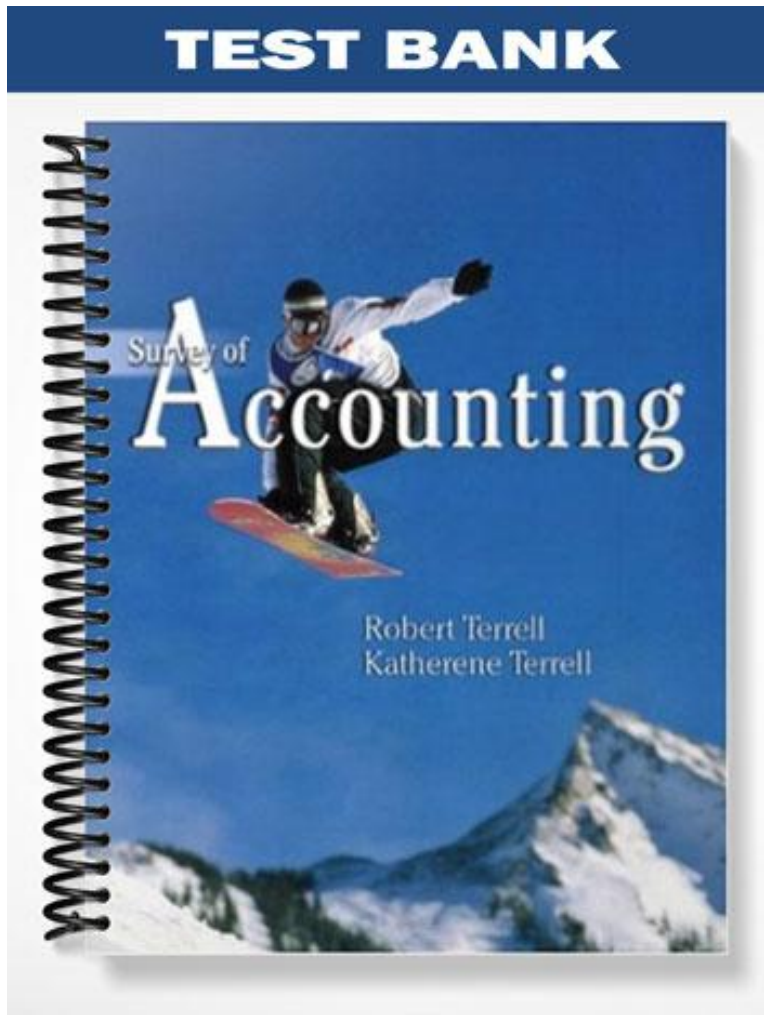


TEST BANK



Survey of
Accounting

Robert Terrell
Katherine Terrell



TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) *Accounting information* is the product of the accountants' organization, classification, and summarization of economic events so that it is useful to economic decision makers. 1) _____
- 2) Financial accounting information should be useful to stockholders, potential investors, creditors and other users for making divestment, credit, and other similar business decisions. 2) _____
- 3) The qualitative characteristics of accounting information are relevance, reliability, continuity, and consistency. 3) _____
- 4) The primary qualities that make accounting information useful are relevance and reliability. 4) _____
- 5) *Assets* are things an entity owns or controls that has no future value. 5) _____
- 6) The accounting equation is $\text{Assets} = \text{Liabilities} + \text{Equity}$. 6) _____
- 7) The term "balance sheet" comes from the necessity of keeping both sides of the accounting equation out of balance. 7) _____
- 8) The income statement depicts results of business activity for a point in time. 8) _____
- 9) Equity has three components—investments by owners, comprehensive income and distribution to owners. 9) _____
- 10) The *going-concern assumption* assumes that a business entity will remain in existence for an indefinite period of time. 10) _____
- 11) The *periodicity assumption* measures economic activity over the life of the business entity. 11) _____
- 12) The *historical cost principle* requires the balance sheet items to be reported at acquisition cost rather than at current value. 12) _____
- 13) The *full disclosure principle* requires that information necessary for all users of the financial statements of a business enterprise to make an economic decision must be made available to the statement users. 13) _____
- 14) *Materiality* relates to something that has no influence on the judgment of a reasonable person. 14) _____
- 15) *Industry practices* sometimes warrant the treatment of financial information different from GAAP. 15) _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 16) The raw results of economic transactions and events are 16) _____
A) financial statements. B) financial information.

