What Are Financial Statements?

Worksheet

Financial statements are the three core reports: (1) Balance Sheet-assets, liabilities, equity at a point in time; (2) Income Statement-revenues and expenses over a period; (3) Cash Flow Statement-cash inflows and outflows. Together, they present the complete financial picture.

Questions

1. Which statement shows what a company owns and owes at a specific date?

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

2. Net income appears in the

A) Balance sheet (assets section)
B) Income statement (bottom line)
C) Cash flow statement only
D) All three statements

3. Why might a company have positive net income but negative cash flow?

A) Fraud is occurring
B) Customers have not paid invoices; capex and debt repayment consumed cash
C) The balance sheet is wrong
D) This is impossible

4. The accounting equation is

A) Revenue Expenses = Cash
B) Assets = Liabilities + Equity
C) Liabilities = Assets Equity
D) Income = Cash Flow

5. A startup has $500k revenue and $400k expenses (net income $100k), but only $20k cash left. Why the gap?

6. A company's balance sheet shows $1M assets, $600k liabilities. What is shareholder equity?

7. Why would a profitable company go bankrupt if it can't read its cash flow statement?

8. Define: What are the three main financial statements?

9. Define: What does a balance sheet show?

10. Define: What does an income statement measure?

Answer Key

1. C) Balance Sheet - The balance sheet (or statement of financial position) snapshots assets, liabilities, and equity at a point in time.

2. D) All three statements - Income statement derives it; it flows to retained earnings (balance sheet); adjusted items appear in cash flow.

3. B) Customers have not paid invoices; capex and debt repayment consumed cash - Accrual accounting records sales as revenue before cash is collected. Large capex or debt repayments can outpace cash generation.

4. B) Assets = Liabilities + Equity - Assets = Liabilities + Shareholders' Equity is the foundation of the balance sheet.

5. Income statement shows $100k profit (accrual basis) But cash flow reveals: $70k in unpaid customer invoices (receivables) And $40k spent on equipment (capital expenditure) Net result: $100k profit $70k receivable $40k capex = $10k cash swing, leaving $20k cash

6. Assets = Liabilities + Equity $1M = $600k + Equity Equity = $1M $600k = $400k

7. Profit (accrual) cash (actual) If receivables grow faster than cash collection, or inventory piles up, cash can dry up Cash flow statement reveals: operations may be cash-negative even if income statement is profitable Without monitoring, company runs out of cash to pay suppliers

8. Balance Sheet (position), Income Statement (performance), and Cash Flow Statement (liquidity).

9. Assets, liabilities, and shareholders' equity at a specific date. Equation: A = L + E.

10. Revenues and expenses over a period, showing net income (profit or loss).