

# ***ACCOUNTING 201***

## **CHAPTER 1**

### **TRUE-FALSE STATEMENTS**

1. Investors and creditors of business firms are two groups who need accounting information.
2. Transactions that can be measured in dollars and cents are recorded in the financial accounting information system.
3. The purchase of office equipment is an economic event recorded by the financial accounting information system.
4. Management of a business enterprise is the major external user of information.
5. Accounting communicates financial information about a business enterprise to both internal and external users.
6. External users of financial statements include labor unions, management and regulatory agencies.
7. Financial statements are the major means of communicating accounting information to interested parties.
8. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.
9. The origins of accounting are attributed to Leonardo DiVinci, a famous mathematician.
10. The study of accounting will be useful only if a student is interested in working for a corporation.

### **Multiple Choice Questions**

11. Accountants refer to an economic event as a
  - a. purchase.
  - b. sale.
  - c. transaction.
  - d. change in ownership.

12. The process of recording transactions has become more efficient because
- fewer events can be quantified in financial terms.
  - computers are used in processing business events.
  - more people have been hired to record business transactions.
  - business events are recorded only at the end of the year.
13. Communication of economic events is the part of the accounting process that involves
- identifying economic events.
  - quantifying transactions into dollars and cents.
  - preparing accounting reports.
  - recording and classifying information.
14. Which of the following events is not an accounting transaction?
- Purchasing an office building.
  - Selling a delivery truck.
  - Paying income taxes.
  - Hiring a payroll clerk.
15. Which of the following would be considered an internal user of accounting data for the Raintree Company?
- Staff accountant for the Securities Exchange Commission
  - Production manager
  - Credit analyst for BankOne
  - President of the employees' labor union
16. Which of the following would be considered an external user of accounting data for the Raintree Company?
- Internal Revenue Service Agent
  - Vice-president of finance
  - Production supervisor
  - Cost accountant
17. Which of the following would *not* be considered internal users of accounting data for a company?
- The president of a company
  - The controller of a company
  - Creditors of a company
  - Salesmen of the company
18. The private sector organization involved in developing financial accounting principles is the
- Securities Exchange Commission.
  - Internal Revenue Service.
  - Financial Accounting Standards Board.
  - Accounting Principles Board.

19. The SEC and FASB are two organizations that are primarily responsible for establishing generally accepted accounting principles. It is true that
- they are both governmental agencies.
  - the SEC is a private organization of accountants.
  - the SEC often mandates guidelines when no accounting principles exist.
  - the SEC and FASB rarely cooperate in developing accounting standards.
20. GAAP stands for
- Generally Accepted Auditing Procedures.
  - Generally Accepted Accounting Principles.
  - Generally Accepted Auditing Principles.
  - Generally Accepted Accounting Procedures.
21. Ample Company has total assets of \$100,000 and total liabilities of \$60,000. The company's stockholders' equity is
- \$40,000.
  - \$60,000.
  - \$100,000.
  - \$160,000.
22. The basic accounting equation may be expressed as
- Assets = Equities.
  - Assets – Liabilities = Stockholders' Equity.
  - Assets = Liabilities + Stockholders' Equity.
  - all of these.
23. Liabilities
- are future economic benefits.
  - are existing debts and obligations.
  - possess service potential.
  - are things of value used by the business in its operation.
24. Best Enterprises reports total assets of \$200,000, total liabilities of \$125,000 and stockholders' equity of \$75,000. The company's accounting equation can be stated all of the following ways except:
- $\$200,000 = \$125,000 + \$75,000$
  - $\$200,000 - \$75,000 = \$125,000$ .
  - $\$75,000 + \$125,000 = \$200,000$ .
  - $\$200,000 + \$125,000 = \$325,000$ .
25. If Carmine Company purchases goods on account for \$4,000, then
- assets and liabilities both decrease by \$4,000.
  - stockholders' equity increases by \$4,000.
  - assets increase by \$4,000 and liabilities decrease by \$4,000.
  - assets and liabilities both increase by \$4,000.

## ANSWERS

### True and False

1. T
2. T
3. T
4. F
5. T
6. F
7. T
8. F
9. F
10. F

### Multiple Choice

11. C
12. B
13. C
14. D
15. B
16. A
17. C
18. C
19. C
20. B
21. A
22. D
23. B
24. D
25. D