

SURVEY OF ACCOUNTING · CHAPTER 1 · LO 1-2

Interactive Assessment — LO 1-2

Work these on your own, then we'll go through them together on the screen.

Name _____ Date _____ Section _____

LO 1-2 Identify reporting entities.**1 Counting the entities**

Dana Okafor started a business she named Okafor Landscaping. She moved cash from her personal account into a business account. Her cousin Leo invested cash in Okafor Landscaping and received an ownership interest. The company borrowed cash from Vulcan Community Bank, then paid cash to buy a truck from Red Mountain Motors. It earned cash from its customers and paid its employees cash for salaries. Count customers as one entity and employees as one entity.

Total reporting entities named

How many of those are organizations rather than people or groups of people

SHOW YOUR WORK**FOR THE INSTRUCTOR**

Seven: Dana, Okafor Landscaping, Leo, Vulcan Community Bank, Red Mountain Motors, the customers, and the employees. A separate set of records would be kept for each. Dana and her business are two entities, which is the point students most often miss.

2 Whose cash went up?

Okafor Landscaping pays \$8,000 cash to Red Mountain Motors for a used mower. From whose perspective did cash increase? Circle one.

- ☐ (A) Okafor Landscaping
- ☐ (B) Dana Okafor personally
- ☐ (C) Both companies, because a sale happened
- ☒ (D) Red Mountain Motors

FOR THE INSTRUCTOR

The same event looks different from each reporting entity. The buyer's cash fell and its equipment rose; the seller's cash rose. Check Yourself 1.1 asks the same question about a land sale.

3 The coupon

A customer at Forest Park Outfitters is thrilled to use a 20 percent off coupon. The chapter asks you to think from the perspective of the business entity. From that perspective, what does the discount mean? Circle one.

- ☒ **A The item did not sell at the expected price, so the business accepted less money than it planned to receive**
- ☐ B A great bargain that benefits everyone involved
- ☐ C An expense the business incurred to earn revenue
- ☐ D Nothing; discounts are a customer matter, not an accounting matter

FOR THE INSTRUCTOR

The text warns that everyday experience trains you to think as a customer. Every event should be read by asking how it affects the business. Option c is tempting but the chapter does not treat a discount as an expense; it treats it as revenue that fell short.

4 What is a reporting entity?

Which statement best describes a reporting entity as the chapter uses the term? Circle one.

- ☐ A Any corporation large enough to be required to follow GAAP
- ☒ **B The specific person or business that an accountant gathers and reports financial information about**
- ☐ C Any stakeholder who uses accounting information
- ☐ D Only a business, never an individual person

FOR THE INSTRUCTOR

Like a news reporter covering a person, place, or thing, an accountant reports on a specific person or business. Individuals such as Jason Winston in the text are reporting entities too.