

# Study Guide 7

Name	Perfect Score	Your Score
Identifying Accounting Concepts and Practices	20 Pts.	
Analyzing an Income Statement	15 Pts.	
Analyzing Balance Sheet Procedures	5 Pts.	
<b>Total</b>	<b>40 Pts.</b>	

## Part One—Identifying Accounting Concepts and Practices

**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. The Full Disclosure accounting concept is applied when a company always prepares financial statements at the end of each monthly fiscal period. (p. 190) 1. \_\_\_\_\_
2. Internal users of accounting information include company managers, officers, and creditors. (p. 190) 2. \_\_\_\_\_
3. An income statement reports information on a specific date indicating the financial condition of a business. (p. 192) 3. \_\_\_\_\_
4. The Matching Expenses with Revenue accounting concept is applied when the revenue earned and the expenses incurred to earn that revenue are reported in the same fiscal period. (p. 192) 4. \_\_\_\_\_
5. Information needed to prepare an income statement comes from the Account Title column and the Income Statement columns of a work sheet. (p. 192) 5. \_\_\_\_\_
6. The income statement for a service business has five sections: heading, Revenue, Expenses, Net Income or Net Loss, and Capital. (p. 192) 6. \_\_\_\_\_
7. The income statement's account balances are obtained from the work sheet's Income Statement columns. (p. 192) 7. \_\_\_\_\_
8. The net income on an income statement is verified by checking the balance sheet. (p. 194) 8. \_\_\_\_\_
9. Double lines ruled across both amount columns of an income statement indicate that the amount has been verified. (p. 194) 9. \_\_\_\_\_
10. A financial ratio is a comparison between two components of financial information. (p. 195) 10. \_\_\_\_\_
11. Financial ratios on an income statement are calculated by dividing sales and total expenses by net income. (p. 195) 11. \_\_\_\_\_
12. No company should have a vertical analysis ratio for total expenses higher than 48.0%. (p. 196) 12. \_\_\_\_\_
13. When a business has two different sources of revenue, both revenue accounts are listed on the income statement. (p. 197) 13. \_\_\_\_\_
14. An amount written in parentheses on a financial statement indicates a negative amount. (p. 197) 14. \_\_\_\_\_
15. A balance sheet reports financial information on a specific date and includes the assets, liabilities, and owner's equity. (p. 199) 15. \_\_\_\_\_
16. A balance sheet reports information about the elements of the accounting equation. (p. 201) 16. \_\_\_\_\_
17. The owner's capital amount reported on a balance sheet is calculated as: capital account balance plus drawing account balance, less net income. (p. 202) 17. \_\_\_\_\_
18. The position of the total asset line on the balance sheet is determined after the Equities section is prepared. (p. 202) 18. \_\_\_\_\_
19. Double lines are ruled across the Balance Sheet columns to show that the column totals have been verified as correct. (p. 202) 19. \_\_\_\_\_
20. The Owner's Equity section of a balance sheet is the same for all businesses. (p. 203) 20. \_\_\_\_\_

## Part Two—Analyzing an Income Statement

**Directions:** The parts of the income statement below are identified with capital letters. Decide the location of each of the following items. Print the letter identifying your choice in the Answers column.

A											
B											
C											
											% OF SALES
D											
E								F			
G											
H				I							
J								K		N	
L								M		O	

(pp. 192–195)

- Date of the income statement.
- Heading of Expenses section.
- Statement name.
- Expense account titles.
- Expense account balances.
- The amount of net income or loss.
- Heading of Revenue section.
- Net income ratio (or return on sales).
- Revenue account title.
- Words *Total Expenses*.
- Business name.
- Total amount of revenue.
- Total amount of expenses.
- Words *Net Income* or *Net Loss*.
- Total expenses ratio.

