5.01 Introduction to Financial Statement Analysis

Question 1
If a company pays a cash dividend to its shareholders, the effect of this payment on the company's retained earnings is *best reflected* in the:
A. income statement.
B. statement of changes in equity.
C. statement of comprehensive income.

Question 2
An auditor for a US publicly traded company most likely expresses an opinion on a company's:
A. strategy execution.
B. internal control system.
C. pro forma financial statements.

Question 3
Which of the following best describes the objective of financial statement audits?
A. Prevent management from engaging in fraud
B. Guarantee that statements are true and presented fairly
C. Evaluate the probability that statements are free of material errors

Question 4
Which of the following best describes an activity involved in the process data step of the financial statement analysis framework?
A. Prepare a five-year forecast
B. Collect five years of financial statements
C. Explain insights from adjusted financial statements

Question 5
An independent auditor determines that a company's financial statements are fairly presented except that the company's records regarding accounts payable are materially incomplete. The auditor will *most appropriately* give an opinion that is:
A. adverse.
B. qualified.
C. unqualified.

Question 6
The role of a balance sheet is *best described* as a way to convey information about a company's:
A. cash inflows and outflows.
B. performance and profitability.
C. resources and claims on resources.

Question 7
An analyst is responsible for monitoring developments in financial reporting standards. Which of the following is *least likely* to help the analyst?
A. Examining standard setters' exposure drafts.
B. Monitoring changes in standards from a preparer's perspective.
C. Checking companies' disclosures regarding their new accounting policies.

Question 8
Based on the financial statement analysis framework, which of the following is *least likely* a source of information when collecting input data?
A. Industry and economic data
B. Financial statement forecasts
C. Discussions with management

Question 9
Which of the following is *most likely* an external source of information that analysts use?
A. Peer analysis
B. Proxy statement
C. Earnings conference call

Question 10
An analyst examines the last five years of a company's financial statements. Which of the following would be *best* to use to analyze the company's ability to fund growth opportunities?
A. Income statement
B. Cash flow statement
C. Statement of changes in equity

Question 11
The purpose of management's commentary in the annual report is *most likely* to:
A. illustrate the compensation structure of senior executives and directors.
B. explain the company's goals and risks associated with not reaching them.
C. provide reasonable assurance that the financial statements are fairly presented.

Question 12
The notes to a company's financial statements *most likely* contain:
A. details on the company's strategic objectives.
B. accounting estimates used in the statements' preparation.
C. an evaluation of the appropriateness of the statements' presentation.

Question 13
Which of the following *least likely* describes the role of financial statement analysis?
A. Supply information about a company's financial position to market participants
B. Evaluate the intrinsic value of a stock based on data from a company and the market
C. Develop guidance about a company's future operations based on its past performance

Question 14

Income statement elements *most likely* reflect:

A. values at a point in time.

B. performance over a certain period.

C. inflows and outflows of cash transactions.

Question 15

If a company receives a qualified audit opinion, its financial statements are *most likely*:

A. prepared with incomplete records.

B. accurate and presented fairly in all material respects.

C. unreliable due to intentional accounting misstatements by management.