The finance quiz

Test and develop your finance knowledge with Jean Pousson's quiz.

1. Which of the following statements is true and which is false?
2. The cash figure in the balance sheet is a good determinant of liquidity.
3. A company with a high level of reserves should be very liquid.
4. If a company has made a loss it cannot pay dividends.
5. If total borrowings exceed total shareholders funds the company is technically insolvent.
6. Having goodwill on a balance sheet will boost profits.
7. If we want to increase our earnings per share all we have to do is revalue our properties upwards.
8. Acquisition of fixed assets will affect Gross Profit.
9. An increase in turnover will cause a corresponding increase in free cash flow.
10. If we depreciate our machinery by charging against our profits we are in effect saving to replace it in the future
11. By raising debt levels we actually boost the return to our shareholders.
12. A company with a high level of fixed costs is less risky. At least the costs are known in advance and will not fluctuate with activity.

See next page for answers.

Answers

1. **False**. The Balance Sheet is a statement of assets and liabilities on one day of the year and cannot possibly reflect the true liquidity of a business.

2. **False**. Reserves are either retained profits built up over a number of years or a revaluation reserve which arises when a property asset is revalued. They are not cash.

3. **False**. Yes it can as long as it has sufficient reserves (ie profits) built up from previous years.

4. **False**. A company is insolvent when its total liabilities exceed its total assets thereby leading to a negative shareholder's funds. The question does not take into account the asset position.

5. **False**. Goodwill in most cases has to be amortised (i.e. written off) and this reduces profits.

6. **False**. A property revaluation increases an asset translates into a revaluation reserve. Nothing to do with profits.

7. **False**. This is a capital expenditure which bypasses the profit and loss totally.

8. **False**. So many factors affect cash flow. Turnover is only one.

9. **False**. Depreciation has the effect of writing off the cost (ie against profits) over a number of years. There is no cash put aside for the replacement of the asset.

10. **True**. It would take a practical example to demonstrate this fully. Suffice to say the less you put in and the more you borrow the return on your capital invested is better.

11. **False**. The company is more risky as it needs to achieve a much higher level of sales to break even. Furthermore it is also inflexible to any reduction in sales.