- C) accounting information. D) accounting data.

17) Financial accounting information should be useful to stockholders, potential investors, creditors and other users in assessing the _____
 A) uncertainty, timing, and amounts of current cash available to pay such things as debts and operating costs.
 B) uncertainty, timing, and amounts of future debt available to pay such things as expenses and operating costs.
 C) certainty, timing, and amounts of past debt available to pay such things as expenses and operating costs.
 D) certainty, timing, and amounts of future cash available to pay such things as debts and operating costs.

18) The conceptual framework of accounting was developed by the _____
 A) American Institute of Certified Public Accountants.
 B) Governmental Accounting Standards Board.
 C) Financial Accounting Standards Board.
 D) Securities and Exchange Commission.

19) The structural component(s) of the conceptual framework are _____

	Qualitative Characteristics of <u>Objectives Accounting Information</u>	Accounting Elements	Principles, Assumptions and Constraints
A)	Yes	No	No
B)	Yes	Yes	Yes
C)	No	Yes	No
D)	Yes	Yes	Yes

20) For accounting information to have relevance it must have at least two of the following characteristics _____

	<u>Timeliness</u>	<u>Predictive value</u>	<u>Feedback value</u>	<u>Verifiability</u>
A)	No	Yes	Yes	Yes
B)	Yes	Yes	No	Yes
C)	Yes	No	Yes	Yes
D)	Yes	Yes	Yes	No

21) For accounting information to have reliability it must possess which qualities? _____

	<u>Verifiability</u>	Representational <u>Faithfulness</u>	<u>Neutrality</u>	<u>Timeliness</u>
A)	Yes	Yes	Yes	No
B)	Yes	Yes	No	Yes
C)	No	Yes	Yes	No
D)	Yes	No	Yes	Yes

22) According to the FASB, the two secondary qualitative characteristics that make accounting information useful are _____
 A) relevance and reliability.
 B) verifiability and neutrality.
 C) predictive value and feedback value.
 D) comparability and consistency.

- 23) When one company's accounting information is commensurate with the accounting information of another company it is 23) _____
A) consistent. B) comparable.
C) verifiable. D) predictive.
- 24) When the accounting policies and procedures are in conformity from period to period this is known as 24) _____
A) consistency. B) comparability.
C) predictability. D) verifiability.
- 25) The quality of information that assists users to increase the probability of correctly forecasting the results of past or present events is known as 25) _____
A) timeliness. B) feedback value.
C) predictive value. D) representational faithfulness.
- 26) The quality of information that allows users to substantiate or amend prior expectations is known as 26) _____
A) representational faithfulness. B) timeliness.
C) predictive value. D) feedback value.
- 27) If a company reports \$7.0 million in sales but in reality has \$6.99 million in sales, the sales reported would be considered 27) _____
A) neutral. B) consistent.
C) representationally faithful. D) verifiable.
- 28) The balance sheet consists of three accounting elements, these elements are assets, liabilities and 28) _____
A) equity. B) losses. C) revenue. D) gains.
- 29) A liability arises from 29) _____
A) past transactions.
B) investments by stockholders.
C) events that might occur in the future.
D) profitable operations of a company over time.
- 30) Equity in a company comes from which two sources? 30) _____
A) Assets and liabilities.
B) Investments by owners and earnings.
C) Borrowed funds and earnings.
D) Investments by owners and borrowed funds.
- 31) *Investments by owners* can be defined as the amount that is invested by the company's owners 31) _____
A) to get it started or to finance its expansion.
B) for suppliers to get it started or to finance its expansion.
C) and it is what they expect to get in return.
D) and it is what they expect to lose.
- 32) *Earned equity* is defined as the total amount a company has earned since its beginning, 32) _____

- A) less any amounts distributed to employees.
- B) less any amounts distributed to its owner(s).
- C) plus any amounts distributed to its owner(s).
- D) plus any amounts distributed to its employees.

