

Students will read the **Introduction to Accounting Basics** to answer the following (highlight or bold):

1. The financial statement that reports the revenues and expenses for a period of time such as a year or a month is the  
Balance Sheet            Income Statement            Statement of Cash Flows
2. The financial statement that reports the assets, liabilities, and stockholders' (owner's) equity at a specific date is the  
Balance Sheet            Income Statement            Statement of Cash Flows
3. Under the accrual basis of accounting, revenues are reported in the accounting period when the  
Cash Is Received            Service or Goods Have Been Delivered
4. Under the accrual basis of accounting, expenses are reported in the accounting period when the  
Cash Is Paid            Expense Matches the Revenues or Is Used Up
5. Revenues minus expenses equals \_\_\_\_\_
6. Resources owned by a company (such as cash, accounts receivable, vehicles) are reported on the balance sheet and are referred to as \_\_\_\_\_
7. Assets are usually reported on the balance sheet at which amount?  
Cost            Current Market Value            Expected Selling Price
8. Obligations (amounts owed) are reported on the balance sheet and are referred to as \_\_\_\_\_
9. Liabilities often have the word \_\_\_\_\_ in their account title.
10. Unearned Revenues is what type of account?  
Asset            Liability            Stockholders' (Owner's) Equity
11. Accounting entries involve a minimum of how many accounts?  
One            Two            Three
12. The listing of all of the accounts available for use in a company's accounting system is known as the \_\_\_\_\_.
13. Assets minus liabilities equals \_\_\_\_\_.
14. Which term is associated with "left" or "left-side"?  
Debit            Credit
15. Which term is associated with "right" or "right-side"?  
Debit            Credit

16. When cash is received, the account Cash will be  
Debit                  Credit
17. When a company pays a bill, the account Cash will be  
Debit                  Credit
18. What will usually cause an asset account to increase?  
Debit                  Credit
19. What will usually cause the liability account Accounts Payable to increase?  
Debit                  Credit
20. Entries to expenses such as Rent Expense are usually  
Debits                  Credits
21. Entries to revenues accounts such as Service Revenues are usually  
Debits                  Credits

**Students will read the **Introduction to Income Statements** to answer the following (highlight or bold):**

1. Which of the following names is NOT associated with the income statement?  
P & L                  Statement Of Financial Position                  Statement Of Operations
2. The income statement heading will specify which of the following?  
A POINT In Time                  A PERIOD Of Time
3. Amounts earned by a company in its main operating activities are  
Revenues                  Gains
4. A company disposes of equipment that it no longer uses in its business. The amount received by the company is more than the amount the asset is carried at in the accounting records. The company will report a(n)  
Expense                  Gain                  Loss                  Revenue
5. On December 1 a company borrowed \$100,000 at 12% per year. The interest will be paid quarterly, with the first payment due on March 1. What should the company report on its income statement for December?  
Nothing                  Interest Expense Of \$1,000
6. Is a retailer's Interest Expense an operating expense or a non-operating expense?  
Operating Expense                  Non-operating Expense
7. The income statement line **gross profit** will appear on which income statement format?  
Single-step                  Multiple-step

8. The income statement format that segregates the operating revenues and expenses from the non-operating revenues and expenses is the  
Single-step                      Multiple-step
9. Interest earned on investments would appear in which section of a retailer's multiple-step income statement?  
Non-operating                      Operating                      Would Not Appear
10. Under the accrual basis of accounting, revenues are recognized in the accounting period in which  
Cash Is Received                      Revenues Are Earned
11. Net Sales minus the Cost of Goods Sold equals  
Gross Profit                      Income From Operations                      Net Income
12. The combination of Selling Expenses and Administrative Expenses is referred to as  
General Expenses                      Operating Expenses                      Total Expenses
13. Which basis of accounting best measures profitability during a short time interval?  
Accrual Basis                      Cash Basis
14. Gross Profit minus Operating Expenses is best defined as  
Net Income                      Net Sales                      Operating Income
15. What is defined as sales minus all variable expenses?  
Contribution Margin                      Gross Profit                      Net Income
16. Where on the income statement will a gain on discontinued operations be reported?  
As Part Of Revenues                      Near The End
17. A corporation's net income will cause an increase to which of the following?  
Accumulated Other Comprehensive Income                      Common Stock                      Retained Earnings
18. If a company's stock is publicly traded, is it a requirement that the earnings per share appear on the income statement?  
Yes                      No
19. Are the notes to the financial statements considered to be an integral part of the financial statements?  
Yes                      No
20. Is it acceptable that some of the expenses reported on the income statement be estimates?  
Yes                      No

**Practice:**

At the beginning of the year you started your business with \$500 worth of inventory. Throughout the year you received four merchandise shipments in the amounts of \$15,000, \$27,500, \$36,250, and \$18,750. Your year-end inventory was \$10,000. **What was your cost of goods sold?**

Using the information given in Problem above and the following items, prepare a year-end income statement for Your New Business:

Sales: \$150,000      Returned Merchandise: \$1,500      Operating Expenses: \$35,000.

<b>Income:</b>	
Sales	
Less Sales Returns and Allowances	
Net Sales	
Cost of Goods Sold (answer from above)	
Gross Profit on Sales	
<b>Operating Expenses:</b>	
Total Operating Expenses	
Net Income (Hint: positive value)	