

navigate by non-accountants. Nevertheless, an understanding of the underlying principles, especially of the accounting cycle and the accounting equation, which was presented as a core idea in this chapter, is important for all managers. Moreover, as will be seen in Chapter 14, financial statements form an excellent, and often very accessible, source of reliable information for further analysis.

There are many useful textbooks dedicated to managerial and financial accounting. A relevant textbook is *Principles of Managerial Finance* by Chad Zutter and Scott Smart (2019). The textbook *Financial Accounting* by Robert Libby and colleagues (2020) provides an accessible introduction to the accounting cycle. Other introductory management textbooks provide a more general description of financial statements and other aspects of managerial accounting and financial accounting, such as *Management – An Introduction* by David Boddy (2017) and *Management for Engineers, Scientists and Technologists* by John Chelsom and colleagues (2005).

## REVIEW QUESTIONS

1. Complete the below paragraph introducing financial management.

**(Question type: Fill in the blanks)**

“The objective of financial management is to arrange \_\_\_\_\_ such that the business can \_\_\_\_\_. Financial management involves activities such as ensuring that the business has an adequate level of \_\_\_\_\_.

2. A piece of construction machinery is assumed to depreciate by 15% in its first year of operation. A straight line model of depreciation is applied.

**(Question type: Calculation)**

Calculate the integer number of years after which the asset will be fully written off.

3. Which effect does depreciation have?

**(Question type: Multiple choice)**

- After the asset has depreciated, it is useless
- After it has depreciated fully it must be sold
- Depreciation creates a cost for the company that diminishes net profit
- Depreciation decreases the value of intangible assets
- Depreciating assets are undesirable

4. Match the following asset categories to specific assets.

**(Question type: Matrix)**

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	Fixed assets	Current assets	Long-term investments	This is not an asset
An office building	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Land owned for investment purposes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Deferred revenue	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Inventory	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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5. You are planning the finances of a new business manufacturing a chocolate product. It is planned that the business will achieve a sales revenue of \$45,000 in its first year of operation. You are assuming a quarterly COGS of \$5,000 and an annual operating cost of \$7,500. You expect the equipment owned by the business to depreciate in value by \$1,300.

**(Question type: Calculation)**

Calculate the operating profit in the first year.

6. Arrange the provided stages in the accounting cycle in the correct order.

**(Question type: Ranking)**

- Create an unadjusted trial balance
- Close the books
- Post general ledger entries
- Adjust ledger entries
- Create an adjusted trial balance
- Generate financial statements
- Identify transactions
- Record journal entries

7. What is the significance of the accounting equation?

**(Question type: Multiple choice)**

- It guarantees that there are no errors in the accounting system
- It forms the basis for double-entry bookkeeping and the general ledger
- It was widely used before digital accounting systems emerged
- It can sometimes be incorrect, yet provides orientation
- It helps in making entries into the journal

8. Which of the following are not found in a profit and loss statement?

**(Question type: Multiple response)**

- Current assets
- Sales revenue
- Operating expenses
- Common shares
- Tax expenses
- Added value

9. Which of the following statements about balance sheets are true and which are false?

(Question type: Dichotomous)

True False

- It is incorrect if the sum of assets and liabilities equates to owners' equity
- Only incorporated legal forms produce balance sheets
- It provides a snapshot of the financial situation in a business
- Assets are always on the left side and liabilities are on the right side
- Intangible assets are impossible to value and are not shown
- Inventory is shown as an asset

10. Complete the below paragraph on cash flow statements.

(Question type: Fill in the blanks)

“In the most common formats of cash flow statements, the \_\_\_\_\_ are broken down into \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ activities. The cash flow statement can thus be summarized as a report of the flow of \_\_\_\_\_ into and out of the business. The cash flow statement indicates whether or not the business can operate in the \_\_\_\_\_ and will be able to \_\_\_\_\_”.

## REFERENCES AND FURTHER READING

- Boddy, D., 2017. *Management: An introduction*. 7th ed. New York: Pearson Education.
- Chelsom, J.V., Payne, A.C., and Reavill, L.R.P., 2005. *Management for engineers, scientists and technologists*. 2nd ed. Chichester: Wiley.
- IFAC, 2009. *International good practice guidance, evaluating and improving costing in organizations*. New York: International Federation of Accountants, July, 2009, IFAC.
- Libby, R., Libby, P.A., and Hodge, F., 2020. *Financial accounting*. 10th ed. New York: McGraw-Hill Education.
- Zutter, C.J. and Smart, S.B., 2019. *Principles of managerial finance*. 15th ed. London: Pearson Higher Education.