

What is Financial Statement Analysis?

Worksheet

Financial statement analysis examines balance sheets, income statements, and cash flow statements using metrics like ROE, debt-to-equity, and current ratio to evaluate financial performance and risk.

Questions

1. Net income \$1,000,000, average shareholders' equity \$5,000,000. ROE?
A) 20%
B) 50%
C) 5%
D) 10%
2. Current assets \$500,000, current liabilities \$250,000. Current ratio?
A) 0.5
B) 1.0
C) 2.0
D) 4.0
3. Which ratio measures profitability?
A) Current ratio
B) Debt-to-equity
C) ROE (Return on Equity)
D) Quick ratio
4. A current ratio of 0.8 means:
A) Strong liquidity
B) Weak liquidity (liabilities > assets)
C) Perfect balance
D) Excellent solvency
5. A company has net income \$500,000 and average shareholders' equity \$2,500,000. Calculate ROE (Return on Equity).
6. Company balance sheet: current assets \$300,000, current liabilities \$150,000. What is the current ratio?
7. Total debt \$400,000, total equity \$600,000. Calculate debt-to-equity ratio.
8. Define: What are financial statements?
9. Define: What does ROE measure?
10. Define: What is the current ratio?

Answer Key

1. A) $20\% - ROE = \$1,000,000 / \$5,000,000 = 0.20 = 20\%$.
2. C) $2.0 - Current Ratio = \$500,000 / \$250,000 = 2.0$.
3. C) ROE (Return on Equity) - ROE measures how much profit is generated per dollar of shareholder equity.
4. B) Weak liquidity (liabilities > assets) - Current ratio < 1.0 means current liabilities exceed current assets - potential liquidity crisis.
5. $ROE = Net Income / Average Shareholders' Equity$ $ROE = \$500,000 / \$2,500,000 = 0.20 = 20\%$ The company generates 20% return on each dollar of equity invested
6. $Current Ratio = Current Assets / Current Liabilities$ $Current Ratio = \$300,000 / \$150,000 = 2.0$ For every \$1 of short-term debt, the company has \$2 in liquid assets
7. $Debt-to-Equity = Total Debt / Total Equity$ $D/E = \$400,000 / \$600,000 = 0.67$ The company has \$0.67 of debt for every \$1 of equity
8. Formal records of a company's financial activities: balance sheet, income statement, cash flow statement.
9. Return on Equity: how much profit the company generates per dollar of shareholder investment.
10. Current assets divided by current liabilities; measures short-term liquidity (ability to pay bills).

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