1. Review the meaning of the terms and concepts listed in Key Terms and Concepts.

**Goals**: the end results toward which the firm directs its energies.

**Strategies**: the means for achieving those results.

Financing: funds from owners and creditors.

Shareholders, Stockholders: owns part of a company through shares of stock

Publicly traded: firms whose shares trade in active markets

Dividends: distribution of assets, often cash, to owners.

Creditors: provide funds that the firm must repay in specific amounts at specific dates

Investing activities: Investments to obtain the productive capacity of the firm to carry out its business activities and generate earnings.

Operating activities: Management to operate the productive capacity of the firm to carry out its business activities and generate earnings.

Annual report to shareholders: document that firms produce to communicate the results of their business activities.

Management’s Discussion and Analysis (MD&A): regulatory requirements applicable to publicly traded firms

Fiscal year: accounting period for external reporting

Monetary amount: a numerical amount for each listed item.

Balance sheet: provides information, at a point in time, on the firm’s productive resources and the financing used to pay for those resources.

Assets: economic resources with the potential to provide future economic benefits to a firm.

Liabilities: creditors’ claims.

Shareholders’ equity: shows the amount of funds owners have provided either by buying

shares or by reinvesting (retaining) the net assets generated by earnings.

Retained earnings

Historical amount

Current amount

Income statement or statement of profit

and loss

Net income, earnings, profit

Net loss

Revenues, sales, sales revenue

Expenses

Statement of cash flows

Capital expenditures

Statement of shareholders’ equity

Schedules and notes

Financial reporting process

Managers

Governing board

Securities and Exchange Commission (SEC)

2. The chapter describes four activities common to all entities: setting goals and strategies, financing activities, investing activities, and operating activities. How would these four activities likely differ for a charitable organization versus a business firm?

3. “The photographic analogy for a balance sheet is a snapshot, and for the income statement and the statement of cash flows it is a motion picture.” Explain.

4. What is involved in an audit by an independent external auditor?

5. Who prepares a firm’s financial statements?

6. In what sense can suppliers of raw materials, merchandise, or labor services (employees)

also be sources of financing for firms?

7. In what sense are a firm’s accounts receivable a source of financing for that firm’s customers?

8. Investing activities pertain to the acquisition of productive capacity to enable a firm to

carry out its activities. Examples of this capacity include (1) land, buildings, and equipment

and (2) patents and licenses. How are these two kinds of capacity the same, and how are

they different?

9. When will a firm’s fiscal year differ from a calendar year?

10. Financial statements include amounts in units of currency. What is the most common

determinant of a firm’s choice of currency for financial reporting?

11. Assets and liabilities appear on balance sheets as either current or noncurrent. What is the

difference between a current item and a noncurrent item? Why would users of financial

statements likely be interested in this distinction?

12. The measurement basis for reporting items on a firm’s balance sheet can be either histori-

cal amounts or current amounts. What is the difference between these two measurement

bases?

13. How does an income statement connect two successive balance sheets? How does a state-

ment of cash flows connect two successive balance sheets?

14. What is the role of the following participants in the financial reporting process: the U.S.

Securities and Exchange Commission (SEC); the Financial Accounting Standards Board

(FASB); the International Accounting Standards Board (IASB)?

15. This chapter introduces both U.S. GAAP and International Financial Reporting Standards

(IFRS). Which of these systems may U.S. firms use, and which may non-U.S. firms that list

and trade their securities in the United States use?

16. What is the purpose of the FASB’s and IASB’s conceptual frameworks?

17. What is the advantage of the accrual basis of accounting, relative to the cash basis of

accounting, for measuring performance?