

1-8 Group discussion: users of accounting information.

Name three users of accounting information and briefly describe a decision they might make.

1. Internal users - managers who plan, organize and run a business, marketing managers, Production Supervisors, Finance Directors, CEO's to decide if a product is profitable, income projections, production scheduling etc.
2. Investors - people who own the business - to Investment Creditors Banks and suppliers to calculate credit risk - IRS - to determine tax liability.
3. Other users: Labor unions - fair wages
Customers - product warranties etc
FTC/SEC etc

1-9 Accounting terms and concepts.

Listed below are several accounting terms and concepts. Match the letter of each with the appropriate phrase which states its meaning.

- | | |
|--|--|
| a. Accounting | j. Monetary unit assumption |
| b. Internal users | k. Economic entity assumption |
| c. External users | l. Proprietorship |
| d. Financial accounting | m. Partnership |
| e. Managerial accounting | n. Corporation |
| f. Ethics | o. Unlimited liability |
| g. Generally accepted accounting principles | p. Limited liability |
| h. Cost principle | q. Financial Accounting Standards Board |
| i. Securities and Exchange Commission | r. Sarbanes-Oxley Act (SOX) |

- g 1. Common standards that indicate how to report economic events.
- f 2. The standards by which one's actions are judged as right or wrong.

- l 3. An unincorporated business owned by one person.
- a 4. The information system that identifies, records, and communicates the economic events of an organization to interested users.
- b 5. The employees of a business who need financial information to plan, organize, and run a business.
- h 6. An accounting principle that states that assets should be recorded at their cost.
- p 7. The legal concept that owners are not personally liable for the debts of a corporation.
- d 8. The field of accounting that provides economic and financial information for investors, creditors, and other external users.
- k 9. An assumption that requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.
- N 10. A business organized under state laws as a separate legal entity from its owners and having ownership divided into transferable shares.
- e 11. The field of accounting that provides economic and financial information for manager and other internal users.
- O 12. The legal concept that the owners of a business are personally liable for all the debts of the business.
- j 13. An assumption stating that only transaction data that can be expressed in terms of money be included in the accounting records.
- C 14. Individuals or organizations outside the business that require financial information to make decisions about an entity.
- M 15. An association of two or more persons to carry on as co-owners of a business for profit.
- i 16. A government agency that requires companies to file periodic financial reports in accordance with generally accepted accounting principles.
- g 17. A private organization that establishes generally accepted accounting principles.
- r 18. A law passed by Congress in 2002 intended to reduce unethical corporate behavior.

1-10 Accounting terms and concepts.

Listed below are several accounting terms and concepts. Match the letter of each with the appropriate phrase which states its meaning.

- ~~a.~~ Basic accounting equation
- ~~b.~~ Assets
- ~~c.~~ Liabilities
- ~~d.~~ Owner's equity
- ~~e.~~ Revenues
- ~~f.~~ Expenses
- ~~g.~~ Investments by owners
- ~~h.~~ Drawings
- ~~i.~~ Transactions

- ~~j.~~ External transactions
- ~~k.~~ Internal transactions
- ~~l.~~ Accounts receivable
- ~~m.~~ Account payable
- ~~n.~~ Income statement
- ~~o.~~ Owner's equity statement
- ~~p.~~ Balance sheet
- ~~q.~~ Statement of cash flows
- ~~r.~~ Net income

- p 1. A financial statement that reports the assets, liabilities, and owner's equity at a specific date.
- j 2. An economic event between the company and some outside enterprise.
- e 3. The value of goods or services sold to customers and results in increasing owner's equity.
- a 4. Assets must equal the sum of liabilities and owner's equity.
- r 5. This amount is the result of revenues being greater than expenses.
- g 6. The assets the owner puts into the business.
- l 7. The amounts owed to the business by customers on account that result from the sale of goods or services.
- h 8. The amount of assets an owner withdraws for personal use.
- q 9. A financial statement that summarizes information about the cash inflows and cash outflows for a specific period of time.
- b 10. Resources owned by a business.
- i 11. The economic events of an enterprise that are recorded by accountants.
- o 12. A financial statement that summarizes the change in owner's equity for a specific period of time.
- m 13. A specific debt of a business that results from purchases of goods or services.
- d 14. The ownership claim on total assets.

- F 15. The cost of assets consumed or services used in the process of earning revenues.
- C 16. The creditor's claims against the assets as a result of borrowing money or making purchases.
- N 17. A financial statement that presents the revenues and expenses of a company for a specific period of time.
- K 18. Economic events that occur entirely within one company.

2-8 Accounting terms and concepts.

Listed below are several accounting terms and concepts. Match the letter of each with the appropriate phrase which states its meaning.

