

1.5: End-of-Chapter Exercises

Questions

1. What is financial accounting?
2. How does financial accounting differ from managerial accounting?
3. List the potential users of the information provided by financial accounting.
4. What is a corporation?
5. How does a business become a corporation?
6. Why would a business want to become a corporation?
7. What is the board of directors of a corporation?
8. Why do individuals or entities choose to invest in the capital stock of corporations?
9. How does an investor differ from a creditor?
10. What is financial information?

True or False

1. ____ Financial accounting helps with decisions made inside an organization.
2. ____ Typically, a sole proprietor will be able to raise money easier than a corporation.
3. ____ Employees are not users of the information provided by financial accounting.
4. ____ The board of directors of a corporation is elected by its shareholders.
5. ____ Investors who hold investments in a stock longer than a year may enjoy a tax benefit.
6. ____ Corporations are required by law to pay dividends to their shareholders.
7. ____ Purchasing stock is typically a riskier investment than opening a savings account.
8. ____ Financial information is communicated in monetary terms but may be explained verbally.
9. ____ Accountants are the only users of the information provided by financial accounting.
10. ____ An entity that loans a company money is referred to as a “shareholder.”

Multiple Choice

1. Ramon Sanchez is a loan officer at Washington Bank. He must decide whether or not to loan money to Medlock Corporation. Which of the following would Ramon most likely consider when making this decision?
 1. Medlock had positive cash flows last year.
 2. Medlock paid dividends last year.
 3. Medlock’s stock price increased last year.
 4. The number of stockholders in Medlock increased last year.
2. Which of the following is not a reason an investor would purchase stock in a corporation?
 1. To receive dividend payments
 2. To sell the stock for a gain if the share price increases
 3. To earn a return on their investment
 4. To participate in the day-to-day operations of the business
3. Which of the following would not be considered an example of a decision made using financial accounting information?
 1. An investor decided to invest in the stock of Rayburn Corporation.
 2. A credit analyst at Mayfield Corporation rejected a request for credit from Rayburn Corporation.
 3. A Rayburn Corporation manager decided to increase production of widgets.
 4. A loan officer at Fairburn Bank chose to grant a loan request made by Rayburn Corporation.
4. Which of the following is most likely to have a say in the policy decision of a large corporation?
 1. A stockholder
 2. A member of the board of directors
 3. An employee
 4. A creditor

5. Leon Williams is an investor in Springfield Corporation. On September 1, Year One, he purchased 150 shares of stock at a price of \$45 per share. On October 15, Year One, Springfield distributed dividends of \$1.50 per share. On December 31, Year One, Springfield's stock is selling for \$47 per share. Which of the following is the value of Leon's investment on December 31, Year One?
1. \$6,750
 2. \$6,975
 3. \$7,050
 4. \$7,275

Problems

1. Explain how each of the following might use the information provided by through financial accounting about Neptune Company.
 1. Bank loan officer considering loaning money to Neptune Company
 2. Potential employee of Neptune Company
 3. Current employee of Neptune Company
 4. A credit analyst of company wanting to sell inventory to Neptune Company
 5. Current investor in Neptune Company
 6. Potential investor in Neptune Company
2. Mark each of the following with an (F) to indicate if it is financial information or an (N) to indicate if it is nonfinancial information.

Metro Corporation has:

1. ____ Cash of \$5,500,000
2. ____ A piece of land that cost \$15,000,000
3. ____ 200 locations
4. ____ Inventory costing \$14,300,000
5. ____ 5,000 shares of capital stock
6. ____ 1,400 machines
7. ____ Sales of \$45 billion

Research

1. The chapter introduced several forms of business, including a corporation, sole proprietorship, and partnership. Other forms of business exist as well. Do research to compare and contrast the following business forms:
 - Sole proprietorship
 - Partnership
 - Limited partnership
 - C corporation
 - S corporation
 - Limited liability company (LLC)

Examine the following areas for each form of business: ease of organization and maintenance of form, number of people involved, government involvement, liability to owners, ease of exit, taxation, day-to-day management, and funding sources.
2. Corporations usually provide a good amount of financial information on their Web sites. Visit <http://www.starbucks.com> to access information about Starbucks. You will need to scroll down to the "about us" section and then choose "investor relations" on the left.
 1. For what amount is Starbucks stock currently selling?
 2. Give the year for the most current annual report listed under the Financial Data drop down menu
 3. Name three members of Starbucks' board of directors as given in the Corporate governance drop down menu.
 4. Find the latest financial release under Press releases. What was the date of the latest release? What was the summary of what was reported in the press release?

3. Go the U.S. Department of Labor Web site at <https://www.bls.gov/ooh/business-and-financial/accountants-and-auditors.htm> Here you can learn about the profession of accounting.
 1. In general, what functions do accountants perform?
 2. Briefly list the different types of accountants and what they do.
 3. What education is required?
 4. What is a CPA?
 5. What are the typical requirements to become a CPA?
 6. What other certifications are available for accountants?
 7. What is the current job outlook for the accounting profession?

1.5: End-of-Chapter Exercises is shared under a [not declared](#) license and was authored, remixed, and/or curated by LibreTexts.