Corporate Finance Core Principles and Applications 5th edition Ross Test Bank

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***Corporate Finance: Core Principles & Apps, 5e* (Ross)**
Chapter 2 Financial Statements and Cash Flow

1) A current asset is best defined as
A) the market value of all assets currently owned by the firm.
B) an asset the firm expects to purchase within the next year.
C) the amount of cash on hand the firm currently shows on its balance sheet.
D) cash and other assets owned by the firm that should convert to cash within the next year.
E) the value of fixed assets the firm expects to sell within the next year.

2) The long-term debts of a firm are liabilities
A) owed to the firm's stockholders.
B) that do not come due for at least 12 months.
C) owed to the firm's suppliers.
D) that come due within the next 12 months.
E) the firm expects to incur within the next 12 months.

3) A(n) ________ asset is one that can be quickly converted into cash without significant loss in value.
A) tangible
B) fixed
C) intangible
D) liquid
E) long-term

4) Current assets include
A) inventory and accounts receivable.
B) accounts payable and cash.
C) cash and intangible assets.
D) inventory and accounts payable.
E) buildings and equipment.

5) An example of a current liability is
A) a loan secured by a mortgage and payable in 8 months.
B) any loan payable to a bank.
C) all accounts due from customers within the next year.
D) a note payable in full in 18 months.
E) an account due from a customer that is past due.

6) Which one of the following accounts is generally the most liquid?
A) Patent
B) Building
C) Accounts receivable
D) Equipment
E) Inventory

7) Which one of the following statements concerning liquidity is correct?
A) Fixed assets are more liquid than current assets.
B) Balance sheet accounts are listed in order of decreasing liquidity.
C) Liquid assets tend to be highly profitable.
D) The less liquidity a firm has, the lower the probability the firm will encounter financial difficulties.
E) Trademarks and patents are highly liquid.

8) Liquidity is
A) a measure of the use of debt in a firm's capital structure.
B) equal to current assets minus current liabilities.
C) equal to the market value of a firm's total assets minus its current liabilities.
D) generally associated with intangible assets.
E) valuable to a firm even though liquid assets tend to be less profitable to own.

9) Book value is
A) based on historical cost.
B) equivalent to market value for firms with fixed assets.
C) more of a financial than an accounting valuation.
D) the amount a willing buyer will pay for an asset.
E) adjusted to market value whenever the market value exceeds the stated book value.

10) When making financial decisions related to assets, you should
A) place primary emphasis on historical costs.
B) place more emphasis on book values than on market values.
C) rely primarily on the value of assets as shown on the balance sheet.
D) always consider market values.
E) only consider market values if they are less than book values.

11) Which one of these, all else held constant, will increase the value of stockholders' equity?
A) Decrease in accounts receivable
B) Increase in long-term debt
C) Decrease in retained earnings
D) Increase in accounts payable
E) Increase in fixed assets

12) Which one of these statements is correct?
A) Long-term debt is the residual difference between assets and liabilities.
B) Net income that is not paid out in dividends decreases retained earnings.
C) Long-term debt requires a payout of cash within a stated time period.
D) Stockholders' equity is stated at market value on the balance sheet.
E) Stockholders' equity increases as the liquidity of a firm increases.

13) The carrying value or book value of assets
A) is always the best measure of a company's value to an investor.
B) represents an average market value over time.
C) is always higher than the replacement cost of the assets.
D) is determined under GAAP and is based on the cost of the assets.
E) is determined under GAAP and is based on the current market value of the assets.

14) Stockholders' equity is equal to
A) net working capital plus long-term liabilities.
B) current assets plus fixed assets minus long-term liabilities.
C) total assets plus total liabilities.
D) current assets minus total liabilities plus fixed assets.
E) net working capital plus total fixed assets.

15) The income statement
A) measures a firm's performance as of a specific date.
B) determines the aftertax income of a firm.
C) excludes deferred taxes.
D) includes dividends as an expense.
E) determines the value of a firm to its stockholders.

