GENERAL

accounting study guide true false

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Introduction

Whether you're a college freshman tackling your first accounting course or a seasoned professional preparing for the CPA exam, true/false questions can feel like a stealthy hurdle. These questions are designed to test not only your recall of facts but also your ability to interpret subtle nuances in accounting principles. A single misread word—such as "always," "never," or "sometimes"—can flip the answer from correct to wrong. This article offers a comprehensive, step by step guide to mastering true/false questions in accounting. By combining conceptual understanding, strategic study techniques, and practical practice, you'll build the confidence to tackle any true/false item with precision.

Understanding True/False Questions in Accounting

What Are True/False Questions?

True/false items present a statement that the test taker must classify as either correct (true) or incorrect (false). Unlike multiple choice questions that provide options, true/false tests rely solely on the student's knowledge and interpretation. Because there are only two possible answers, the stakes for each question are higher: a single mistake costs you 100% of the point value.

Why They're Common in Accounting Exams

- Efficiency of Assessment: Instructors can quickly gauge mastery of fundamental concepts without crafting elaborate answer choices.
- Coverage of Broad Topics: True/false items allow examiners to touch on a wide range of principles in a short time.
- Detection of Misconceptions: These questions often expose misunderstandings that may not surface in other formats.

Key Accounting Concepts Frequently Tested with True/False

To answer true/false questions accurately, you must have a solid grasp of core accounting doctrines. Below are the most common themes that appear on exams.

Accrual vs. Cash Accounting

The accrual basis records revenues and expenses when earned or incurred, regardless of cash flow. In contrast, cash accounting records only when cash moves. Statements that mix these concepts often hinge on the timing of recognition.

The Matching Principle

This principle dictates that expenses should be matched with the revenues they help generate within the same period. True/false items may test whether a particular expense should be recorded in the current period or deferred.

Depreciation Methods

Straight line, double declining balance, and units of production are the most common methods. Questions often revolve around the calculation of depreciation expense or the impact on book value.

Inventory Valuation

FIFO, LIFO, and weighted average cost are standard approaches. True/false statements may ask whether a specific inventory method is appropriate under certain circumstances.

Revenue Recognition

Under ASC 606 (IFRS 15), revenue is recognized when control of goods or services transfers to the customer. Many exams test the timing and criteria for revenue recognition.

GAAP vs. IFRS

While both frameworks share similarities, subtle differences can lead to distinct accounting treatments. True/false items often probe these distinctions.

Financial Statement Components

Assets, liabilities, equity, revenues, and expenses each have specific rules. Statements may ask whether a transaction should be classified within a particular component.

Consolidation and Intercompany Eliminations

True/false questions may test whether a transaction between parent and subsidiary should be eliminated during consolidation.

Effective Study Techniques for True/False Questions

Mastering true/false items requires both conceptual knowledge and strategic test taking skills. Below is a structured approach to building your study routine.

1. Master Core Concepts

Before tackling practice questions, ensure you can explain each principle in your own words. Use concept maps or flashcards to visualize relationships.

2. Identify Tricky Phrases

Words like “always,” “never,” “only,” “sometimes,” and “usually” can change the meaning dramatically. Highlight these words in your notes and practice interpreting them.

3. Practice with Sample Questions

Regularly work through practice sets. After each set, review your answers in detail, focusing on why you chose each answer and why the alternative is wrong.

4. Use Flashcards

Create a deck of true/false statements and test yourself in both directions: statement !’ answer, and answer !’ statement. Digital tools like Anki can schedule spaced repetition for maximum retention.

5. Time Management

Allocate a fixed amount of time to each question. If you’re stuck, skip and return to the item after finishing the rest. This prevents a single hard question from derailing your entire test.

6. Review Mistakes Thoroughly

After each practice session, write a brief explanation for every incorrect answer. Understanding the root cause—misinterpretation, lack of knowledge, or careless reading—helps prevent recurrence.

Common Pitfalls and How to Avoid Them

True/false questions are deceptively simple, yet they are riddled with traps. Recognizing these pitfalls can dramatically improve your accuracy.

Overlooking “Always” and “Never”

Statements that claim a rule applies in all circumstances are usually false unless the rule is universally accepted. For example, “Cash accounting is always preferable to accrual accounting” is false because accrual is required for most large entities.

Ignoring Contextual Clues

Questions may embed contextual information that alters the answer. For instance, a statement about depreciation might be true for a manufacturing firm but false for a service company.

Misreading the Question’s Focus

Some true/false items focus on the *definition* of a concept rather than its *application*. Distinguish whether the statement is about the theory or the practice.

Assuming the Opposite is True

When unsure, do not automatically choose the opposite answer. Instead, analyze the statement critically. The opposite may also be false.

Rushing Through the Statements

Skimming can cause you to miss qualifiers or key terms. Read each statement slowly and underline the critical words.

Sample True/False Questions and How to Analyze Them

Below are 12 practice statements. After each, a brief explanation clarifies the reasoning.

1. Statement: “Under the cash basis, expenses are recorded when they are paid, regardless of when they are incurred.”
   Answer: True.
   Explanation: Cash accounting recognizes expenses upon cash outflow, not on accrual.
2. Statement: “The straight line depreciation method results in the largest depreciation expense in the first year for a high depreciation asset.”
   Answer: False.
   Explanation: Straight line spreads expense evenly; accelerated methods yield higher initial expense.
3. Statement: “Revenue can be recognized before the customer receives the goods if the company has completed all performance obligations.”
   Answer: True.
   Explanation: ASC 606 allows recognition when control transfers, not necessarily after delivery.
4. Statement: “FIFO inventory valuation always results in higher ending inventory values during periods of rising prices.”
   Answer: True.
   Explanation: FIFO assumes older, cheaper costs are removed first, leaving newer, higher costs in ending inventory.
5. Statement: “A company’s equity section is unaffected by the sale of a subsidiary to a third party.”
   Answer: False.

Explanation: The sale generates gain or loss recorded in equity.

6. Statement: “Double declining balance depreciation always produces a lower book value than straight line depreciation for the same asset.”

Answer: False.

Explanation: The book value after each year may vary; in later years straight line can exceed double declining.

7. Statement: “Under IFRS, the concept of materiality is absolute and the same threshold applies to all entities.”

Answer: False.

Explanation: Materiality is relative and depends on the entity’s circumstances.

8. Statement: “A deferred revenue liability is created when a company receives cash before delivering a product or service.”

Answer: True.

Explanation: The liability reflects an obligation to deliver.

9. Statement: “The matching principle requires that all expenses be recorded in the same period as the related revenues.”

Answer: False.

Explanation: Only expenses directly tied to revenue need matching; incidental costs may be expensed in the period incurred.

10. Statement: “A company that uses the LIFO method will report lower income taxes during periods of inflation.”

Answer: True.

Explanation: LIFO assigns higher cost to COGS, reducing taxable income.

11. Statement: “The equity method of accounting for investments requires the investor to record the investee’s net income on the investor’s income statement.”

Answer: True.

Explanation: The investor records its share of the investee’s earnings.

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