

## Accounting I Chapter 2

### True/False

*Indicate whether the statement is true or false.*

- \_\_\_\_\_ 1. All types of businesses sell a product.
- \_\_\_\_\_ 2. In a free enterprise system, businesses compete for customers.
- \_\_\_\_\_ 3. For accounting purposes, a business is an entity separate from its owners.
- \_\_\_\_\_ 4. A business owner must always get permission to operate from the state government.
- \_\_\_\_\_ 5. Basic accounting rules and procedures differ from business to business.
- \_\_\_\_\_ 6. All businesses set up their accounting systems in the same manner.
- \_\_\_\_\_ 7. Corporations often start out as sole proprietorships or partnerships.
- \_\_\_\_\_ 8. A business is earning a profit if the selling price of its product covers the cost of the raw materials needed to make the product.
- \_\_\_\_\_ 9. The life of a business is divided into specific periods for reporting purposes.
- \_\_\_\_\_ 10. Service businesses are not intended to operate at a profit.

### Multiple Choice

*Identify the choice that best completes the statement or answers the question.*

- \_\_\_\_\_ 11. The amount of money earned after the costs of operating a business are paid is \_\_\_\_\_.
  - a. revenue
  - b. profit
  - c. expense
  - d. capital
- \_\_\_\_\_ 12. To survive, a business must \_\_\_\_\_.
  - a. make a product consumers want and report profits to the IRS
  - b. earn a profit and invest excess profits
  - c. earn a profit and have someone willing to take the risk to run it
  - d. have adequate start-up capital and prepare periodic reports
- \_\_\_\_\_ 13. In a business, it is the entrepreneur who \_\_\_\_\_.
  - a. provides the labor needed to operate the business
  - b. is willing to take the risks to establish and organize the venture
  - c. supplies the capital needed to establish the business
  - d. manages the financial aspects of the business

- \_\_\_\_\_ 14. The type of business that provides a product or a service, makes sales to customers, and incurs expenses is \_\_\_\_\_.
- a. a service business c. a manufacturing business  
b. a merchandising business d. all of the above
- \_\_\_\_\_ 15. Which of the following would **not** be considered a service business?
- a. General Motors c. Delta Air Lines  
b. North American Van Lines d. Alamo Rent a Car
- \_\_\_\_\_ 16. An example of an accounting assumption is \_\_\_\_\_.
- a. all businesses prepare reports for governmental review  
b. business transactions are regularly adjusted for inflation  
c. a business has the ability to operate indefinitely  
d. all businesses must pay taxes to the government in a timely fashion
- \_\_\_\_\_ 17. The most common form of business organization is the \_\_\_\_\_.
- a. sole proprietorship c. corporation  
b. partnership d. not-for-profit organization
- \_\_\_\_\_ 18. Accounting is often call the "language of business" because \_\_\_\_\_.
- a. it is easy to understand  
b. it is fundamental to the communication of financial information  
c. all business owners have a good understanding of accounting principles  
d. accountants in many companies share financial information
- \_\_\_\_\_ 19. The most common time period covered by an accounting report is one \_\_\_\_\_.
- a. quarter c. month  
b. year d. week
- \_\_\_\_\_ 20. The assumption that requires accounting reports to be prepared for a specific period of time is \_\_\_\_\_.
- a. unit of measure c. business entity  
b. going concern d. accounting period

## Matching

*Match each item with the correct statement below.*

- |                           |                           |
|---------------------------|---------------------------|
| a. accounting period      | k. GAAP                   |
| b. accounting system      | l. going concern          |
| c. business entity        | m. loss                   |
| d. capital                | n. management accounting  |
| e. charter                | o. manufacturing business |
| f. corporation            | p. merchandising business |
| g. entrepreneur           | q. partnership            |
| h. free enterprise system | r. profit                 |
| i. financial accounting   | s. service business       |
| j. financial reports      | t. sole proprietorship    |

