

Name: _____

ACCOUNTING I

Chapter 7 Reading Guide



7-1 PREPARING AN INCOME STATEMENT

Please answer the following questions as you read Chapter 7, pages 188-211.

1. What is the area of accounting that focuses on reporting information to external users? Which area of accounting focuses on reporting information to internal users?
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2. Also known as Full Disclosure, what does the accounting concept Adequate Disclosure mean?
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3. Which accounting concept is applied when a company prepares financial statements at the end of the fiscal period?
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4. What is listed on the three lines of the heading of an income statement? What does the date line show?
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5. Where is the information for preparing an income statement obtained?
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6. What is the formula for calculating net income?
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7. How do you know if your net income on the income statement is correct? What do the double lines ruled across both amount columns indicate? What does a number in parenthesis indicate?
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8. What is a financial ratio?
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9. The revenue reported on an income statement of a service business is often compared to two items: total expenses and net income. How are financial ratios calculated on an income statement?
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10. What is the formula for calculating the component percentage of total expenses?
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11. The calculation and interpretation of a financial ratio is called ratio analysis. As it relates to an income statement, what is vertical analysis?
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12. For a service business, the income statement includes components for total expenses and net income. What are two ways to evaluate if a financial ratio is acceptable?
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13. The formula for calculating the net income ratio is net income divided by total sales. The net income ratio of net income to total sales is called return on sales (ROS). What does a Net Income ratio of 54.3 mean?
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14. Regardless of whether company has a net income or a net loss, the layout of the income statement is always the same, listing revenue, followed by expenses, and then net income or loss. If a company receives revenue from more than once source, does a separate income statement need to be created for each source of revenue?
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7-2 PREPARING A BALANCE SHEET

15. Where is the information for preparing a balance sheet obtained?
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16. What goes on the heading of a balance sheet? How does the date differ from the date on the income statement?
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17. What are the four sections of a balance sheet?
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18. The balance sheet proves the accounting equation. Assets are on the left side of the equation and are reported on the left side of the report. What is reported on the right side of the report?
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19. The financial condition of a business refers to its financial strength. What are the two types of equities reported on a balance sheet?
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20. Only the amount of current capital is reported on the balance sheet. How is the current capital balance calculated if a net income is involved?
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21. How is the current capital balance calculated if a net loss is involved?
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22. Why is the Owner's Equity section of a balance sheet different for some businesses?
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