33) The accounting equation is 33) _____
 A) Assets + Liabilities = Equity. B) Assets + Equity = Liabilities.
 C) Assets = Liabilities + Equity. D) Assets = Equity - Liabilities.

34) At the start of your business enterprise you purchase a truck for \$35,000. 34) _____
 You put in \$3,000 cash and borrow the remainder to pay for the truck.
 After the purchase is completed what does the businesses accounting equation look like?

	<u>A</u>	=	<u>L</u>	+	<u>E</u>
A)	\$35,000		\$32,000		\$ 3,000
B)	\$35,000		\$ 3,000		\$38,000
C)	\$35,000		\$ 3,000		\$32,000
D)	\$29,000		\$32,000		\$ 3,000

35) At the start of your business you invest \$10,000 in the company. 35) _____
 Immediately after the investment the company purchases a building for \$8,000 paying cash. What does the businesses accounting equation look like immediately after the acquisition?

	<u>A</u>	=	<u>L</u>	+	<u>E</u>
A)	\$10,000		\$2,000		\$8,000
B)	\$8,000		\$0		\$8,000
C)	\$8,000		\$2,000		\$6,000
D)	\$10,000		\$0		\$10,000

36) What does the date on a balance sheet refer to? 36) _____
 A) Next year. B) The year as a whole.
 C) A specific point in time. D) A specified period of time.

37) On the balance sheet total assets must equal total 37) _____
 A) liabilities plus total equity. B) liabilities minus total equity.
 C) liabilities minus revenues. D) equity plus expenses.

38) The balance sheet of a corporation includes 38) _____
 Stockholders'

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
A)	Yes	Yes	Yes
B)	No	Yes	Yes
C)	Yes	No	Yes
D)	Yes	Yes	No

39) The balance sheet of a corporation would include in stockholders' equity 39) _____
 A) all the stockholders' names and retained earnings.
 B) authorized stock and retained earnings.
 C) all the owners' names and their capital balances and retained earnings.
 D) common stock and retained earnings.

- 40) The *income statement* provides information about an entity's performance 40) _____
 A) during a specific time period.
 B) since formation.
 C) on a specific day.
 D) for a five year period.
- 41) Increases in net assets that occur as a result of an entity's selling a 41) _____
 product are known as
 A) expenses. B) losses. C) gains. D) revenues.
- 42) Sacrifices of the future value of assets used to generate revenues from 42) _____
 customers are known as
 A) expenses. B) gains. C) revenues. D) losses.
- 43) The cost of merchandise transferred to a customer in the entity's 43) _____
 primary business activity is an expense known as
 A) administrative. B) revenue.
 C) cost of goods sold. D) inventory.
- 44) The result of an incidental or peripheral event, as it relates to increases 44) _____
 or decreases in net assets, is defined as
 A) gains and losses. B) gains and revenues.
 C) assets and liabilities. D) revenues and expenses.
- 45) The income equation is 45) _____
 A) revenues - expenses + gains - losses = net income (or net loss).
 B) revenues - expenses - gains - losses = net income (or net loss).
 C) revenues + expenses + gains - losses = net income (or net loss).
 D) revenues - expenses + gains + losses = net income (or net loss).
- 46) Sales minus cost of goods sold is defined as 46) _____
 A) gross profit. B) operating income.
 C) comprehensive income. D) net income.
- 47) The *statement of stockholders' equity* reports the change in the entity's 47) _____
 A) revenue and equity at a point in time.
 B) equity during a period of time.
 C) revenue during a period of time.
 D) equity at a point in time.
- 48) The statement of cash flows is organized around the major functions of 48) _____
 a firm. These functions include
- | | Operating | Investing | Financing |
|----|-------------------|-------------------|-------------------|
| | <u>Activities</u> | <u>Activities</u> | <u>Activities</u> |
| A) | Yes | Yes | Yes |
| B) | Yes | No | No |
| C) | Yes | Yes | No |
| D) | Yes | No | Yes |
- 49) Why is a statement of cash flows useful to readers of accounting 49) _____
 information?
 A) It is not useful to all readers because all ten of the elements of

accounting have already been explained.