### Answers

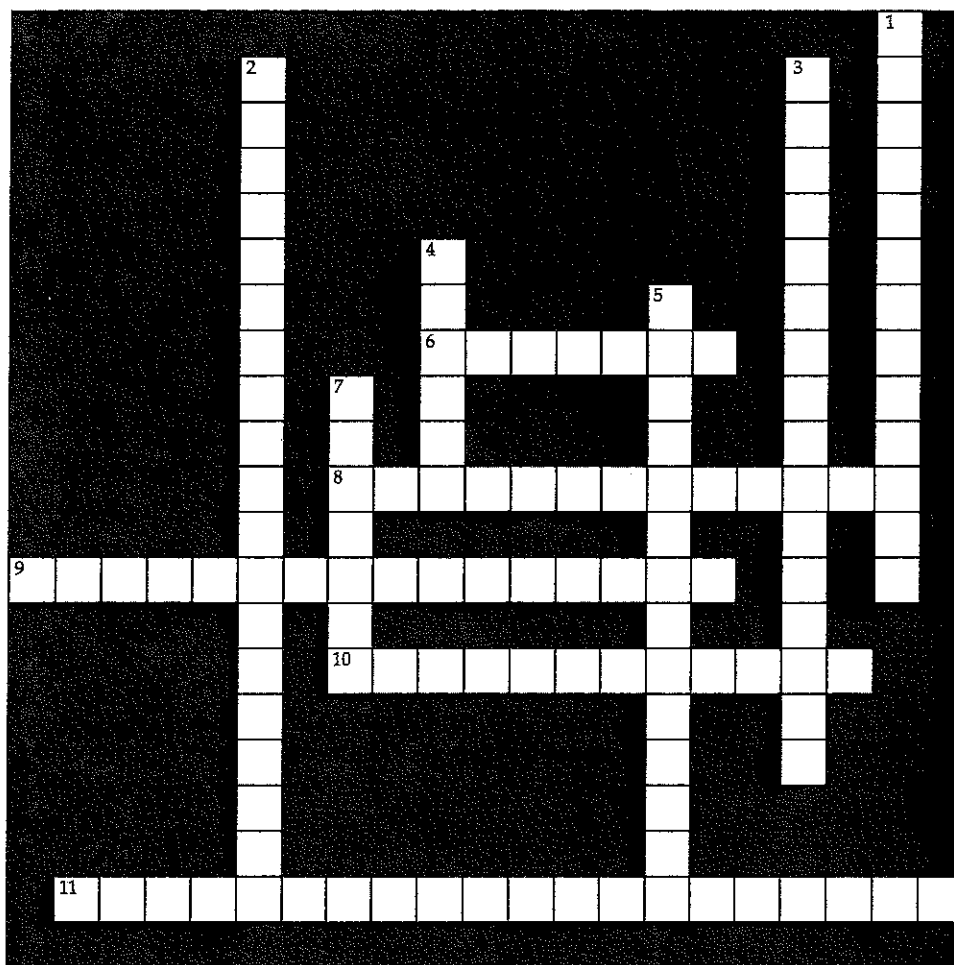
- \_\_\_\_\_
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**Part Three—Analyzing Balance Sheet Procedures**

**Directions:** For each of the following items, select the choice that best completes the statement. Print the letter identifying your choice in the Answers column.

**Answers**

1. The date on a monthly balance sheet prepared on July 31 is written as (A) For Month Ended July 31, 20– (B) July 31, 20– (C) 20–, July 31 (D) none of the above. (p. 199) 1. \_\_\_\_\_
2. Information needed to prepare a balance sheet's Assets section is obtained from a work sheet's Account Title column and (A) Income Statement Debit column (B) Income Statement Credit column (C) Balance Sheet Debit column (D) Balance Sheet Credit column. (p. 201) 2. \_\_\_\_\_
3. Information needed to prepare a balance sheet's Liabilities section is obtained from a work sheet's Account Title column and (A) Income Statement Debit column (B) Income Statement Credit column (C) Balance Sheet Debit column (D) Balance Sheet Credit column. (p. 201) 3. \_\_\_\_\_
4. The amount of capital reported on a balance sheet is calculated as (A) Capital Account Balance + Net Income – Drawing Account Balance (B) Capital Account Balance – Net Income – Drawing Account Balance (C) Capital Account Balance + Net Income + Drawing Account Balance (D) Capital Account Balance – Net Income + Drawing Account Balance. (p. 202) 4. \_\_\_\_\_
5. If a business wanted to show how the current capital balance was calculated, it would (A) only list net income on the balance sheet (B) only list net income and withdrawals on the balance sheet (C) list only the beginning capital balance on the balance sheet (D) list the beginning capital balance, the net income, the withdrawals, and the ending capital balance on the balance sheet. (p. 203) 5. \_\_\_\_\_



**Across**

- 6. A negative balance that remains after total expenses are subtracted from total income.
- 8. The ratio of net income to total sales.
- 9. Reporting an amount on a financial statement as a percentage of another item on the same financial statement.
- 10. Any persons or groups who will be affected by an action.
- 11. The area of accounting which focuses on reporting information to internal users.

**Down**

- 1. The calculation and interpretation of a financial ratio.
- 2. The area of accounting which focuses on reporting information to external users.
- 3. A budgeting strategy of setting aside at least 10% of after-tax income for saving and investing.
- 4. A financial road map used by individuals and companies as a guide for spending and saving.
- 5. A comparison between two components of financial information.
- 7. A positive balance that remains after total expenses are subtracted from total income.