

## Comparative Financial Statements

### 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. Accounts receivable turnover is a calculation that indicates the number of sales on account made during the fiscal period.
- T F 2. Cash, receivables, marketable securities, and equipment may be called quick assets.
- T F 3. As a rule, creditors prefer a low ratio of stockholders' equity to liabilities.
- T F 4. A balance sheet may be analyzed by both horizontal and vertical methods.
- T F 5. When a percentage analysis comparison is made between a financial statement of one year and a financial statement of a later year, the earlier year is used as the base.
- T F 6. The relationship of each asset as a percentage of total assets is an example of horizontal analysis.
- T F 7. As a rule, the lower the current ratio, the lower the risk to the creditors.
- T F 8. When percentage analysis is applied to the income statement, net sales is used as the base.
- T F 9. Generally, in analyzing the rate of inventory turnover and accounts receivable turnover, the higher the rate of turnover, the better.
- T F 10. Declaration of a stock dividend reduces working capital.

**PART 2                    Completion—Language of Business**

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

1.     Accounts receivable turnover =  $\frac{(\underline{\hspace{4cm}})}{\text{Average merchandise inventory}}$
  
2.     Rate of return on common stockholders' equity =  $\frac{(\underline{\hspace{4cm}})}{\text{Average common stock equity}}$
  
3.     Price-earnings ratio =  $\frac{\text{Market price}}{(\underline{\hspace{2cm}})}$
  
4.     Working capital =  $(\underline{\hspace{4cm}}) - \text{Current liabilities}$
  
5.     Quick ratio =  $\frac{(\underline{\hspace{4cm}})}{\text{Current liabilities}}$
  
6.     Equity per share of common stock =  $\frac{\text{Total stockholders' equity available to common stock}}{(\underline{\hspace{4cm}})}$
  
7.     Merchandise inventory turnover =  $\frac{(\underline{\hspace{4cm}})}{\text{Average merchandise inventory}}$
  
8.     Current ratio =  $\frac{\text{Current assets}}{(\underline{\hspace{2cm}})}$