

Financial Accounting

Financial Statements and Analysis Quiz

Instructions:

- Answer all questions.
- For Questions 1–5, choose the best option.
- For Questions 6–8, mark True or False.
- For Questions 9–10, write detailed answers with examples.

1. The accounting equation is expressed as:

- (A) $\text{Assets} = \text{Liabilities} - \text{Equity}$
- (B) $\text{Assets} = \text{Liabilities} + \text{Equity}$
- (C) $\text{Assets} + \text{Liabilities} = \text{Equity}$
- (D) $\text{Assets} - \text{Equity} = \text{Revenue}$

2. Which financial statement reports a company's financial position at a specific point in time?

- (A) Income Statement
- (B) Balance Sheet
- (C) Cash Flow Statement
- (D) Statement of Retained Earnings

3. Depreciation expense is recorded to:

- (A) Increase cash reserves for asset replacement
- (B) Allocate the cost of an asset over its useful life
- (C) Reflect the current market value of an asset
- (D) Reduce tax liability exclusively

4. The current ratio measures:

- (A) Profitability
- (B) Liquidity
- (C) Solvency
- (D) Efficiency

5. Under accrual accounting, revenue is recognized when:
- (A) Cash is received
 - (B) An invoice is sent
 - (C) The earnings process is substantially complete and collection is reasonably assured
 - (D) The fiscal year ends
6. An increase in accounts receivable represents a cash inflow on the cash flow statement. (True/False)
7. LIFO inventory method results in lower net income during periods of rising prices compared to FIFO. (True/False)
8. Goodwill is recorded when a company purchases another company for more than its net asset value. (True/False)
9. Explain the differences between the three main financial statements: the income statement, balance sheet, and cash flow statement. How do they relate to each other?
10. Describe the difference between cash basis and accrual basis accounting. Why do GAAP and IFRS require accrual accounting for most businesses? Provide examples illustrating the differences.