

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. What is the basic accounting equation around which a balance sheet is organized? What do the parts mean?
 2. How is profit or loss calculated on an income statement?
 3. What important financial information is not reflected in either the balance sheet or the income statement?
 4. Which of these terms is NOT a part of the basic accounting equation? _____
 - a. income
 - b. liabilities
 - c. assets
 - d. owner's equity
 5. True or False? _____ The balance sheet reflects the original value of an asset but not its depreciated value.
 6. True or False? _____ The income statement presents a company's financial position on a specific date.
 7. After all expenses and taxes are subtracted from a company's gross profit, the result is its _____
 - a. net worth
 - b. profit or loss
 - c. cash flow
 - d. revenue
 8. Specific types of revenues such as cash sales, payments received from customers, interest received, and owner's investments are all cash _____.
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TEAMWORK

Discuss in pairs or small groups and then write your conclusions below.

9. Discuss with your team members what you can learn from an income statement about a company's strengths and weaknesses that you cannot learn from a balance sheet. What does a balance sheet offer that cannot be learned from an income statement?