

What is Financial Accounting?

Worksheet

Financial accounting involves preparing income statements, balance sheets, and cash flow statements to communicate a company's financial health and performance to investors, creditors, and regulators.

$$A = L + E$$

Questions

1. What is financial accounting?
 - A) Offering personal financial advice
 - B) Recording and reporting business transactions
 - C) Predicting stock prices
 - D) Paying taxes
2. The accounting equation is
 - A) Income = Expenses
 - B) Revenue - Costs = Profit
 - C) Assets = Liabilities + Equity
 - D) Debits = Income
3. Which statement shows profit or loss?
 - A) Balance Sheet
 - B) Income Statement
 - C) Cash Flow Statement
 - D) General Ledger
4. Gross profit = Revenue -
 - A) Operating expenses
 - B) Cost of goods sold
 - C) Depreciation
 - D) Interest expense
5. A company sells 1000 units at \$50 each on credit; COGS is \$20 per unit. What is gross profit?
6. A business has assets of \$100,000, liabilities of \$60,000. What is equity?
7. Operating expenses are \$15,000, gross profit is \$30,000. What is operating income?
8. Define: What is financial accounting?
9. Define: What are the three main financial statements?
10. Define: Equation for balance sheet?

Answer Key

1. B) Recording and reporting business transactions - Financial accounting records transactions and prepares statements for stakeholders.
2. C) Assets = Liabilities + Equity - Assets = Liabilities + Equity is fundamental to balance sheets.
3. B) Income Statement - Income Statement (P&L) reports revenue, expenses, and net profit/loss.
4. B) Cost of goods sold - Gross Profit = Revenue - COGS (cost of goods sold).
5. Revenue = 1000 \times \$50 = \$50,000 COGS = 1000 \times \$20 = \$20,000 Gross Profit = \$50,000 - \$20,000 = \$30,000
6. Assets = Liabilities + Equity Equity = \$100,000 - \$60,000 = \$40,000
7. Operating Income = Gross Profit - Operating Expenses Operating Income = \$30,000 - \$15,000 = \$15,000
8. Recording and reporting business transactions to prepare financial statements for stakeholders.
9. Income Statement (profit/loss), Balance Sheet (assets/liabilities/equity), Cash Flow Statement (cash in/out).
10. Assets = Liabilities + Equity (accounting equation).

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