Test Bank

By Angela Spence

Financial Accounting

14th Edition

Wendy M. Tietz
Kent State University

C. William (Bill) Thomas
Baylor University

Chapter 1 The Financial Statements

Learning Objective 1-1

1) Accounting is an information system that measures business activities.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

2) Bookkeeping is a mechanical part of accounting.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

3) Accounting is often called the language of business.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

4) Accounting produces financial statements, which report information about a business.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

5) The accounting process begins and ends with people making decisions.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

6) Accounting information is used by investors and creditors, but not by regulatory bodies.
Answer: FALSE
Explanation: It is used by individuals, investors, creditors, nonprofits, and regulatory bodies.

Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
7) Since Habitat for Humanity is not concerned about making a profit, the entity does not need to use accounting information.
Answer: FALSE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

8) The business records of a sole proprietorship should include the proprietor's personal finances.
Answer: FALSE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

9) A partnership is a taxpaying entity.
Answer: FALSE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting
AICPA Lead Comp: Critical Thinking

10) Stockholders have no personal obligation for the corporation's debts.
Answer: TRUE
Diff: 1
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

11) Accounting:
A) measures business activities.
B) processes data into reports and communicates the data to decision makers.
C) is often called the language of business.
D) is all of the above.
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

12) A disadvantage of general partnerships is:
A) double taxation of distributed profits.
B) the partnership's assets are commingled with each partner's personal assets.
C) only individuals can be partners.
D) each partner may conduct business in the name of the entity and make agreements that legally bind all partners.
Answer: D
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

13) Which of the following statements is TRUE for a limited liability company?
A) Members have unlimited liability for the debts of the business.
B) Members have limited liability for debts only up to the extent of their investment in the LLC.
C) The owners have unlimited liability for the debts of the business.
D) Members are not taxed like members of a partnership.
Answer: B
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

14) Which of the following statements is TRUE for a limited liability partnership?
A) All partners have limited liability for the debts of the partnership.
B) All the partners are considered to be limited partners.
C) The general partner has unlimited liability for the debts of the partnership.
D) The limited partners have unlimited liability for the debts of the partnership.
Answer: C
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting

15) Which of the following statements is TRUE for a proprietorship?
A) Legally, a proprietorship is separate from the proprietor.
B) For accounting purposes, a proprietorship is separate from the proprietor.
C) The business records include the proprietor's personal finances.
D) All statements are correct.
Answer: B
Diff: 2
LO: 1-1
AACSB: Reflective Thinking
AICPA Tech Comp: Measurement and Reporting