- ~~a.~~ Posting
- b. Ledger
- ~~c.~~ Credit
- ~~d.~~ Debit
- ~~e.~~ Journalizing
- f. Account

- ~~g.~~ Trial balance
- ~~h.~~ Compound entry
- i. Normal balance
- ~~j.~~ Double-entry system
- ~~k.~~ Chart of accounts
- ~~l.~~ Journal

- f 1. A record of increases and decreases in specific asset, liability, or owner's equity items.
- l 2. An accounting record in which transactions are initially recorded in chronological order.
- i 3. An account balance on the side where an increase in the account is recorded.
- k 4. A list of accounts and the account numbers that identify their location in the ledger.
- e 5. The entering of transaction data in the journal.
- b 6. The entire group of accounts maintained by a company.
- a 7. The procedure of transferring journal entries to the ledger accounts.
- d 8. The left side of an account.
- c 9. The right side of an account.
- g 10. A list of accounts and their balances at a given time.
- h 11. A journal entry that involves three or more accounts.
- j 12. A system that records in appropriate accounts the dual effect of each transaction.

3-10 Accounting terms and concepts.

Listed below are several accounting terms and concepts. Match the letter of each with the appropriate phrase which states its meaning.

- | | |
|--------------------------------|----------------------------------|
| a. Accrual basis of accounting | h. Matching principle |
| b. Accrued expenses | i. Accrued revenues |
| c. Time period assumption | j. Adjusting entries |
| d. Prepaid expenses | k. Book value |
| e. Fiscal year | l. Revenue recognition principle |
| f. Depreciation | m. Contra asset account |
| g. Adjusted trial balance | n. Unearned revenues |

- C 1. The assumption that the economic life of a business can be divided into units of a month, a quarter or a year.
- D 2. An accounting period that is one year in length, but not necessarily beginning on January 1 and ending on December 31.
- F 3. Revenue should be recognized in the accounting records when it is earned, regardless of when the cash is received.
- J 4. "Let the expenses follow the revenues," regardless of when the cash is paid. Efforts should be matched with accomplishments.
- L 5. Entries made at the end of accounting periods to ensure that the revenue recognition and matching principles have been properly applied.
- M 6. An asset that represents the amount paid in advance for a future expense.
- N 7. The systematic allocation of the cost of a plant asset to expense over its useful life in compliance with the matching principle.
- K 8. An account that is offset against an asset account on the balance sheet to permit clear disclosure of both the original cost and the expired cost of the asset.
- J 9. Original cost less accumulated depreciation.
- I 10. A liability that represents the amount received in advance for a service that has not yet been performed or a product that has not yet been delivered.
- H 11. Revenues that have been earned, but have been neither received nor recorded.
- G 12. Expenses that have been incurred, but have been neither paid nor recorded.
- F 13. Transactions are recorded in the time period in which the events occur, rather than in the period in which cash is paid or received.

- d) Assume the company prepares a trial balance as of January 3, 2011. What will the balance in the Salaries Expense account be if the company uses reversing entries?

\$ 6,000

- e) What will the balance in the Salaries Expense account be if the company does not use reversing entries?

\$ 6,000

4-6 Accounting terms and concepts.

Listed below are several accounting terms and concepts. Match the letter of each with the appropriate phrase which states its meaning.

- | | |
|--------------------------------|-------------------------------|
| a. Current liabilities | i. Accounting cycle |
| b. Liquidity | j. Classified balance sheet |
| c. Order of liquidity | k. Closing entries |
| d. Property, plant & equipment | l. Correcting entries |
| e. Service enterprise | m. Current assets |
| f. Stockholders' equity | n. Income summary |
| g. Temporary accounts | o. Permanent accounts |
| h. Worksheet | p. Post-closing trial balance |

- h 1. A multi-columned form used to organize accounting data.
- g 2. Revenue, expense and drawing accounts that are closed or zeroed out at the end of the accounting period.
- o 3. Asset, contra-asset, liability and owner's capital accounts that are not closed or zeroed out at the end of the accounting period.
- k 4. Four journal entries whose purpose is to zero out the temporary accounts and bring the owner's capital account to the proper year end balance.
- n 5. A temporary account used only in closing revenue and expense accounts.
- p 6. A trial balance that contains only the permanent accounts after the temporary accounts have been zeroed out.
- i 7. Steps in the accounting process that are repeated each accounting period.

- L 8. Unnecessary entries if the records are free of errors.
- J 9. Grouping accounts into subgroups improves the usefulness of this statement.
- M 10. Assets that are expected to be converted into cash or used up within one year.
- P 11. A type of business that earns revenue by performing a service, not by selling tangible product.
- C 12. The order in which current assets are expected to be converted into cash.
- d 13. Long-lived assets that are expected to be used by the business, not held for resale.
- a 14. Obligations that are expected to be paid within one year.
- b 15. The ability of the company to pay its bills when they are due.
- P 16. The name given to the owner's equity of a corporation.