29 INTRODUCTION TO FINANCIAL STATEMENT ANALYSIS

1. Which of the following statements about financial statement analysis and reporting is least accurate?
   (A) Deciding whether to recommend a company's securities to investors is a role of financial statement analysis.
   (B) Providing information about changes in a company's financial position is a role of financial reporting.
   (C) Financial statement analysis focuses on the way companies show their financial performance to investors by preparing and presenting financial statements.

2. According to IFRS guidance for management's commentary, addressing the company's key relationships is:
   (A) recommended.
   (B) neither recommended nor required.
   (C) required.

3. Which of the following statements regarding footnotes to the financial statements is least accurate? Financial statement footnotes:
   (A) may contain information regarding contingent losses.
   (B) provide information about assumptions and estimates used by management.
   (C) typically include a discussion of the firm's past performance and future outlook.

4. For publicly traded firms in the United States, the Management Discussion and Analysis (MD&A) portion of the financial disclosure is least likely required to discuss:
   (A) capital resources and liquidity.
   (B) results of operations.
   (C) unusual or infrequent items.

5. Which of the following best describes financial reporting and financial statement analysis?
   (A) Financial reporting refers to how companies show their financial performance and financial analysis refers to using the information to make economic decisions.
   (B) Financial reports assess a company's past performance in order to draw conclusions about the company's ability to generate cash and profits in the future.
   (C) The objective of financial analysis is to provide information about the financial position of an entity that is useful to a wide range of users.

6. Which of the following is an independent auditor least likely to do with respect to a company's financial statements?
   (A) Confirm assets and liabilities contained in them.
   (B) Prepare and accept responsibility for them.
   (C) Provide an opinion concerning their fairness and reliability.

7. According to the IASB, which of the following least accurately describes financial reporting?
   Financial reporting:
   (A) is useful to a wide range of users.
   (B) uses the information in a company's financial statements to make economic decisions.
   (C) provides information about changes in financial position of an entity.

8. The role of financial statement analysis is most accurately described as:
   (A) the reports and presentations a company uses to show its financial performance to investors, creditors, and other interested parties.
   (B) a common requirement for companies that are listed on public exchanges.
   (C) the use of information from a company's financial statements along with other information to make economic decisions regarding that company.

9. Which of the following is the best description of the financial statement analysis framework?
   (A) Gather data, analyze and interpret the data, process the conclusions, assess the context, report the recommendations, update the analysis.
   (B) State the objective and context, gather data, process the data, analyze and interpret the data, report the conclusions or recommendations, update the analysis.
   (C) Gather data, analyze and interpret the data, determine the context, report the conclusions, update the analysis.

10. Which of the following would NOT require an explanatory paragraph added to the auditors' report?
    (A) Doubt regarding the "going concern" assumption.
    (B) Statements that the financial information was prepared according to GAAP.
    (C) Uncertainty due to litigation.

11. In addition to the audited financial statements included in a firm's annual report, which of the following sources of information is most likely to contain audited data?
    (A) Footnotes to the annual financial statements.
    (B) Management’s commentary.
    (C) Interim financial statements filed with the SEC.

12. A firm engages in a new type of financial transaction that has a material effect on its earnings. An analyst should most likely be suspicious of the new transaction if:
    (A) management has not explained its business purpose.
    (B) no accounting standard exists that applies to the transaction.
    (C) the transaction is not governed by existing regulations.

13. The step in the financial statement analysis framework that includes making any appropriate adjustments to the financial statements and calculating ratios is best described as:
    (A) analyzing and interpreting the data.
    (B) gathering the data.
    (C) processing the data.

14. Which of the following statements about proxy statements is least accurate? Proxy statements are:
    (A) a good source of information about the qualifications of board members and management.
    (B) not filed with the SEC.
    (C) available on the EDGAR web site.

15. A firm's internal controls are most accurately described as:
    (A) a responsibility of the firm’s board of directors.
    (B) directly affecting the firm’s financial reporting quality.
    (C) outside the scope of an audit report under IFRS and U.S. GAAP.

16. Which of the following is least likely to be available on EDGAR (Electronic Data Gathering, Analysis, and Retrieval System)?
    (A) Corporate press releases.
    (B) Form 10Q.
    (C) SEC filings.

17. Which of the following is least likely to be considered a role of financial statement analysis?
    (A) Assessing the management skill of the company's executives.
    (B) Determining whether to invest in the company's securities.
    (C) To make economic decisions.

18. The standard auditor's report is most likely required to:
    (A) provide an "unqualified" opinion if material uncertainties exist.
    (B) provide reasonable assurance that management is reliable.
    (C) provide reasonable assurance that the financial statements contain no material errors.

19. The step in the financial statement analysis framework of "processing the data" is least likely to include which activity?
    (A) Acquiring the company's financial statements.
    (B) Making appropriate adjustments to the financial statements.
    (C) Preparing exhibits such as graphs.

20. Which of the following is an analyst least likely to rely on as objective information to include in a company analysis?
    (A) Corporate press releases.
    (B) Government agency statistical data on the economy and the company's industry.
    (C) Proxy statements.

21. Which of the following statements concerning the notes to the audited financial statements of a company is least accurate? Financial statement notes:
    (A) are audited.
    (B) include management's assessment of the company's operating performance and financial results.
    (C) contain information about contingent losses that may occur.

22. In the financial statement analysis framework, using the data to address the objectives of the analysis and deciding what conclusions or recommendations the information supports is best described as:
    (A) analyzing and interpreting the data.
    (B) processing the data.
    (C) reporting the conclusions