

Financial Statements, Closing Entries, and Reversing Entries

STUDY GUIDE QUESTIONS

PART 1 True/False

For each of the following statements, circle T if the statement is true and F if the statement is false.

- T F 1. The cost of goods sold is obtained by subtracting the goods available for sale from the net sales.
- T F 2. An increase in Sales Returns and Allowances represents an increase in gross profit.
- T F 3. Gross profit is equal to net sales minus cost of goods sold.
- T F 4. Insurance Expense is classified in the Other Expenses section of an income statement.
- T F 5. Freight In is classified in the Operating Expenses section of an income statement.
- T F 6. In the Current Liabilities section of a balance sheet, Accounts Payable preceded Notes Payable.
- T F 7. An unearned revenue account is classified as a current liability.
- T F 8. Reversing entries are required for all adjusting entries.
- T F 9. In a balance sheet, Prepaid Insurance is classified in the Plant and Equipment section.
- T F 10. An increase in Rent Expense results in a decrease in gross profit.

PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

- Current Assets minus Current Liabilities equals _____.
- Net Sales minus Cost of Goods Sold is _____.
- Goods Available for Sale minus ending Merchandise Inventory is called _____.
- Gross Profit minus Operating Expenses is called _____.
- Gross Purchases minus Purchase Returns and Allowances minus Purchases Discount plus _____ equals Delivered Cost of Purchases.

PART 3 Financial Statement Classifications

Classify the following accounts according to the title of the financial statement and the statement classification. The first two accounts are provided as examples.

Account Name	Financial Statement	Classification
0. Wages Expense	Income Statement	Operating Expenses
0. Accounts Payable	Balance Sheet	Current Liabilities
1. Purchases		
2. Accounts Receivable		
3. Building		
4. Freight In		
5. Interest Expense		
6. Supplies Expense		
7. Sales Discount		
8. Unearned Subscriptions		
9. Accumulated Depreciation, Equipment		
10. Purchases Returns and Allowances		