**Chapter 01**

**Accounting in Business**

**True / False Questions**

1. Accounting is an information and measurement system that identifies, records, and communicates relevant, reliable, and comparable information about an organization's business activities.   
True    False

2. Bookkeeping is the recording of transactions and events and is only part of accounting.   
True    False

3. An accounting information system communicates data to help businesses make better decisions.   
True    False

4. Managerial accounting is the area of accounting that provides internal reports to assist the decision making needs of internal users.   
True    False

5. Internal operating activities include research and development, distribution, and human resources.   
True    False

6. The primary objective of financial accounting is to provide general purpose financial statements to help external users analyze and interpret an organization's activities.   
True    False

7. External auditors examine financial statements to verify that they are prepared according to generally accepted accounting principles.   
True    False

8. External users include lenders, shareholders, customers, and regulators.   
True    False

9. Regulators often have legal authority over certain activities of organizations.   
True    False

10. Internal users include lenders, shareholders, brokers and managers.   
True    False

11. Opportunities in accounting include auditing, consulting, market research, and tax planning.   
True    False

12. Identifying the proper ethical path is easy.   
True    False

13. The Sarbanes-Oxley Act (SOX) requires each issuer of securities to disclose whether it has adopted a code of ethics for its senior financial officers and the contents of that code.   
True    False

14. Good ethics are good business.   
True    False

15. The Sarbanes-Oxley Act (SOX) does not require public companies to apply both accounting oversight and stringent internal controls.   
True    False

16. A partnership is a business owned by two or more people.   
True    False

17. Owners of a corporation are called shareholders or stockholders.   
True    False

18. In the partnership form of business, the owners are called stockholders.   
True    False

19. The balance sheet shows a company's net income or loss due to earnings activities over a period of time.   
True    False

20. The Financial Accounting Standards Board is the private group that sets both broad and specific accounting principles.   
True    False

21. The business entity principle means that a business will continue operating for an indefinite period of time.   
True    False

22. Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial statements.   
True    False

23. The business entity assumption means that a business is accounted for separately from other business entities, including its owner or owners.   
True    False

24. As a general rule, revenues should not be recognized in the accounting records until it is received in cash.   
True    False

25. Specific accounting principles are basic assumptions, concepts, and guidelines for preparing financial statements and arise out of long-used accounting practice.   
True    False

26. General accounting principles arise from long-used accounting practices.   
True    False

27. A sole proprietorship is a business owned by one or more persons.   
True    False

28. Unlimited liability is an advantage of a sole proprietorship.   
True    False

29. Understanding generally accepted accounting principles is not necessary to use and interpret financial statements.   
True    False

30. The International Accounting Standards board (IASB) has the authority to impose its standards on companies around the world.   
True    False

31. Objectivity means that financial information is supported by independent unbiased evidence.   
True    False

32. The idea that a business will continue to operate instead of being closed or sold underlies the going-concern assumption.   
True    False

33. According to the cost principle, it is preferable for managers to report an estimate of an asset's value.   
True    False

34. The monetary unit assumption means that all international transactions must be expressed in dollars.   
True    False

35. The International Accounting Standards Board (IASB) is the government group that establishes reporting requirements for companies that issue stock to the public.   
True    False

36. A limited liability company offers the limited liability of a partnership or proprietorship and the tax treatment of a corporation.   
True    False

37. The Securities and Exchange Commission (SEC) is a government agency that has legal authority to establish GAAP.   
True    False

38. The three common forms of business ownership include sole proprietorship, partnership, and non-profit.   
True    False

39. The three major types of business activities are operating, financing, and investing.   
True    False

40. Planning is defining an organization's ideas, goals, and actions.   
True    False

41. Strategic management is the process of determining the right mix of operating activities for the type of organization, its plans, and its markets.   
True    False

42. Planning activities are the means an organization uses to pay for resources like land, buildings, and equipment to carry out its plans.   
True    False

43. Investing activities are the acquiring and disposing of resources that an organization uses to acquire and sell its products or services.   
True    False

44. Owner financing refers to resources contributed by creditors or lenders.   
True    False

45. Revenues are increases in equity from a company's earning activities.   
True    False

46. A net loss occurs when revenues exceed expenses.   
True    False

47. Net income occurs when revenues exceed expenses.   
True    False

48. Liabilities are the owner's claim on assets.   
True    False

49. Assets are the resources of a company and are expected to yield future benefits.   
True    False

50. Owner's withdrawals are expenses.   
True    False

51. The accounting equation can be restated as: Assets - Equity = Liabilities.   
True    False

52. The accounting equation implies that: Assets + Liabilities = Equity.   
True    False

53. Owner's investments are increases in equity from a company's earnings activities.   
True    False

54. Every business transaction leaves the accounting equation in balance.   
True    False

55. An external transaction is an exchange of value within an organization.   
True    False

56. From an accounting perspective, an event is a happening that affects the accounting equation, but cannot be measured.   
True    False

57. Owner's equity is increased when cash is received from customers in payment of previously recorded accounts receivable.   
True    False

58. An owner's investment in a business always creates an asset (cash), a liability (note payable), and owner's equity (investment.)   
True    False

59. Return on assets is often stated in ratio form as the amount of average total assets divided by income.   
True    False

60. Return on assets is also known as return on investment.   
True    False

61. Return on assets is useful to decision makers for evaluating management, analyzing and forecasting profits, and in planning activities.   
True    False

62. Arrow's net income of $117 million and average assets of $1,400 million results in a return on assets of 8.36%.   
True    False

63. Return on assets reflects the effectiveness of a company's ability to generate profit through productive use of its assets.   
True    False

64. Risk is the uncertainty about the return we expect to earn.   
True    False

65. Generally the lower the risk, the lower the return that can be expected.   
True    False

66. U. S. Government Treasury bonds provide high return and low risk to investors.   
True    False

67. The four basic financial statements include the balance sheet, income statement, statement of owner's equity, and statement of cash flows.   
True    False

68. An income statement reports on investing and financing activities.   
True    False

69. A balance sheet covers a period of time such as a month or year.   
True    False

70. The income statement displays revenues earned and expenses incurred over a specified period of time due to earnings activities.   
True    False

71. The statement of cash flows shows the net effect of revenues and expenses for a reporting period.   
True    False

72. The income statement shows the financial position of a business on a specific date.   
True    False

73. The first section of the income statement reports cash flows from operating activities.   
True    False

74. The balance sheet is based on the accounting equation.   
True    False

75. Investing activities involve the buying and selling of assets such as land and equipment that are held for long-term use in the business.   
True    False

76. Operating activities include long-term borrowing and repaying cash from lenders, and cash investments or withdrawals by the owner.   
True    False

77. The purchase of supplies appears on the statement of cash flows as an investing activity because it involves the purchase of assets.   
True    False