

# Chapter 3 Introduction to Accounting

## Section 3

### Uses of Financial Statements



1. Which of the following about financial statements is/are **INCORRECT**?
  - (1) Financial statements provide quantitative and qualitative information.
  - (2) Financial statements report and summarise the performance of a business periodically.
  - (3) Statement of financial position reports the changes in assets, liabilities, and capital of the business within a specific period.
  - A. (1) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
  
2. What is the main use of a company's financial statements to lenders?
  - A. assess whether the company is worth investing in
  - B. evaluate the liquidity and solvency positions of the company
  - C. formulate future financial plan
  - D. comply with legal requirements
  
3. What is the main use of a company's financial statements to potential investors?
  - A. redistribute resources of the company
  - B. evaluate the repayment ability of the company
  - C. make investment decisions
  - D. calculate the profits taxes to be paid by the company
  
4. What is the main use of a company's financial statements to the managers?
  - A. predict the future sales figures
  - B. know the managing ability of other managers
  - C. assess the job security
  - D. evaluate the managerial efficiency of the firm
  
5. Which of the following are the correct uses of a company's financial statements to the respective users?

<u>Users</u>	<u>Uses</u>
(1) customers	assess whether the company can continue to supply goods
(2) government	calculate the profits taxes to be paid by the company
(3) debtors	evaluate the repayment ability of the company

  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

6. Which of the following are reasons for a company to prepare financial statements?
- (1) provide information to different users
  - (2) comply with legal requirements
  - (3) boost business competitiveness
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
7. Which of the following are limitations of financial statements?
- (1) Accounting policies and methods vary among companies.
  - (2) Information reflects only past results.
  - (3) Little qualitative information is reported.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
8. At the end of the accounting period, ABC Company would like to compare its financial results with other companies in the same industry with the use of financial statements. However, the information is not comparable. Which of the following are possible reasons behind?
- (1) The information obtained from financial statements is subjective.
  - (2) Different accounting policies and methods are adopted in financial statements of the two companies.
  - (3) The statements lack qualitative information.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
9. Which of the following statements about financial statements are **INCORRECT**?
- (1) Financial statements involve personal judgments.
  - (2) Financial statements are prepared after eliminating the change of value in the currency.
  - (3) An aim to prepare an income statement is to find out the amount of net current assets of the firm.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

10. Which of the following is the main purpose for a supplier to obtain financial information of a company?
- A. identify the risk of bad debts before selling goods to the company on credit
  - B. charge the company a higher or lower product price according to its performance
  - C. identify if there is any managerial problem in the company
  - D. identify the willingness of repayment of debts according to the financial statements
11. Which of the following is not an external user of the financial information of a company?
- A. sales manager of a competitor of the company
  - B. supplier of the company
  - C. customer of the company
  - D. marketing manager of the company
12. Which of the following statements about users of financial statements is true?
- A. Government bodies read companies' financial statements and modify accounting standards.
  - B. Labour unions use financial statements when negotiating the wage level.
  - C. Managers do not read financial statements but other internal statements.
  - D. Owners do not read financial statements as they do not participate in management.
13. Accounting information on financial statements is useful to employees. Which of the following is/are **NOT** the reason(s) for this?
- (1) They use accounting jargons in daily communication with colleagues.
  - (2) They can know the firms' ability to pay debts and interests from financial statements.
  - (3) They can decide whether to continue the business or not.
- A. (2) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (1), (2) and (3)
14. Which of the following is/are the limitation(s) of financial statements?
- (1) lack of quantitative information
  - (2) showing past results only
  - (3) items that are insignificant to the company not being shown
- A. (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)