# BUSI 302 – ACCOUNTING

Closed Note Book Exam Review

**TRUE OR FALSE**

1) Assets = Liabilities + Owners' Equity

2) Current assets are those that are expected to be converted into cash within 12 months or less. Typical current assets include Accounts Receivable, Cash, and Inventory.

3) A frequently used analogy is that the balance sheet is like a photograph, while the income statement is more akin to a video.

4) The statement of retained earnings functions much like a bridge between the income statement and the balance sheet. It takes information from the income statement, and it provides information to the balance sheet.

5) The cash flow statement does exactly what it sounds like: It reports a company's cash inflows and outflows over an accounting period.

6) Liquidity ratios are used to determine how easily a company will be able to meet its short-term financial obligations.

7) Gross profit margin comparisons across different industries can be rather meaningless.

8) Inventory turnover and receivables turnover are the most important turnover ratios.

9) In the United States, Generally Accepted Accounting Principles (GAAP) is the name for the framework of accounting rules used in the preparation of financial statements.

10) A debit entry will increase an asset account, and it will decrease a liability or owners' equity account. A credit entry will decrease an asset account, and it will increase a liability or owners' equity account.

11) The purpose of a trial balance is to check that total debits equal total credits.

12) Under the accrual method of accounting, revenue is recorded as soon as services are provided or goods are delivered, regardless of when cash is received.

13) The purpose of zeroing out the balance in each of these accounts is to give them a fresh start for the next accounting period.

14) After all the income statement accounts have been zeroed out, the Income Summary account will have a balance equal to the firm's net income or loss for the period. A journal entry is then made to transfer this balance into the Retained Earnings account.

15) GAAP does not makes the assumption that the dollar is a stable measure of value.

16) Contra accounts are used to offset other accounts.

17) Straight-line depreciation is the simplest depreciation method. Using straight-line, an asset’s cost is depreciated over its expected useful life, with an equal amount of depreciation being recorded each month.

18) Amortization is the process— very analogous to depreciation— in which an intangible asset’s cost is spread out over the asset’s life.

19) The primary disadvantage to using the perpetual method is the cost of manpower.

20) The average cost method is a formula for calculating CoGS and ending inventory based upon the average cost per unit of inventory available for sale over a given period.