

Business and Personal Finance © 2012

Chapter 7: Financial Accounting

Check Your Answers: Section Assessment

Section 2

Review Key Concepts

- 1.** Financial statements summarize up-to-date changes that result from business transactions during an accounting period. These statements are prepared and analyzed to evaluate the business.
- 2.** An income statement is a report of the net income or net loss for an accounting period. It shows how much money came in from sales, and where money went.
- 3.** Since income statements and balance sheets do not show how cash comes into or goes out of a business, the statement of cash flows is used to explain changes in the Cash in Bank account.

Higher Order Thinking

- 4.** A business may show a profit for the most recent accounting period but still have more cash outflows than inflows during the time period.

English Language Arts

- 5. Sharing Financial Information** Slides will vary but should contain information that would be found on the three financial statements.

Mathematics

- 6. Income Statement** Cost of merchandise sold = $\$75,750 + \$183,000 - \$104,500 = \$154,250$; Net income = $\$215,000 - \$154,250 - \$47,000 = \$13,750$