21. A(n) \_\_\_\_\_ is an individual who transforms ideas for products or services into real-world businesses.

Name: \_\_\_\_\_

ID: A

- \_\_\_\_ 22. Following the \_\_\_\_ accounting assumption, the accountant prepares reports as though the business will operate indefinitely.
- \_\_\_\_ 23. The \_\_\_\_ is the period of time covered by an accounting report.
- \_\_\_\_ 24. \_\_\_\_ is money invested in a business by its owner(s) or the money provided by banks or investors.
- \_\_\_\_ 25. A(n) \_\_\_\_ is a business organization that must get permission from the state to operate.
- \_\_\_\_ 26. A business that produces items to sell to individuals and other businesses is known as a(n) \_\_\_\_.
- \_\_\_\_ 27. In a(n) \_\_\_\_, people are free to produce the goods and services they choose.
- \_\_\_\_ 28. A business with a single owner is a(n) \_\_\_\_.
- \_\_\_\_ 29. \_\_\_\_ are the rules accountants follow when recording and reporting accounting information.
- \_\_\_\_ 30. A business is operating at a(n) \_\_\_\_ if it earns more money than it spends.

## Accounting I Chapter 2 Answer Section

### TRUE/FALSE

- |            |        |                |
|------------|--------|----------------|
| 1. ANS: F  | PTS: 1 |                |
| 2. ANS: T  | PTS: 1 |                |
| 3. ANS: T  | PTS: 1 | NAT: NBEA I.A. |
| 4. ANS: F  | PTS: 1 |                |
| 5. ANS: F  | PTS: 1 | NAT: NBEA I.A. |
| 6. ANS: F  | PTS: 1 | NAT: NBEA I.A. |
| 7. ANS: T  | PTS: 1 |                |
| 8. ANS: F  | PTS: 1 |                |
| 9. ANS: T  | PTS: 1 |                |
| 10. ANS: F | PTS: 1 |                |

### MULTIPLE CHOICE

- |            |        |                |
|------------|--------|----------------|
| 11. ANS: B | PTS: 1 |                |
| 12. ANS: C | PTS: 1 |                |
| 13. ANS: B | PTS: 1 |                |
| 14. ANS: D | PTS: 1 |                |
| 15. ANS: A | PTS: 1 |                |
| 16. ANS: C | PTS: 1 |                |
| 17. ANS: A | PTS: 1 |                |
| 18. ANS: B | PTS: 1 | NAT: NBEA I.A. |
| 19. ANS: B | PTS: 1 | NAT: NBEA I.A. |
| 20. ANS: D | PTS: 1 | NAT: NBEA I.A. |

### MATCHING

- |            |        |                |
|------------|--------|----------------|
| 21. ANS: G | PTS: 1 |                |
| 22. ANS: L | PTS: 1 | NAT: NBEA I.A. |
| 23. ANS: A | PTS: 1 | NAT: NBEA I.A. |
| 24. ANS: D | PTS: 1 | NAT: NBEA I.A. |
| 25. ANS: F | PTS: 1 | NAT: NBEA I.A. |
| 26. ANS: O | PTS: 1 | NAT: NBEA I.A. |
| 27. ANS: H | PTS: 1 | NAT: NBEA I.A. |
| 28. ANS: T | PTS: 1 | NAT: NBEA I.A. |
| 29. ANS: K | PTS: 1 | NAT: NBEA I.A. |
| 30. ANS: R | PTS: 1 | NAT: NBEA I.A. |

D   14.

  L   22.

  A   23.

  D   24.

  A   15.

  F   25.

  F   1.

  O   26.

  T   2.

  C   16.

  H   27.

  T   3.

  T   28.

  F   4.

  K   29.

  F   5.

  A   17.

  R   30.

  F   6.

  T   7.

  B   18.

  F   8.

  T   9.

  B   19.

  F   10.

  D   20.

  B   11.

  C   12.

  B   13.

  G   21.