**Chapter 1 - *Conceptual Framework***

**and Financial Statements**

**Directed Reading Worksheet**

**Part I: Understand the role of accounting in communicating financial information (LO1)**

1. What were net income for The Alibaba Group, for its year ended March 31, 2016? For its year ended March 31, 2015? On what statement do you find this information?
2. What is the reason for having financial statements?
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the language of communication in all businesses. It records and measures business activities, processes data into information, and communicates this information to decision makers.
4. What two branches of accounting are based on whether the user is external or internal?
   1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
   2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
5. A \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ form of business organization consists of a single owner and the owner is personally liable for all of the business’s debts.
6. Income and loss from the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ form of business organization “flows through” to the owners; each owner can legally bind all partners into unlimited debt.
7. When organized as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the shareholders have no personal obligation for the corporation’s debts and have limited liability.
8. Who (or what) ultimately controls a corporation?

**Part II: Understand the underlying accounting concepts in the IFRS *Conceptual Framework* (LO2)**

1. Two professional frameworks for the measurement and disclosure of financial information are:
   1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
   2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. In your own words, describe the difference between *relevance* and *faithful representation*.
3. List and describe the four enhancing qualitative characteristics for accounting information
   1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_:
   2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_:
   3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_:
   4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_:

**Part III: Obtain insights into business operations through financial statements (LO3)**

1. Assets are economic resources that are expected to produce a \_\_\_\_\_\_\_\_\_\_ in the future. Liabilities are debts that are payable to \_\_\_\_\_\_\_\_\_. Equity represents the \_\_\_\_\_\_\_ claims of a business.
2. What is the accounting equation?
3. What are the two main subparts of shareholders’ equity and what is the difference between them?
4. The three major types of transactions that affect retained earnings are \_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_\_\_\_\_. Paying employee salaries would \_\_\_\_\_\_\_\_ retained earnings.
5. Dividends (ARE or ARE NOT) expenses. They (NEVER or ALWAYS) affect net income.
6. How is retained earnings calculated?

**Part IV: Identify financial statements and their inter-relationships (LO4)**

1. You can determine how well the company performed during the year by looking at its \_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. You can determine a company’s financial position by looking at its \_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. The three sources (uses) of cash flows include \_\_\_\_\_\_\_. \_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_ activities.
3. What is the single most important item in the financial statements?
4. Operating expenses are the costs of every day operations that are not directly related to merchandise purchases and occupancy. TRUE or FALSE
5. What does the statement of the retained earnings show about a company?
6. List and describe the three items (sections) on a balance sheet.
7. Put the following assets in order of liquidity: equipment, cash, inventory, and short-term investments.
8. When the term “net” is used on a financial statement regarding property and equipment, it means that the historical acquisition cost of the assets has been reduced by \_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_.
9. Operating activities show how the company operates by selling \_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_ to customers. Investing activities show a company’s investment in \_\_\_\_\_\_-\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_. Financing activities include \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
10. The income statement is the only financial statement to report \_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_.
11. If expenses exceed revenues, the company will report a \_\_\_\_\_\_ \_\_\_\_\_\_\_.
12. Describe how to construct a statement of retained earnings.
13. List five examples of accounts that would be listed on the balance sheet.
14. You can determine if a company is able to pay its current and long-term liabilities by comparing \_\_\_\_\_\_ \_\_\_\_\_\_\_ to \_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_.
15. If you were considering investing in The Alibaba Group, what should you look for?

**Part V: Understand the role of ethics in accounting (LO5)**

1. Describe ethics in your own words.
2. List and describe the three factors that influence accounting decisions.
   1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

* 1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. The four core values of the Business Ethics Leadership Alliance include \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_, transparency, \_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_, and accountability.
2. What is the best decision framework for making ethical judgments?