

# CHAPTER 2 The World of Business and Accounting

## Study Plan

### Check Your Understanding

**Section 1** *Read Section 1 on pages 26–30 and complete the following exercises on page 31.*

- Thinking Critically
- Communicating Accounting
- Problem 2-1 *Assess Your Entrepreneurship Potential*

**Section 2** *Read Section 2 on pages 32–34 and complete the following exercises on page 35.*

- Thinking Critically
- Computing in the Business World
- Problem 2-2 *Using Financial Information*
- Problem 2-3 *Identifying Accounting Assumptions*

### Summary

*Review the Chapter 2 Summary on page 37 in your textbook.*

- Key Concepts

### Review and Activities

*Complete the following questions and exercises on pages 38–39 in your textbook.*

- Using Key Terms
- Understanding Accounting Concepts and Procedures
- Case Study
- Internet Connection
- Workplace Skills

### Problems

*Complete the following end-of-chapter problems for Chapter 2 in your textbook.*

- Problem 2-4 *Identifying Types of Businesses*
- Problem 2-5 *Understanding Accounting Assumptions*
- Problem 2-6 *Understanding Business Operations*
- Problem 2-7 *Categorizing Forms of Business Organizations*

### Challenge Problem

- Problem 2-8 *Working as an Entrepreneur*

### Chapter Reviews and Working Papers

*Complete the following exercises for Chapter 2 in your Chapter Reviews and Working Papers.*

- Chapter Review
- Self-Test

# CHAPTER 2 REVIEW

## The World of Business and Accounting

### Part 1 Accounting Vocabulary (16 points)

Total Points	36
Student's Score	

**Directions:** Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided. The first sentence has been completed for you.

- |                      |                         |                           |                     |
|----------------------|-------------------------|---------------------------|---------------------|
| A. accounting system | F. financial accounting | K. managerial accounting  | N. partnership      |
| B. business entity   | G. accounting period    | L. manufacturing business | O. profit           |
| C. capital           | H. GAAP                 | M. merchandising business | P. service business |
| D. corporation       | I. going concern        | Q. sole proprietorship    |                     |
| E. entrepreneur      | J. loss                 |                           |                     |

- Q    0. A(n) \_\_\_\_\_ has one owner.
1. The time period covered by an accounting report is called \_\_\_\_\_.
2. A(n) \_\_\_\_\_ has at least two owners.
3. Money invested in a business by an owner is called \_\_\_\_\_.
4. The amount of money earned over and above the amount spent to keep a business operating is called \_\_\_\_\_.
5. Businesses that spend more than they receive operate at a \_\_\_\_\_.
6. A(n) \_\_\_\_\_ is concerned with the process of recording and reporting financial information.
7. A(n) \_\_\_\_\_ is willing to take the risks of running a business.
8. Accounting for external users of accounting information is called \_\_\_\_\_.
9. Generally Accepted Accounting Principles refers to \_\_\_\_\_.
10. Accounting for internal users of accounting information is called \_\_\_\_\_.
11. A(n) \_\_\_\_\_ exists independently of its owner's personal holdings.
12. A business expected to operate in the future is called a(n) \_\_\_\_\_.
13. A business that buys finished products and then sells them is called a(n) \_\_\_\_\_.
14. A business that transforms raw material into products is called a(n) \_\_\_\_\_.
15. A business organization that is recognized by law to have a life of its own is called a(n) \_\_\_\_\_.
16. A business organized to operate by providing professional services for a fee is called a(n) \_\_\_\_\_.

### Part 2 Forms of Business Organizations (10 points)

**Directions:** Using the three forms of business organizations listed, complete the sentences below. Write the letter of the term you have chosen in the space provided.

- |                        |                |                |
|------------------------|----------------|----------------|
| S. Sole Proprietorship | P. Partnership | C. Corporation |
|------------------------|----------------|----------------|

- S    0. Owned by a single individual
1. Often formed when the need for capital is greater than one person can invest
2. Must have a charter to operate as an organization
3. Usually enter into a written legal agreement before operating the business
4. Owners share in the risks and the profits
5. Advantages related to its freedom of operations and simplicity
6. A form of business organization used by large accounting firms
7. Recognized by law to have a life of its own
8. Shares of stock represent an individual's investment and percentage of ownership
9. May have to follow more regulations and pay higher taxes
10. Success or failure of the business depends heavily on the efforts of the owner

**Part 3 Entrepreneurship** (5 points)

**Directions:** Read each of the following statements to determine whether the statement is true or false. Write your answer in the space provided. Use a T for true and an F for false. The first statement is completed for you.

