

## 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) Assets = Liabilities - Equity
- (B) Assets = Liabilities + Equity
- (C) Assets + Liabilities = Equity
- (D) Assets - Equity = 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.