

Name: _____ Class: _____ Date: _____

Chapter 02: Introduction to financial statements

1. The statement of financial position/balance sheet is a set of two lists showing:
- Resources on one side and obligations to external parties on the other side.
 - Revenues on one side and expenses on the other side.
 - Profit on one side and loss on the other side.
 - None of these.

ANSWER: a

2. Which of the following sections form the statement of financial position/balance sheet?
- Assets, liabilities and profit
 - Assets, liabilities and shareholders' equity
 - Assets and profit
 - Liabilities and profit

ANSWER: b

3. Which financial statement shows the financial picture of the organization on a given day?
- Income statement
 - Statement of financial position/Balance sheet
 - Statement of retained earnings
 - Statement of cash flows

ANSWER: b

4. Obligations and resources are listed in:
- Increasing order of liquidity.
 - Either increasing or decreasing order of liquidity.
 - Decreasing order of liquidity.
 - Alphabetical order.

ANSWER: b

5. Which items are traditionally listed first in Continental Europe?
- Short-term
 - Valuable
 - Long-term
 - None of these.

ANSWER: c

6. Which items are traditionally listed first in North America?
- Short-term
 - Valuable
 - Long-term
 - None of these.

ANSWER: a

7. An asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- True
 - False

ANSWER: a

8. A liability is a past obligation of the entity arising from present events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- True
 - False

ANSWER: b

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9. Shareholders' equity is made up of which two components?

- a. Share capital and expenses
- b. Expenses and revenues
- c. Share capital and retained earnings
- d. Expenses and retained earnings

ANSWER: c

10. Share capital is the ____ value of the contributions to the firm all shareholders have made in the beginning and during the life of the firm by making external resources available to the firm and giving up control over these resources.

- a. Market
- b. Historical
- c. Fair
- d. Adjusted

ANSWER: b

11. Retained earnings represent that part of the firm's value created that:

- a. Shareholders have chosen not to take out of the firm.
- b. Lenders have chosen not to take out of the firm.
- c. Shareholders have chosen to take out of the firm.
- d. Lenders have chosen to take out of the firm.

ANSWER: a

12. Revenues are ____ in shareholders' equity.

- a. Decreases
- b. Not included
- c. Increases
- d. None of these.

ANSWER: c

13. Expenses are ____ in shareholders' equity.

- a. Decreases
- b. Not included
- c. Increases
- d. None of these.

ANSWER: a

14. Which of the following equations is correct?

- a. $\text{Net income} = \text{Shareholders' equity at the end of period } t + \text{Shareholders' equity at the beginning of period } t$
(all other things being equal)
- b. $\text{Net income} = \text{Shareholders' equity at the end of period } t+1 + \text{Shareholders' equity at the beginning of period } t$
(all other things being equal)
- c. $\text{Net income} = \text{Shareholders' equity at the end of period } t - \text{Shareholders' equity at the beginning of period } t-1$
(all other things being equal)
- d. $\text{Net income} = \text{Shareholders' equity at the end of period } t - \text{Shareholders' equity at the beginning of period } t$
(all other things being equal)

ANSWER: d

15. Net income is generally calculated in a separate and subsidiary account called:

- a. A statement of cash flows.
- b. A statement of retained earnings.
- c. An income statement.
- d. A statement of changes in equity.

ANSWER: c

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16. What is the result of recording a borrowing transaction?

- a. An increase in both cash and shareholders' equity.
- b. An increase in cash and a decrease in liabilities.
- c. An increase in both cash and liabilities.
- d. A decrease in cash and an increase in liabilities.

ANSWER: c

17. Acquired equipment is valued at its historical cost.

- a. True
- b. False

ANSWER: a

18. What is the result of recording the acquisition of equipment?

- a. An increase in both cash and fixed assets.
- b. An increase in fixed assets and a decrease in cash.
- c. An increase in both cash and liabilities.
- d. An increase in cash and a decrease in fixed assets.

ANSWER: b

19. The way a claim is settled has an impact on equity.

- a. True
- b. False

ANSWER: b

20. (Beginning retained earnings balance) + (Income from the period) - (____) = (Ending retained earnings balance)

- a. Expenses
- b. Dividends
- c. Revenue
- d. Interest

ANSWER: b

21. It is common for the cash balance and profit to be the same.

- a. True
- b. False

ANSWER: b

22. Which of the following transactions has an impact on the bank's cash balance but not on retained earnings?

- a. Purchase of equipment
- b. Sales of goods
- c. Payment of wages
- d. Payment of financial interest

ANSWER: a

23. Which financial statement would you use to find out how well the company performed during a given time period?

- a. Statement of cash flows
- b. Income statement
- c. Statement of financial position/ Balance sheet
- d. Statement of retained earnings

ANSWER: b

24. Which of the following is a result of revenues being greater than expenses?

- a. A loss.
- b. A sale.

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- c. A profit. d. A dividend.

ANSWER: c

25. Which of the following equations is correct?

- a. Revenues – Expenses = Income b. Revenues + Expenses = Income
c. Revenues = Expenses = Income d. Revenues = Expenses – Income

ANSWER: a

26. Current assets are acquired and consumed during the operating cycle or the accounting period.

- a. True b. False

ANSWER: a

27. What is the book value of a ‘fully depreciated’ asset?

- a. Zero b. The amount initially paid to acquire it
c. Almost zero d. None of these.

ANSWER: a

28. The decision regarding what to do with profit of the period consists in:

- a. Distributing the profit entirely to the shareholders as dividends.
b. Not distributing profit at all, and the shareholders reinvest their claim in its entirety in the business.
c. Distributing the profit partially to the shareholders as dividends, and the balance is considered to be an increase of the investment of the shareholders in the proportion of their previous contributions.
d. Choosing among any of the previous possibilities.

ANSWER: d

29. That part of the profit which is not distributed is considered to be:

- a. Capital b. Dividends
c. Retained earnings d. Income

ANSWER: c

30. Which of the following cannot be stored?

- a. Merchandises b. Finished products
c. Raw materials d. Services

ANSWER: d

31. Which of the following equations is correct?

- a. Consumption of merchandise = Purchases of merchandise + Increase in inventories of merchandise
b. Consumption of merchandise – Purchases of merchandise = Increase in inventories of merchandise
c. Consumption of merchandise = Purchases of merchandise – Increase in inventories of merchandise
d. Consumption of merchandise = Purchases of merchandise = Increase in inventories of merchandise

ANSWER: c

32. Common-size analysis focuses on the comparison of financial statements over time (comparison carried line item by line item against the like value in a base-year):

- a. True b. False

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ANSWER: b

33. What is the ratio (Cash + Marketable securities)/Current liabilities called?

- a. Return on assets
- b. Return on investment
- c. Current ratio
- d. Cash ratio

ANSWER: d

34. How is the return on sales (net profit margin) calculated?

- a. Net income/Shareholders' equity
- b. Net income/Sales
- c. Net income/Total assets
- d. Sales/Shareholders' equity

ANSWER: b