     T

0. Each person in a business organization has a different role.

1. Entrepreneurs seek opportunities that other people do not seem to care about.

2. To be an entrepreneur you do not need to worry about good writing or verbal skills.

3. Entrepreneurs do not get to choose the people they work with.

4. To be an entrepreneur you have to work long hours and be a self-starter.

5. A business plan is a key to entrepreneurial success.

**Part 4 Financial and Managerial Accounting** (5 points)

**Directions:** Read each of the following statements to determine whether the statement is true or false. Write your answer in the space provided. Use a T for true and an F for false. The first statement is completed for you.

     F

0. Managerial accounting focuses on reports based on GAAP.

1. Financial accounting prepares reports for people directly involved in day-to-day operations.

2. Managerial accounting is often referred to as accounting for internal users of information.

3. People with an indirect interest in a business would use reports based on GAAP.

4. Financial accounting is for people thinking of investing money in a business.

5. Management accounting helps determine whether business results match the business plan.

## Working Papers *for Section Problems*

### Problem 2-1 Assess Your Entrepreneurship Potential

	Most Like Me			Least Like Me	
Persistent	5	4	3	2	1
Creative	5	4	3	2	1
Responsible	5	4	3	2	1
Inquisitive	5	4	3	2	1
Goal-oriented	5	4	3	2	1
Independent	5	4	3	2	1
Demanding	5	4	3	2	1
Self-confident	5	4	3	2	1
Risk-taking	5	4	3	2	1
Restless	5	4	3	2	1

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### Problem 2-2 Using Financial Information

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**Problem 2-3** Identifying Accounting Assumptions

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**Working Papers** for End-of-Chapter Problems

**Problem 2-4** Identifying Types of Businesses

- |          |          |           |
|----------|----------|-----------|
| 1. _____ | 5. _____ | 9. _____  |
| 2. _____ | 6. _____ | 10. _____ |
| 3. _____ | 7. _____ | 11. _____ |
| 4. _____ | 8. _____ | 12. _____ |

**Problem 2-5** Understanding Accounting Assumptions

- |          |          |          |
|----------|----------|----------|
| 1. _____ | 3. _____ | 5. _____ |
| 2. _____ | 4. _____ | 6. _____ |

**Problem 2-6** Understanding Business Operations

1. \_\_\_\_\_
2. profit on bread sales: \_\_\_\_\_  
space for calculations: \_\_\_\_\_
3. \_\_\_\_\_  
\_\_\_\_\_

**Problem 2-7** Categorizing Forms of Business Organizations

- |          |           |
|----------|-----------|
| 1. _____ | 6. _____  |
| 2. _____ | 7. _____  |
| 3. _____ | 8. _____  |
| 4. _____ | 9. _____  |
| 5. _____ | 10. _____ |

**Problem 2-8** Working as an Entrepreneur

	<b>Advantage</b>	<b>Disadvantage</b>
1. Risking the loss of your savings	_____	_____
2. Deciding what you and everyone else needs to do each day	_____	_____
3. Lacking steady wages and employee benefits	_____	_____
4. Choosing when and where to work	_____	_____
5. Keeping the financial benefits of your hard work	_____	_____
6. Choosing the people you want to work with	_____	_____
7. Paying all the expenses of a new business	_____	_____

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# CHAPTER 2 The World of Business and Accounting

## Self-Test

### Part A True or False

**Directions:** Circle the letter T in the Answer column if the statement is true; circle the letter F if the statement is false.

#### Answer

- |   |   |   |
|---|---|---|
| T | F | 1. The United States' economy is referred to as a private enterprise system.                      |
| T | F | 2. Financial accounting is often referred to as accounting for internal users.                    |
| T | F | 3. The period of time covered by an accounting report is the fiscal period.                       |
| T | F | 4. Manufacturers make products and sell them while service businesses buy products and sell them. |
| T | F | 5. Only through profits can businesses continue to operate.                                       |
| T | F | 6. Entrepreneurs are people willing to take risks.  |
| T | F | 7. Going into business for yourself has few drawbacks.  |
| T | F | 8. A sole proprietorship is the most difficult business to start.                                 |
| T | F | 9. GAAP stands for Generally Accepted Accounting Procedures.                                      |
| T | F | 10. Accountants assume that a business will operate forever.                                      |

**Part B Matching**

**Directions:** *Using the business types listed below, write the letter of the term you have chosen in the space provided.*

A. Sole Proprietorship	B. Partnership	C. Corporation
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**Answer**

- \_\_\_\_\_ 1. The business has one owner
- \_\_\_\_\_ 2. Easy to start
- \_\_\_\_\_ 3. Easy to transfer ownership
- \_\_\_\_\_ 4. Must share profits
- \_\_\_\_\_ 5. Owner has all the risks
- \_\_\_\_\_ 6. Complex to organize
- \_\_\_\_\_ 7. Owner has total control
- \_\_\_\_\_ 8. Pays higher taxes
- \_\_\_\_\_ 9. Hard to raise money
- \_\_\_\_\_ 10. Losses limited to investment
- \_\_\_\_\_ 11. Limited expertise