16) As seen on an income statement,
A) interest is deducted from income and increases the total taxes incurred.
B) depreciation reduces both the pretax income and the net income.
C) depreciation is shown as an expense but does not affect the taxes payable.
D) the tax rate is applied to the earnings before interest and taxes when the firm has both depreciation and interest expenses.
E) both dividends and interest expense reduce corporate income taxes.

17) Depreciation
A) reduces both the net fixed assets and the costs of a firm.
B) decreases net fixed assets, net income, and operating cash flows.
C) is a noncash expense that decreases the selling, general, and administrative expenses.
D) is a noncash expense that reduces the pretax income.
E) increases the net fixed assets as shown on the balance sheet.

18) Noncash items refer to
A) the credit sales of a firm.
B) the accounts payable of a firm.
C) all accounts on the balance sheet other than cash on hand.
D) the costs incurred for the purchase of intangible fixed assets.
E) expenses charged against revenues that do not directly affect cash flow.

19) Assume both current and deferred taxes are positive values. Given this, deferred taxes will
A) reduce the current tax expense and thus increase net income.
B) increase expenses and increase operating cash flows.
C) increase expenses and lower operating cash flows.
D) reduce net income but not affect the operating cash flows.
E) reduce both net income and operating cash flows.

20) Which one of these will increase earnings per share?
A) Decreasing deferred taxes
B) Increasing depreciation expense
C) Lowering the operating income
D) Increasing the average corporate tax rate
E) Increasing the addition to retained earnings by reducing dividends paid

21) Revenue is recorded on an income statement when
A) payment for a sale has been received in full.
B) an order for goods is placed.
C) an exchange of goods or services has occurred and the earnings process is completed.
D) an order for goods or services is placed and an initial payment is received.
E) goods are placed in inventory and ready for future delivery.

22) Expenses are recorded on an income statement based on
A) their payment dates.
B) the date the expenses are expected.
C) the matching principle.
D) their invoice dates.
E) the average time principle.

23) Earnings per share is computed as
A) net income divided by total stockholders' equity.
B) EBIT divided by total stockholders' equity.
C) pretax income minus current taxes divided by total shares outstanding.
D) the addition to retained earnings divided by total shares outstanding.
E) net income divided by total shares outstanding.

24) Which one of these is both a product cost and a fixed cost in the short run?
A) Monthly electric bill for manufacturing facility
B) Salary for company CEO
C) Overtime pay for production employees
D) Sales commission paid based on monthly sales
E) Monthly lease payment for production equipment

25) Your ________ tax rate is the percentage of the next taxable dollar of income you earn that is payable as a tax.
A) deductible
B) residual
C) marginal
D) average
E) total

26) Your ________ tax rate measures the total taxes you pay divided by your total taxable income.
A) average
B) marginal
C) total
D) deductible
E) residual

27) When you are making a financial decision, the most relevant tax rate is the ________ rate.
A) average
B) fixed
C) marginal
D) total
E) variable

28) ________ refers to the difference between a firm's current assets and its current liabilities.
A) Operating cash flow
B) Capital spending
C) Net working capital
D) Cash flow from assets
E) Cash flow to creditors

29) A firm starts its year with positive net working capital. During the year, the firm acquires more short-term debt than it does short-term assets. This means that
A) the ending net working capital might be positive, negative, or equal to zero.
B) both accounts receivable and inventory decreased during the year.
C) the beginning current assets were less than the beginning current liabilities.
D) accounts payable increased and inventory decreased during the year.
E) the ending net working capital will be negative.

30) ________ is calculated by adding back noncash expenses to earnings before interest and taxes, subtracting taxes, and adjusting for any changes in total assets or current liabilities that affect cash flows.
A) Distributable cash flow
B) Capital spending
C) Cash flow from assets
D) Cash flow from investing activities
E) Cash flow to creditors

31) ________ refers to a firm's interest payments minus any net new borrowing.
A) Operating cash flow
B) Distributable cash flow
C) Net working capital
D) Cash flow to stockholders
E) Cash flow to creditors

32) ________ refers to a firm's dividend payments minus any net new equity raised.
A) Operating cash flow
B) Capital spending
C) Net working capital
D) Cash flow to stockholders
E) Cash flow from creditors

33) Al's has a positive net income and a marginal tax rate of 34 percent. Given this, an increase in which one of the following will cause the operating cash flow to increase?
A) Fixed assets
B) Taxes
C) Net working capital
D) Cost of goods sold
E) Depreciation

34) The cash flow to creditors increases when
A) cash is used to reduce accounts payable.
B) new shares of stock are sold for cash.
C) interest is paid on outstanding debt.
D) an asset is sold for cash.
E) a long-term debt is incurred.

