

# Study Guide 7

Name	Perfect Score	Your Score
Identifying Accounting Concepts and Practices	20 Pts.	
Analyzing an Income Statement	15 Pts.	
Analyzing Income Statement 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.

	<b>Answers</b>
1. The Adequate Disclosure accounting concept is applied when financial statements contain all information necessary to understand a business's financial condition. (p. 180)	1. _____
2. Stakeholders are any persons or groups who will be affected by an action. (p. 181)	2. _____
3. An income statement reports information over a period of time, indicating the financial progress of a business in earning a net income or a net loss. (p. 182)	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. 182)	4. _____
5. Information needed to prepare an income statement comes from the trial balance columns and the income statement columns of a work sheet. (p. 182)	5. _____
6. The income statement for a service business has five sections: heading, revenue, expenses, net income or loss, and capital. (p. 182)	6. _____
7. The income statement's account balances are obtained from the work sheet's Income Statement columns. (p. 182)	7. _____
8. The net income on an income statement is verified by checking the balance sheet. (p. 183)	8. _____
9. Single lines ruled across an amount column of an income statement indicate that amounts are to be added. (p. 183)	9. _____
10. A component percentage is the percentage relationship between one financial statement item and the total that includes that item. (p. 184)	10. _____
11. Component percentages on an income statement are calculated by dividing sales and total expenses by net income. (p. 184)	11. _____
12. All companies should have a total expenses component percentage that is not more than 80.0%. (p. 184)	12. _____
13. When a business has two different sources of revenue, a separate income statement should be prepared for each kind of revenue. (p. 185)	13. _____
14. An amount written in parentheses on a financial statement indicates an estimate. (p. 185)	14. _____
15. A balance sheet reports financial information on a specific date and includes the assets, liabilities, and owner's equity. (p. 187)	15. _____
16. A balance sheet reports information about the elements of the accounting equation. (p. 188)	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. 189)	17. _____
18. The position of the total asset line on the balance sheet is determined after the equities section is prepared. (p. 189)	18. _____
19. Double lines are ruled across the balance sheet columns to show that the column totals have been verified as correct. (p. 189)	19. _____
20. The owner's equity section of a balance sheet may report different kinds of details about owner's equity, depending on the need of the business. (p. 190)	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	
										D	
										E	
										F	
										G	
										H	
										I	
										J	
										K	
										L	
										M	
										N	
										O	
										P	
										% OF SALES	
D											
E										F	N
G											
H										I	
J											K
L											M
											O
											P

(pp. 182–185)

1. Date of the income statement.
2. The amount of net income or net loss.
3. Business name.
4. Expense account balances.
5. Expense account titles.
6. Heading of expense section.
7. Heading of revenue section.
8. Net income or net loss component percentage.
9. Revenue account title.
10. Sales component percentage.
11. Statement name.
12. Total amount of revenue.
13. Total expenses component percentage.
14. Words *Net Income* or *Net Loss*.
15. Words *Total Expenses*.

### Answers

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_
11. \_\_\_\_\_
12. \_\_\_\_\_
13. \_\_\_\_\_
14. \_\_\_\_\_
15. \_\_\_\_\_

### ***Part Three—Analyzing Income Statement 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.

- |   | <b>Answers</b> |
|---|----------------|
| 1. The date on a monthly income statement 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. 182)   | 1. _____       |
| 2. Information needed to prepare an income statement's revenue 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. 183)   | 2. _____       |
| 3. Information needed to prepare an income statement's expense 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. 183)   | 3. _____       |
| 4. The amount of net income calculated on an income statement is correct if (A) it is the same as net income shown on the work sheet (B) debits equal credits (C) it is the same as the balance sheet (D) none of the above. (p. 183)   | 4. _____       |
| 5. The formula for calculating the net income component percentage is (A) net income divided by total sales equals net income component percentage (B) total sales divided by total expenses equals net income component percentage (C) total sales minus total expenses divided by net income equals total net income percentage (D) none of the above. (p. 184) | 5. _____       |



