- B) Even if a company is profitable, it may run out of cash and the cash flow statement helps users to detect the potential problem.
- C) If a company is profitable it will always have excess cash to invest elsewhere and this statement shows users where the cash is invested.
- D) If a company is unprofitable, it will never have excess cash to make capital expenditures and this statement shows users where the cash is being spent.

- 50) The statement of cash flows is organized around the three major functions of a firm. Those three major functions are investment of resources, the financing of operations and investments and 50) _____
- A) manufacturing. B) merchandising.
 - C) services. D) operations.
- 51) What is the foundation of the conceptual framework? 51) _____
- A) Objectives, principles and constraints.
 - B) Assumptions, elements and constraints.
 - C) Assumptions, objectives and elements.
 - D) Assumptions, principles and constraints.
- 52) The economic transactions and activities of a business can be accounted for separately and apart from the personal activities of the owners, this is known as the 52) _____
- A) monetary unit assumption. B) periodicity assumption.
 - C) going-concern assumption. D) separate entity assumption.
- 53) From an accounting standpoint, a business is viewed as a separate entity only if it is a 53) _____
- A) corporation or partnership.
 - B) corporation, partnership or proprietorship.
 - C) partnership or proprietorship.
 - D) sole proprietorship or corporation.
- 54) In the absence of any information to the contrary, a business entity will continue to remain in existence for an indefinite period of time. This is known as the 54) _____
- A) going-concern assumption. B) separate entity assumption.
 - C) periodicity assumption. D) monetary unit assumption.
- 55) If the going-concern assumption for a company is not met, the business would have no future value for its 55) _____
- A) expenses. B) liabilities.
 - C) assets. D) income.
- 56) The monetary unit assumption says that economic activities are measured and expressed in 56) _____
- A) Deutsche Marks for international businesses.
 - B) Pesos for international businesses.
 - C) U.S. dollars for all businesses.
 - D) the appropriate legal currency.

- 57) What is the assumption that economic activities are measured and expressed in terms of the appropriate legal currency for a business? 57) _____
A) Going concern. B) Periodicity.
C) Monetary unit. D) Separate entity.
- 58) When we measure economic activity over an arbitrary period of time, such as a year or a month for the purpose of providing useful information, that can be defined as 58) _____
A) separate entity assumption. B) going-concern assumption.
C) periodicity assumption. D) monetary unit assumption.
- 59) The historical cost principle requires that assets be reported on the balance sheet at 59) _____
A) current market value.
B) acquisition cost adjusted for inflation.
C) acquisition cost.
D) historical market value.
- 60) Assets should be reported at the acquisition cost instead of at current fair value. This principle assumption is 60) _____
A) revenue recognition. B) going concern.
C) historical cost. D) monetary unit.
- 61) Revenue recognition occurs when the revenue is earned and an enforceable claim exists to receive the asset traded for the revenue. To satisfy the requirement of being earned a company must have 61) _____
A) substantially completed the terms of the sale or service.
B) have the order for the sale or service in hand.
C) started work on providing the sale or service.
D) partially completed all terms of the sale or service.
- 62) The income statement must reflect the income earned during the time period and the expenses required to earn that income because of the 62) _____
A) matching principle.
B) historical cost principle.
C) revenue recognition principle.
D) full disclosure principle.
- 63) If a purchased item has no discernible future benefit, or the periods benefited cannot be reasonably estimated, we immediately recognize the cost of the item as an expense under the 63) _____
A) going concern assumption. B) monetary unit assumption.
C) matching principle. D) historical cost principle.
- 64) The full disclosure principle requires that 64) _____
A) information necessary for an informed user of the financial statements of a businesses enterprise to make an economic decision must be made available to the statement users.
B) revenue be recognized when earned and an enforceable claim exists to receive the asset traded for the revenue.
C) balance sheet items are reported at acquisition cost instead of

current value.