35) Cash flow to stockholders must be positive when
A) the net sale of common stock exceeds the amount of dividends paid.
B) no income is distributed but new shares of stock are sold.
C) both the cash flow to assets and the cash flow to creditors are negative.
D) both the cash flow to assets and the cash flow to creditors are positive.
E) the dividends paid exceed the net new equity raised.

36) What is the formula for computing operating cash flow?
A) EBIT + Depreciation − Current taxes
B) EBIT + Depreciation − Interest expense − Current taxes
C) EBIT + NWC − Depreciation
D) EBIT − Depreciation + Current taxes
E) EBIT − Change in NWC + Depreciation − Current taxes

37) Capital spending is equal to
A) the net purchases and sales of fixed assets.
B) total cash flow to stockholders less interest and dividends paid.
C) net income plus depreciation.
D) the net change in total assets.
E) the change in current assets minus the change in current liabilities.

38) Cash flow to stockholders is best defined as
A) the total dividends paid.
B) the cash flow from assets plus the cash flow to creditors.
C) cash dividends plus repurchases of equity minus new equity financing.
D) repurchases of equity less cash dividends paid plus new equity sold.
E) the net change in common stock and capital surplus.

39) Free cash flow is
A) equal to net income.
B) equal to net income plus taxes.
C) a term used to describe an increase in net working capital.
D) cash that is available to distribute to creditors and equity holders.
E) another term for operating cash flow.

40) The cash flow of a firm, also referred to as cash flow from assets, must be equal to the cash flow to
A) debt holders minus the cash flow to equity holders.
B) equity holders plus the cash flow to debt holders.
C) the government plus the cash flow to equity holders.
D) equity holders minus the cash flow to debt holders.
E) the government, the debt holders, and the equity holders.

41) Which one of these is handled differently in calculating cash flows for accounting versus financial purposes?
A) Change in net working capital
B) Depreciation expense
C) Interest expense
D) Deferred taxes
E) Dividends paid

42) ________ refers to the cash flow resulting from a firm's ongoing, normal business activities.
A) Cash flow from assets
B) Net working capital
C) Capital spending
D) Cash flow from operating activities
E) Cash flow from investing activities

43) ________ refers to the changes in net fixed assets.
A) Cash flow from assets
B) Net working capital
C) Cash flow from investing activities
D) Cash flow from operating activities
E) Cash flow to creditors

44) A change in which one of these accounts will appear as an investing activity in an accounting statement of cash flows?
A) Accounts payable
B) Inventory
C) Interest expense
D) Fixed assets
E) Sales

45) A change in which one of these accounts is treated as a cash flow from operating activities in an accounting statement of cash flows?
A) Long-term debt
B) Inventory
C) Dividends
D) Fixed assets
E) Depreciation

46) The cash flow from operating activities decreases when
A) fixed assets are sold.
B) interest expense increases.
C) dividends increase.
D) depreciation increases.
E) accounts receivables decrease.

47) A firm has total equity of $2,011, net working capital of $175, long-term debt of $890, and current liabilities of $420. What is the amount of the net fixed assets?
A) $2,325
B) $2,974
C) $2,726
D) $3,075
E) $2,825

48) A firm has $480 in inventory, $1,860 in fixed assets, $520 in accounts receivables, $190 in net working capital, and $120 in cash. What is the amount of the current liabilities?
A) $550
B) $770
C) $820
D) $760
E) $930

49) Brad's Company has equipment with a book value of $1,380 that could be sold today at a 20 percent discount. Its inventory is valued at $360 and could be sold to a competitor for 90 percent of that value. The firm has $45 in cash and customers owe them $240, of which 97 percent is collectible. What is the accounting value of its liquid assets?
A) $601.80
B) $350.00
C) $2,025.00
D) $645.00
E) $1,705.80

