

Accounting and financial ratios

1 What is the accounting equation?

- A. $\text{Assets} - \text{liabilities} = \text{stockholders' equity}$
- B. $\text{Assets} + \text{liabilities} = \text{stockholders' equity}$
- C. $\text{Liabilities} - \text{stockholders' equity} = \text{assets}$
- D. All of the above

2 Bookkeeping is a systematic method of recording credit transactions in the books of accounts.

- A. True
- B. False

3 Which of the following reports the revenues and expenses for a specific period of time?

- A. Income Statement
- B. Balance Sheet
- C. Cashflow statement
- D. None of the above

4 Which principle/guideline requires a company's balance sheet to report its land at the amount the company paid to acquire the land, even if the land could be sold today at a significantly higher amount?

- A. Economic Entity
- B. Monetary Unit
- C. Cost
- D. Consistency

5 Which principle/guideline is associated with the assumption that the company will continue on long enough to carry out its objectives and commitments?

- A. Time Period
- B. Economic Entity
- C. Materiality
- D. Going concern

6 Which principle/guideline directs a company to show all the expenses related to its revenues of a specified period even if the expenses were not paid in that period?

- A. Post
- B. Matching
- C. Monetary Unit
- D. Going concern

7 An amount owed by a business:

- A. Liability
- B. Asset
- C. Revenue
- D. Expense

8 Which concept states that "You have to report accounting info at regular intervals?"

- A. Entity
- B. Conservatism
- C. Reliability
- D. Time-Period

9 This concept means not overstating assets, owner's equity, and revenues, and not understating liabilities and expenses

- A. Materiality
- B. Entity
- C. Time-period
- D. Conservatism

10 The materiality concept is:

- A. Only using GAAP accounting for things that are significant to the company's financial statements
- B. Not overstating assets, owner's equity, and revenues, and not understating liabilities and expenses
- C. Reporting enough information for insiders to make an informed decision about the company
- D. Reporting numbers without calculating inflation

11 Which one of the following is not an external user of accounting information?

- A. Investor
- B. Creditor
- C. Manager
- D. Customer

12 Who is known as the father of accounting?

- A. Leonardo da Vinci
- B. Fra Luca Pacioli
- C. Al Khawarizmy
- D. Al Mazendarany

13 Which of the following is not a core financial statement?

- A. The Income Statement
- B. Statement of Cash Flows
- C. The Trial Balance
- D. The Balance Sheet

14 What are the main sections on a balance sheet?

- A. Assets, liabilities, income
- B. Assets, liabilities, equity
- C. Assets, liabilities, expenses
- D. Assets, gains, revenue

15 Which of the following scenarios increases accounts payable?

- A. A customer fails to pay an invoice.
- B. A supplier delivers raw materials on credit.
- C. Office supplies are purchased with cash.
- D. None of the above

16 When are liabilities recorded under the accrual basis of accounting?

- A. When incurred
- B. When paid
- C. At the end of the fiscal year
- D. When bank accounts are reconciled

17 Which financial statement is a report of a company's revenues and expenses during a certain time period?

- A. Statement of Changes in Equity
- B. Income Statement
- C. Statement Of Cash Flows
- D. Funda flow statement

18 Which is not classified as a current asset?

- A. Cash
- B. Product inventory
- C. Liquid assets
- D. Property

19 Which formula is used to calculate operating income?

- A. Revenue + Direct Operating Cost = Operating Income

- B. Indirect Operating Cost - Revenue = Operating Income
- C. Gross Income - Operating Expenses = Operating Income
- D. Gross Profit - Indirect Operating Cost = Operating Income

20 What does COGS stand for?

- A. Cost of Great Sales
- B. Cost of Goods Sold
- C. Creation of Gross Sales
- D. Control of Goods Sold

21 An income statement is also known as a profit and loss statement.

- A. True
- B. False

22 Expenses that have to be paid, irrespective of the volume of business done by the company are called:

- A. Cost of Sales
- B. Variable Expenses
- C. EBITDA
- D. Fixed Expenses

23 Liquidity Ratios: Indicator of short-term debt-paying ability. Determined by dividing current assets by current liabilities. The higher the ratio, the more liquid the company.

- A. True
- B. False

24 An example of a liquidity ratio is ... :

- A. Fixed Asset Turnover
- B. Equity Ratio
- C. Acid Test
- D. All of the above

25 Which ratio indicates the ability of a firm to pay current obligations from the more liquid current assets?

- A. Quick or acid test ratio
- B. Debt-to-equity ratio
- C. Current ratio
- D. Debt ratio

26 Short-term creditors are most interested in this ratio.

- A. Current ratio
- B. Quick ratio
- C. Debt-top-equity ratio
- D. Debt to total asset ratio

27 It is classified as leverage ratio.

- A. Current ratio
- B. Debt ratio
- C. Quick ratio
- D. Net working capital

28 Which of the following describes profitability ratios?

- A. They measure the relationship of revenues to expenses.
- B. They determine how profitable an organization is.
- C. They measure an organization's profitability across years.
- D. They reflect an organization's efficiency.