D) revenues be matched with the expenses of producing those revenues.

- 65) Information included in the financial statements should be important enough to make a difference to the user and should be adequate to aid the users in decision making as result of the _____
A) historical cost principle.
B) revenue recognition principle.
C) full disclosure principle.
D) matching principle.
- 66) Materiality is a(an) _____
A) element. B) constraint.
C) assumption. D) principle.
- 67) Deciding whether an item is material or not requires a(an) _____
A) accountant's professional judgment.
B) engineer's professional judgment.
C) lawyer's professional judgment.
D) bookkeeper's professional judgment.
- 68) The cost-benefit relationship requires that the benefit of knowing information should _____
A) exceed the cost of providing the information.
B) not exceed the cost of providing the information.
C) exceed the benefit of providing the information.
D) not exceed the benefit of providing the information.
- 69) Choosing alternatives that are least likely to overstate assets and income or understate liabilities when uncertainty or doubt exists is a constraint known as _____
A) cost-benefit relationship. B) conservatism.
C) materiality. D) industry practices.
- 70) When a company must adopt an accounting treatment that is least likely to overstate assets because no clearly correct decision can be made, this is the result _____
A) conservatism. B) industry practices.
C) cost-benefit relationship. D) materiality.
- 71) When would industry practices dictate a departure from GAAP? _____
A) The AICPA publishes guides for these special industries when a departure is required.
B) The AICPA does not recognize departures from GAAP.
C) This would never happen because GAAP is the law.
D) Whenever the industry wants one.
- 72) At times, certain industries must follow something other than GAAP. _____
Who publishes the guidelines for this special treatment?
A) Governmental Accounting Standards Board.
B) Internal Revenue Services

- C) Financial Accounting Standards Board.
 D) American Institute of Certified Public Accountants.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

73) Fill in the missing amounts of the accounting equation.

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
a.)	\$20,000	=	\$25,000	+	_____
b.)	\$15,000	=	_____	+	\$ 2,000
c.)	_____	=	\$85,000	+	\$10,000
d.)	\$35,000	=	\$35,000	+	_____

74) On July 1, 2004, Hill Smith and Dale Smith started a computer repair business that they incorporated as Hill & Dale, Inc. Hill invested \$5,000 and a building valued at \$10,000, in return he received 15,000 shares of common stock. Dale invested \$10,000 in the business and received 10,000 shares of common stock.

Prepare a balance sheet as of July 1, 2004 to reflect the stockholders' investments.

75) Creative Decorating, Inc. had \$560,000 in net sales during 2004. Its other revenues and its expenses in alphabetical order were:

Advertising	\$ 35,900
Cost of goods sold	364,000
Income taxes	14,500
Interest income	3,000
Loss on investments sold	7,000
Rent	15,000
Salaries and wages	75,400
Utilities	7,300

Prepare an income statement with intermediate steps for Creative Decorating, Inc. for 2004.

76) The following information was taken from the accounting records of Joe Forbitz, Inc. for 2004:

Sales	\$1,250,000
Cost of Goods Sold	780,000
Salaries	225,000
Insurance	75,000
Office supplies	7,300
Rent	35,000
Utilities	20,700
Common Stock, 1/1/04	50,000
Common Stock, 12/31/04	60,000
Retained Earnings, 1/1/04	240,000
Income taxes	50,000

Prepare an income statement with intermediate steps and a statement of stockholders' equity for 2004.

77) Fill in the missing numbers for each statement of stockholders' equity.

	Stock Issued	35,000	150,000	-0-	_____
	Net Income	A _____ B	1,000	17,000	245,000
Beginning	Dividend Distributions	-0-	3,500	-0-	350,000
g	Ending Balance	\$270,000	\$147,500	\$_____	\$642,500
Balance		\$300,000	\$_____	\$25,000	\$745,000

78) Fill in the blanks.