50) Martha's Enterprises spent $3,300 to purchase equipment 2 years ago. This equipment is currently valued at $2,357 on today's balance sheet but could actually be sold for $2,750. Net working capital is $860 and long-term debt is $1,650. Assuming this equipment is the firm's only fixed asset, what is the book value of shareholders' equity?
A) $1,960
B) $1,800
C) $1,567
D) $2,510
E) $1,633

51) A firm has beginning retained earnings of $4,200 and ending retained earnings of $4,150. What is the amount of dividends paid if the firm earned a net income of $1,950?
A) $1,500
B) $1,950
C) $1,900
D) $2,000
E) $2,100

52) MLM Enterprises has net income of $984, interest expense of $146, sales of $6,320, addition to retained earnings of $495, selling and general expenses of $1,210, and depreciation of $1,140. What is the amount of dividends paid if the tax rate is 34 percent?
A) $1,479
B) $1,162
C) $489
D) $507
E) $783

53) Assume sales are $1,100, cost of goods sold is $510, depreciation expense is $80, interest paid is $40, selling and general expenses are $230, dividends paid is $45, and the tax rate is 34 percent. What is the addition to retained earnings?
A) $203.40
B) $113.40
C) $166.20
D) $109.60
E) $158.40

54) Lester's has $33,600 in sales, $17,200 in cost of goods sold, $2,300 in depreciation, $980 in interest expense, and $5,800 in selling, general, and administrative expenses. The firm owes no taxes for this year. What is the amount of the period costs that are included in the operating cash flow?
A) $25,300
B) $3,280
C) $23,980
D) $23,000
E) $5,800

55) The Down Towner has annual costs of goods sold of $42,600, interest expense of $650, selling and administrative expenses of $7,800, dividends paid of $1,200, depreciation of $1,100, and a tax rate of 34 percent. What is the firm's taxable income if it added $2,500 to retained earnings during the year?
A) $2,181.30
B) $8,711.18
C) $3,700.00
D) $5,606.06
E) $10,882.35

56) Brewster's has annual sales of $11,800, dividends of $270, interest expense of $320, cost of goods sold of $7,230, addition to retained earnings of $510, selling and administrative expenses of $1,940, and a tax rate of 34 percent. What is the amount of the depreciation expense?
A) $584.18
B) $1,385.82
C) $1,128.18
D) $1,215.00
E) $1,474.24

57) Assume sales are $2,220; cost of goods sold is $1,055, general expenses are $630, depreciation expense is $210, and the tax rate is 35 percent. What is the net income amount if the firm paid $40 in interest expense?
A) $171.25
B) $99.75
C) $185.25
D) $120.25
E) $270.75

58) Atlantic Fisheries has an EBIT of $3,280, depreciation of $1,850, cost of goods sold of $6,920, dividends paid of $750, interest expense of $860, and sales of $6,500. What is the taxable income?
A) $2,376
B) $1,805
C) $1,610
D) $1,670
E) $2,420

59) Art's Boutique has sales of $610,000 and costs of $480,000. Interest expense is $40,000, dividends paid is $37,000, and depreciation is $60,000. The tax rate is 34 percent and there are 8,500 shares of stock outstanding. What is the earnings per share?
A) $1.99
B) $2.33
C) $3.53
D) $4.28
E) $2.67

60) Given the tax rates as shown, what is the average tax rate for a firm with taxable income of $228,610?

Taxable Income			Tax Rate
$0	–	50,000	15%
50,001	–	75,000	25%
75,001	–	100,000	34%
100,001	–	335,000	39%

A) 36.38%
B) 33.88%
C) 31.67%
D) 34.64%
E) 39.00%

61) The tax rates are as shown. Your firm currently has taxable income of $73,900. How much additional tax will the firm owe if it increases its taxable income by $10,000?

Taxable Income			Tax Rate
$0	–	50,000	15%
50,001	–	75,000	25%
75,001	–	100,000	34%
100,001	–	335,000	39%

A) $3,400
B) $3,500
C) $2,500
D) $2,950
E) $3,301

62) The tax rates are as shown. Lasseter's currently has taxable income of $163,400. What is the firm's average tax rate?

