

Study Guide 16

Name	Perfect Score	Your Score
Identifying Accounting Terms	11 Pts.	
Preparing Financial Statements for a Merchandising Business Organized as a Corporation	12 Pts.	
Analyzing Financial Statements for a Merchandising Business	30 Pts.	
Total	53 Pts.	

Part One—Identifying Accounting Terms

Directions: Select the one term in Column I that best fits each definition in Column II. Print the letter identifying your choice in the Answers column.

Column I	Column II	Answers
A. current liabilities	1. The revenue earned by a business from its normal business operations. (p. 475)	1. _____
B. cost of merchandise sold	2. The amount of sales, less sales discounts and sales returns and allowances. (p. 475)	2. _____
C. gross profit	3. The original price of all merchandise sold during a fiscal period. (p. 476)	3. _____
D. income from operations	4. The revenue remaining after cost of merchandise sold has been deducted. (p. 476)	4. _____
E. long-term liabilities	5. The expenses incurred by a business in its normal operations. (p. 478)	5. _____
F. net sales	6. The operating revenue remaining after the cost of merchandise sold and operating expenses have been deducted. (p. 478)	6. _____
G. operating expenses	7. A financial statement that shows changes in a corporation's ownership for a fiscal period. (p. 482)	7. _____
H. operating revenue	8. A value assigned to a share of stock and printed on the stock certificate. (p. 483)	8. _____
I. par value	9. Liabilities due within a short time, usually within a year. (p. 489)	9. _____
J. statement of stockholders' equity	10. Liabilities owed for more than a year. (p. 489)	10. _____
K. supporting schedule	11. A report prepared to give details about an item on a principal financial statement. (p. 492)	11. _____

Part Two—Preparing Financial Statements for a Merchandising Business Organized as a Corporation

Directions: Write a number from 1 to 12 to the left of each step to indicate the correct sequence of all the steps in the accounting cycle. (p. 504)

Answers

1. _____ An adjusted trial balance is prepared from the general ledger.
2. _____ A post-closing trial balance is prepared from the general ledger.
3. _____ Journal entries are posted to the accounts payable ledger, the accounts receivable ledger, and the general ledger.
4. _____ Closing entries are journalized.
5. _____ An unadjusted trial balance is prepared from the general ledger.
6. _____ Source documents are checked for accuracy, and transactions are analyzed into debit and credit parts.
7. _____ Adjusting entries are journalized.
8. _____ Financial statements are prepared from the adjusted trial balance.
9. _____ Schedules of accounts payable and accounts receivable are prepared from the subsidiary ledgers.
10. _____ Closing entries are posted to the general ledger.
11. _____ Transactions, from information on source documents, are recorded in journals.
12. _____ Adjusting entries are posted to the general ledger.

Part Three—Analyzing Financial Statements for a Merchandising Business

Directions: Place a *T* for True or an *F* for False in the Answers column to show whether each of the following statements is true or false.

	Answers
1. Financial statements provide the primary source of information needed by owners and managers to make decisions on the future activity of a business. (p. 472)	1. _____
2. Reporting financial information the same way from one fiscal period to the next is an application of the accounting concept Adequate Disclosure. (p. 472)	2. _____
3. An income statement for a merchandising business has four main sections: operating revenue, cost of merchandise sold, operating expenses, and other revenue. (p. 473)	3. _____
4. The amount of sales, less sales discounts, returns, and allowances is called gross profit. (p. 475)	4. _____
5. Cost of merchandise sold is also known as cost of goods sold. (p. 476)	5. _____
6. Operating revenue less cost of merchandise sold equals net income. (p. 476)	6. _____
7. Calculating a ratio between gross profit and net sales enables management to compare its performance to prior fiscal periods. (p. 476)	7. _____
8. To calculate vertical analysis percentages on an income statement, each amount is divided by net sales. (p. 477)	8. _____
9. Interest earned on notes receivable is reported in the Operating Expenses section of an income statement. (p. 478)	9. _____
10. Total operating expenses on an income statement are deducted from gross profit to determine income from operations. (p. 478)	10. _____
11. Federal income tax expense is an example of an operating expense. (pp. 478–479)	11. _____
12. All the information required to prepare a statement of stockholders' equity is obtained from the income statement and the adjusted trial balance. (p. 482)	12. _____
13. A statement of stockholders' equity contains two major sections: (1) Capital Stock and (2) Retained Earnings. (p. 483)	13. _____
14. The beginning balance of the capital stock account is the amount of capital stock issued as of the beginning of the year. (p. 483)	14. _____
15. The amounts in the capital stock section of the statement of stockholders' equity are obtained from the general ledger account, Capital Stock. (p. 483)	15. _____
16. Net income is shown on the last line of a statement of stockholders' equity. (p. 484)	16. _____
17. The amount of dividends reported on a statement of stockholders' equity is obtained from the adjusted trial balance. (p. 484)	17. _____
18. Data needed to prepare the liabilities section of a balance sheet are obtained from an adjusted trial balance. (p. 486)	18. _____
19. The difference between an asset's account balance and its related contra account balance is known as its book value. (p. 487)	19. _____
20. A mortgage payable is an example of a current liability. (p. 489)	20. _____
21. The amount of dividends paid during the year is presented on the balance sheet. (p. 490)	21. _____
22. The amounts reported on the balance sheet in the stockholders' equity section are obtained directly from general ledger accounts. (p. 490)	22. _____
23. The amount owed to a certain vendor would appear on a supporting schedule. (p. 492)	23. _____

Answers

- 24. Amounts needed for the closing entries are obtained from the adjusted trial balance and from the statement of stockholders' equity. (p. 494) 24. _____
- 25. The Income Summary account has a normal credit balance. (p. 494) 25. _____
- 26. A closing entry that results in credit to Income Summary would close sales, contra purchase, and other revenue accounts. (p. 495) 26. _____
- 27. Closing a contra revenue account results in a credit to Income Summary. (p. 496) 27. _____
- 28. A corporation with net income would post a closing entry that credits Retained Earnings. (p. 498) 28. _____
- 29. The Dividends account is closed by recording a debit to Retained Earnings. (p. 498) 29. _____
- 30. In the accounting cycle, adjusting entries are posted to the general ledger prior to the preparation of the financial statements. (p. 504) 30. _____