<u>Assumptions</u>	<u>Principles</u>	<u>Constraints</u>
Separate entity _____	_____	_____
Monetary unit _____	Revenue recognition _____	Conservatism
	Full Disclosure	Industry practices

79) The objective of accounting is to provide stakeholders with information that is useful. Discuss whom the accounting information should be useful to and why.

80) Accounting information should have certain qualitative characteristics as defined by the FASB in the Conceptual Framework of Accounting. List the characteristics and define them.

81) The accounting elements are grouped into four interrelated financial statements that summarize the present status and past performance of a business entity. What are the four financial statements and what accounting elements are present in each?

82) How are the four financial statements □ balance sheet, income statement, statement of stockholders' equity and the statement of cash flows □ intertwined (articulated)?

83) Why does the accounting profession need assumptions and principles? Use the assumptions and principles discussed in the text to explain your answer.

84) There are four constraints that sometimes cause the accountants to depart from the use of the basic principles and assumptions. What are the four constraints and their definitions? Why do each of these constraints cause a departure?

- 1) TRUE
- 2) TRUE
- 3) FALSE
- 4) TRUE
- 5) FALSE
- 6) TRUE
- 7) FALSE
- 8) FALSE
- 9) TRUE
- 10) TRUE
- 11) FALSE
- 12) TRUE
- 13) FALSE
- 14) FALSE
- 15) TRUE
- 16) D
- 17) D
- 18) C
- 19) B
- 20) D
- 21) A
- 22) D
- 23) B
- 24) A
- 25) C
- 26) D
- 27) B
- 28) A
- 29) A
- 30) B
- 31) A
- 32) B
- 33) C
- 34) A
- 35) D
- 36) C
- 37) A
- 38) A
- 39) D
- 40) A
- 41) D
- 42) A
- 43) C
- 44) A
- 45) A
- 46) A
- 47) B
- 48) A
- 49) B
- 50) D
- 51) D

- 52) D
 53) B
 54) A
 55) C
 56) D
 57) C
 58) C
 59) C
 60) C
 61) A
 62) A
 63) C
 64) A
 65) C
 66) B
 67) A
 68) A
 69) B
 70) A
 71) A
 72) D
 73) a.) (\$5,000) b.) \$13,000 c.) \$95,000 d.) \$-0-
 74)

Hill & Dale, Inc.
 Balance Sheet
 July 1, 2004

Assets		Liabilities	
Cash	\$15,000		\$ -0-
Building	<u>10,000</u>	Stockholders' Equity	
		Common Stock	<u>\$25,000</u>
		Total Liabilities and	
Total Assets	<u>\$25,000</u>	Stockholders' Equity	<u>\$25,000</u>

75) **Creative Decorating, Inc.**
Income Statement

For the Year Ended December 31, 2004

Net Sales		\$560,000
Cost of Goods Sold		<u>364,000</u>
Gross Profit		\$196,000
Operating Expenses		
Salaries and wages	\$75,400	
Advertising	35,900	
Rent	15,000	
Utilities	<u>7,300</u>	
Total Operating Expenses		<u>133,600</u>
Operating Income		\$62,400
Other Revenue and Expenses		
Interest Income	\$3,000	
Loss on sale of investments	<u>(7,000)</u>	<u>(4,000)</u>
Income before Taxes		\$58,400
Income Taxes		<u>14,500</u>

76) Net Income		<u><u>\$43,900</u></u>
Joe Forbitz, Inc.		
Income Statement		
For the Year Ended December 31, 2004		
Net Sales		\$1,250,000
Cost of Goods Sold		780,000
Gross Profit		<u>\$470,000</u>
Operating Expenses		
Salaries and wages	\$225,000	
Insurance	75,000	
Rent	35,000	
Utilities	20,700	
Office supplies	<u>7,300</u>	
Total Operating Expenses		<u>363,000</u>
Income before Taxes		\$107,000
Income Taxes		<u>50,000</u>
Net Income		<u><u>\$57,000</u></u>