Taxable Income			Tax Rate
$0	–	50,000	15%
50,001	–	75,000	25%
75,001	–	100,000	34%
100,001	–	335,000	39%

A) 34.00%
B) 36.03%
C) 28.75%
D) 39.00%
E) 30.32%

63) Total assets are $2,630, fixed assets are $1,825, long-term debt is $1,015, and short-term debt is $530. What is the amount of net working capital?
A) $1,295
B) $275
C) $1,085
D) $350
E) $400

64) School House Antiques has current assets of $340 and current liabilities of $190 at the end of the year. At the beginning of the year, the current assets were $415 and the current liabilities were $210. What is the change in net working capital?
A) –$95
B) $0
C) $55
D) $95
E) –$55

65) You are given the following balance sheets.

	2016	2017
Assets		
Cash	$ 101	$ 128
Other current assets	289	307
Net fixed assets	624	631
Total assets	$ 1,014	$ 1,066
Liabilities and Equity		
Accounts payable	$ 123	$ 118
Long-term debt	306	302
Stockholders' equity	585	646
Total liabilities and equity	$ 1,014	$ 1,066

What is the change in the net working capital from 2016 to 2017?
A) $45
B) –$35
C) $50
D) –$50
E) $35

66) Charter Tours has the following balance sheets:

	2016	2017
Assets		
Cash	$ 203	$ 197
Accounts receivable	684	726
Inventory	918	1,023
Net fixed assets	2,014	1,989
Total assets	$ 3,819	$ 3,935
Liabilities and Equity		
Accounts payable	$ 748	$ 818
Deferred taxes	306	302
Long-term debt	1,647	1,722
Stockholders' equity	1,118	1,093
Total liabilities and equity	$ 3,819	$ 3,935

What is the amount of net working capital for 2017?
A) $751
B) $1,057
C) $1,128
D) $1,734
E) $826

67) Frederick Antiques has the following balance sheets:

	2016	2017
Assets		
Cash	$ 182	$ 153
Accounts receivable	911	979
Inventory	1,304	1,223
Net fixed assets	2,659	2,037
Total assets	$ 5,056	$ 4,392
Liabilities and Equity		
Accounts payable	$ 1,248	$ 1,318
Deferred taxes	103	97
Long-term debt	2,804	2,607
Stockholders' equity	901	370
Total liabilities and equity	$ 5,056	$ 4,392

What is the change in net working capital?
A) –$118
B) $34
C) $12
D) $144
E) –$112

68) Murphy's Outlet has the following balance sheets:

	2016	2017
Assets		
Cash	$ 214	$ 187
Accounts receivable	1,306	1,259
Inventory	1,847	2,048
Net fixed assets	3,511	3,287
Total assets	$ 6,878	$ 6,781
Liabilities and Equity		
Accounts payable	$ 1,414	$ 1,632
Other current liabilities	624	598
Long-term debt	1,320	1,264
Stockholders' equity	3,520	3,287
Total liabilities and equity	$ 6,878	$ 6,781

What is the change in net working capital?
A) –$65
B) $91
C) $65
D) –$91
E) $57

69) Nel's Place has total sales of $1,456, costs are $782, and depreciation is $115. The tax rate is 34 percent. The firm does not have any interest expense. What is the operating cash flow?
A) $393.08
B) $524.40
C) $501.38
D) $483.94
E) $427.82

70) Teddy's Pillows had beginning net fixed assets of $648 and ending net fixed assets of $621. Assets valued at $285 were sold during the year. Depreciation was $76. What is the amount of net capital spending?
A) $334
B) $236
C) $115
D) $49
E) $66

71) At the beginning of the year, Malek Farm's had long-term debt of $687 and total debt of $911. At the end of the year, the long-term debt is $579 and total debt is $898. If $58 of interest was paid during the year, what is the cash flow to the creditors?
A) –$50
B) –$166
C) $71
D) $166
E) $50

