each of her twelve shops, the hours when customer traffic peaks, and each shop's cleanliness score. Which type of accounting information is she asking for? Circle one.

- ☐ **A** Financial accounting, because profit is a financial measure
- ☒ **B** **Managerial accounting, because she is an internal user who needs detailed and nonfinancial measures**
- ☐ **C** Nonprofit accounting, because cleanliness is not a profit motive
- ☐ **D** Public accounting, because a CPA would have to prepare it

FOR THE INSTRUCTOR

Managers are internal users. The text's Chipotle example makes the same point: investors want overall profitability, a regional manager wants shop-level profit plus nonfinancial measures such as staffing and cleanliness. Option a is the trap: financial measures alone do not make it financial accounting.

2 Stakeholders and their information

Match each stakeholder to the type of accounting information the text says they rely on. Write the letter. A letter may be used more than once or not at all.

A Financial accounting · **B** Managerial accounting · **C** Nonprofit accounting · **D** Tax services · **E** Audit services

ITEM	ANSWER
A bank deciding whether to lend to Southside Bakery	A — Financial accounting
Southside Bakery's kitchen manager scheduling next week's staff	B — Managerial accounting
A donor to the Community Food Bank	C — Nonprofit accounting
A union negotiating wages with a manufacturer	B — Managerial accounting

FOR THE INSTRUCTOR

Exhibit 1.2 places creditors under financial accounting, managers and unions under managerial accounting, and benefactors under nonprofit accounting. Tax and audit are services public accountants sell, not types of information; they are never correct here.

3 The December sale

Five Points Electronics sells a phone in December to a customer who agrees to pay in January. The chapter uses a case like this to make a point about communication. What does it say clear communication of business results requires? Circle one.

- ☐ (A) Reporting every sale in the month the cash is received
- ☐ (B) Asking the FASB to rule on each unusual transaction
- ☒ (C) Full and fair disclosure of the accounting rule chosen, applied consistently to other transactions
- ☐ (D) Using exactly the same reporting methods as every competitor

FOR THE INSTRUCTOR

The text's point under 'Accounting Improves Communication' is disclosure and consistency, and it notes that companies exhibit significant diversity in reporting methods. The FASB sets GAAP for everyone; it does not rule case by case. Option a previews Chapter 2's accrual question and is deliberately not the answer here.

4 What the CPA firm did

A CPA firm examines Avondale Brewing's accounting records and issues an opinion on whether the company's financial statements conform to GAAP. Which public accounting service is this? Circle one.

- ☐ (A) Tax services
- ☐ (B) Consulting services
- ☐ (C) Managerial accounting
- ☒ (D) Audit services

FOR THE INSTRUCTOR

An audit opinion adds credibility to statements that management prepared. Tax services determine and plan for tax; consulting covers systems and advice. Managerial accounting is a type of information, not a public accounting service.

5 Two ways to fund a food truck

Priya gives Highland Tacos \$20,000 and expects to be repaid in three years plus a fixed fee for the use of her money. Marcus gives the same truck \$20,000 and receives a 25 percent ownership interest. In the chapter's terms, which statement is correct? Circle one.

- ☒ (A) Priya is a creditor who expects interest; Marcus is an investor who expects a share of the business and its earnings
- ☐ (B) Both are investors, because both provided financial resources
- ☐ (C) Priya is an investor; Marcus is a creditor, because ownership is a form of lending
- ☐ (D) Both are consumers of the truck's resources

FOR THE INSTRUCTOR

Creditors lend and expect repayment plus a specified fee called interest. Investors provide resources in exchange for ownership and a share of earned income. Both are resource owners, but the text draws exactly this line between them.