

Important Questions for Chapter 8 Financial Statements 1

Question 1

Define financial statement?

Answer:

Financial statement is a statement which presents financial profit data and financial status of a company.

Question 2

Which are the statement that is included in the financial statement?

Answer:

The two statements that are included in the financial statements are:

- Balance Sheet
- Income Statement (Trading and Profit and Loss A/c)

Question 3

What is a trading account?

Answer:

A trading account is a financial statement that shows the result of the purchase and selling of goods and services of an accounting year.

Question 4

What do you mean by gross profit?

Answer:

Gross profit is the surplus of a selling price of a product over the cost of goods sold.

Question 5

State the formula to calculate operating profit from net profit.

Answer:

Operating Profit = Net Profit – Non-Operating Income + Non-Operating Expenses

Question 6

State the formula to calculate the cost of goods sold.

Answer:

Cost of goods sold = Sales – Gross Profit

Or

Cost of goods sold (COGS) = Opening Stock + Purchases + Direct Expenses – Closing Stock

Question 7

Define Balance Sheet.

Answer:

A Balance Sheet is a statement which shows the liabilities, assets and shareholder's equity of the enterprise. This statement comprises of 2 major groups in which it is categorized, namely, assets, which is classified into Non – Current Assets and Current assets. Current Assets are such assets which are easily transformed into cash. On the other hand, the Non – Current Assets are such types of assets with the assistance of which the enterprise operates the enterprise.

Question 8

Give two characteristics of the balance sheet.

Answer: The two characteristics of the balance sheet are.

- Determine the financial position of the enterprise on a specific date
- The total of two sides of the balance sheet i.e. assets and liabilities should tally with each other, if not so it indicates any possible errors in accounting.

Question 9

Define Net profit

Answer:

Net profit refers to the surplus of all the revenues overall expenses and losses of a company.

Question 10

Goodwill is a tangible asset. True or False?

Answer:

False

Question 11

The current asset does not include closing stock. True or False?

Answer:

False

Question 12

A balance sheet is arranged in a particular date and not for a particular accounting period. True or False?

Answer:

True

Question 13

Goodwill is:

- (a) Current Asset
- (b) Tangible Asset
- (c) Intangible Asset
- (d) Fictitious Asset

Answer:

- (c) Intangible Asset

Question 14

Balance of petty cash is regarded as:

- (a) Expenses
- (b) Income
- (c) Liability
- (d) Asset

Answer:

- (d) Asset

Question 15

The purpose of preparing a final account is to determine:

- (a) Profit and Loss
- (b) Capital
- (c) The value of Assets
- (d) Profit and Loss and Financial position

Answer:

- (d) Profit and Loss and Financial position