Joe Forbitz, Inc.
Statement of Stockholders' Equity
For the Year Ended December 31, 2004

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2004	\$50,000	\$240,000	\$290,000
Stock Issued	10,000		10,000
Net Income		<u>57,000</u>	<u>57,000</u>
Balance, December 31, 2004	<u>\$60,000</u>	<u>\$297,000</u>	<u>\$357,000</u>

77) a.) (\$65,000) b.) \$ -0- c.) \$42,000 d.) \$2,500

78) **Assumptions** **Principles** **Constraints**

Going Concern	Historical Cost	Materiality
Periodicity	Matching	Cost-benefit
		relationship

79) Accounting should be useful to stockholders, potential investors, creditors and other users so that they can make investment, credit and other important business decisions. These users should have a reasonable understanding of the economic activity and they should diligently study the information. These same users should be able to assess the certainty, timing and amounts of future cash that will be available to pay such things as debts and expenses. This information should also give the users an understanding of the entity's resources, any claims against those resources and the changes that took place in each over a given time period.

80) For accounting information to be useful it must be relevant and reliable. For the information to have relevance it must be provided on a timely basis, it must have predictive value and/or feedback value. For the information to be reliable it must be

verificationally faithful and it must be neutral. The other qualitative characteristics that the FASB presented is that the information must be comparable and consistent. The information must be comparable to others in the industry and it must be consistent with itself.

Note: The solution can be much longer than this if the instructor chooses. The students can go into a more in depth discussion of the qualitative characteristics.

- 81) The four financial statements are the balance sheet, income statement, statement of stockholders' equity and the statement of cash flows. The balance sheet consists of assets, liabilities and equity. The income statement consists of revenues, expenses, gains and losses. The statement of stockholders' equity consists of investments by owners, revenues, gains, expenses, losses, other comprehensive income and distribution to owners. The statement of cash flows focuses on cash, an asset.
- 82) The net income on the income statement flows to the statement of stockholders' equity. The balance in the statement of stockholders' equity flows to the balance sheet. The ending cash balance on the statement of cash flows must agree to the cash balance on the balance sheet.
- 83) If the accounting profession and the users of accounting information did not have certain assumptions and principles to follow then the accounting information would be meaningless for the following reasons.
 1. The separate entity assumption says that the business entity is separate and distinct from its owners. If we did not have this assumption then everyone that owned stock in a company would become liable for that company's debt.
 2. The going concern assumption says that in the absence of evidence to the contrary a business is expected to be in business indefinitely. If this assumption is not made then there would be no long term assets or long term liabilities because the company would not be expected to be here tomorrow.
 3. The historical cost principle says that items on the balance sheet must be reported at the price paid for them. If we did not have this then company's could put any value they wanted to on their assets and there would be no control over it.
 4. The matching principle says that you are supposed to match the revenues with the expense of producing that revenue. If we did not have this then company's could recognize revenues and expenses whenever they wanted to with no correlation to reality.

Note: This answer can be expanded by using all the assumptions and principles. There is the monetary unit assumption and the periodicity assumption that students could discuss. Revenue recognition and full disclosure principle can also be used in the discussion.
- 84)
 1. Materiality this relates to something that will influence the judgment of a reasonable person. If a dollar amount of a particular item is not large enough to make a difference to the decision maker then the item is not material. The financial statements are supposed to be error free and the materiality constraint says if there are immaterial errors that's okay.
 2. Cost-benefit relationship The benefit of presenting or including information has to outweigh the cost of presenting or including that information. The financial statements are supposed to include everything but this constraint says if the cost is too great, the information does not have to be included if it is not required.
 3. Conservatism If an accountant must choose between two alternative ways of presenting information then the accountant should choose the alternative that will not overstate assets or understate liabilities. Accountants must sometimes use estimates in their work. An example would be the life of a vehicle.
 4. Industry practices Some industries because of their peculiar nature have to adopt accounting practices that depart from GAAP. Some industries are very unique and their financials cannot follow GAAP because of that. The extractive industries are a good example.