72) Pete's Boats has beginning long-term debt of $647 and ending long-term debt of $749. The beginning and ending total debt balances are $801 and $768, respectively. The interest paid is $54. What is the amount of the cash flow to the creditors?
A) –$10
B) –$48
C) $21
D) $156
E) $87

73) Peggy Grey's Cookies has net income of $2,918. The firm pays out 35 percent of the net income to its shareholders as dividends. During the year, the company sold $150 worth of common stock. What is the cash flow to the stockholders?
A) $1,171.30
B) $871.30
C) $2,046.70
D) $1,224.20
E) $1,746.70

74) Thompson's Jet Skis has operating cash flow of $994. Depreciation is $102, taxes are $298, and interest paid is $65. A net total of $82 was paid on long-term debt. The firm spent $481 on fixed assets and increased its net working capital by $32. What is the amount of the cash flow to stockholders?
A) −$104
B) $334
C) $464
D) –$114
E) $138

75) You have compiled the following information on the Shoe Store:

	2016	2017
Assets		
Cash	$ 214	$ 187
Accounts receivable	1,306	1,259
Inventory	1,847	2,048
Net fixed assets	3,511	3,287
Total assets	$ 6,878	$ 6,781
Liabilities and Equity		
Accounts payable	$ 1,414	$ 1,632
Other current liabilities	624	598
Long-term debt	1,320	1,264
Stockholders' equity	3,520	3,287
Total liabilities and equity	$ 6,878	$ 6,781

Sales	$ 6,238
Cost of goods sold	2,789
General and administrative	847
Depreciation	415
EBIT	$ 2,187
Interest	90
EBT	$ 2,097
Taxes	713
Net income	$ 1,384

What is the amount of the net capital spending for 2017?
A) $224
B) $639
C) –$224
D) $362
E) $191

76) You have compiled the following information on Winslow, Inc.:

	2016	2017
Assets		
Cash	$ 298	$ 306
Accounts receivable	3,006	3,422
Inventory	5,210	5,650
Net fixed assets	32,780	36,400
Total assets	$ 41,294	$ 45,778
Liabilities and Equity		
Accounts payable	$ 6,219	$ 6,184
Other current liabilities	1,880	1,625
Long-term debt	17,951	21,991
Stockholders' equity	15,244	15,978
Total liabilities and equity	$ 41,294	$ 45,778
Sales		$ 11,418
Cost of goods sold		6,320
General and administrative		2,419
Depreciation		967
EBIT		$ 1,712
Interest		230
EBT		$ 1,482
Taxes		519
Net income		$ 963

What is the cash flow of the firm, or CF(A), for 2017?
A) –$1,273
B) –$3,581
C) $1,273
D) $2,160
E) $3,414

77) You have compiled the following information on Winslow, Inc.:

	2016	2017
Assets		
Cash	$ 298	$ 306
Accounts receivable	3,006	3,422
Inventory	5,210	5,650
Net fixed assets	32,780	36,400
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General and administrative		2,419
Depreciation		967
EBIT		$ 1,712
Interest		230
EBT		$ 1,482
Taxes		519
Net income		$ 963

What is the amount of net new borrowing for 2017?
A) $3,750
B) $3,250
C) $3,360
D) $4,040
E) $3,480

78) You have compiled the following information on Winslow, Inc.:

	2016	2017
Assets		
Cash	$ 298	$ 306
Accounts receivable	3,006	3,422
Inventory	5,210	5,650
Net fixed assets	32,780	36,400
Total assets	$ 41,294	$ 45,778
Liabilities and Equity		
Accounts payable	$ 6,219	$ 6,184
Other current liabilities	1,880	1,625
Long-term debt	17,951	21,991
Stockholders' equity	15,244	15,978
Total liabilities and equity	$ 41,294	$ 45,778

Sales	$ 11,418
Cost of goods sold	6,320
General and administrative	2,419
Depreciation	967
EBIT	$ 1,712
Interest	230
EBT	$ 1,482
Taxes	519
Net income	$ 963

What is the cash flow to creditors for 2017?
A) $3,650
B) –$4,040
C) $3,350
D) –$4,270
E) –$3,810

79) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is net capital spending for 2017?
A) $1,115
B) $1,028
C) $80
D) $210
E) $946

80) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is the operating cash flow for 2017?
A) $3,690
B) $4,203
C) $2,645
D) $5,331
E) $4,807

81) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is the cash flow of the firm, CF(A), for 2017?
A) $3,050
B) $2,813
C) $3,297
D) $3,147
E) $2,978

82) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is the cash flow to creditors, CF(B), for 2017?
A) $400
B) –$915
C) $720
D) –$80
E) $915

83) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is the cash flow to stockholders, CF(S), for 2017?
A) $3,058
B) $2,063
C) $2,258
D) $2,428
E) $3,698

84) Pineapple Express has selling and administrative expenses of $2,618, costs of goods sold of $24,318, depreciation of $915, and an interest expense of $520. The firm paid $150 in dividends and added $384 to retained earnings for the year. What is the firm's operating cash flow if the tax rate is 35 percent?

What is the operating cash flow?
A) $1,823.14
B) $2,072.12
C) $1,969.00
D) $2,516.48
E) $2,208.15

85) Whistler's sales for this past year were $21,381. The interest expense was $248, costs of goods sold were $9,784, selling and general expenses were $1,208, depreciation was $811, and the addition to retained earnings was $325. The firm sold $500 of new stock shares and repurchased $125 of outstanding shares.

What was the cash flow to stockholders if the tax rate was 34 percent?
A) $725.50
B) $670.25
C) $202.72
D) $208.28
E) $235.55

***Corporate Finance: Core Principles & Apps, 5e* (Ross)**
Chapter 2 Financial Statements and Cash Flow

1) A current asset is best defined as
A) the market value of all assets currently owned by the firm.
B) an asset the firm expects to purchase within the next year.
C) the amount of cash on hand the firm currently shows on its balance sheet.
D) cash and other assets owned by the firm that should convert to cash within the next year.
E) the value of fixed assets the firm expects to sell within the next year.

Answer: D
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

2) The long-term debts of a firm are liabilities
A) owed to the firm's stockholders.
B) that do not come due for at least 12 months.
C) owed to the firm's suppliers.
D) that come due within the next 12 months.
E) the firm expects to incur within the next 12 months.

Answer: B
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

3) A(n) ________ asset is one that can be quickly converted into cash without significant loss in value.
A) tangible
B) fixed
C) intangible
D) liquid
E) long-term

Answer: D
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Liquidity
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

4) Current assets include
A) inventory and accounts receivable.
B) accounts payable and cash.
C) cash and intangible assets.
D) inventory and accounts payable.
E) buildings and equipment.

Answer: A
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

5) An example of a current liability is
A) a loan secured by a mortgage and payable in 8 months.
B) any loan payable to a bank.
C) all accounts due from customers within the next year.
D) a note payable in full in 18 months.
E) an account due from a customer that is past due.

Answer: A
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

6) Which one of the following accounts is generally the most liquid?
A) Patent
B) Building
C) Accounts receivable
D) Equipment
E) Inventory

Answer: C
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Liquidity
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

7) Which one of the following statements concerning liquidity is correct?
A) Fixed assets are more liquid than current assets.
B) Balance sheet accounts are listed in order of decreasing liquidity.
C) Liquid assets tend to be highly profitable.
D) The less liquidity a firm has, the lower the probability the firm will encounter financial difficulties.
E) Trademarks and patents are highly liquid.

Answer: B
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

8) Liquidity is
A) a measure of the use of debt in a firm's capital structure.
B) equal to current assets minus current liabilities.
C) equal to the market value of a firm's total assets minus its current liabilities.
D) generally associated with intangible assets.
E) valuable to a firm even though liquid assets tend to be less profitable to own.

Answer: E
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Liquidity
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

9) Book value is
A) based on historical cost.
B) equivalent to market value for firms with fixed assets.
C) more of a financial than an accounting valuation.
D) the amount a willing buyer will pay for an asset.
E) adjusted to market value whenever the market value exceeds the stated book value.

Answer: A
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Market and book values
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

10) When making financial decisions related to assets, you should
A) place primary emphasis on historical costs.
B) place more emphasis on book values than on market values.
C) rely primarily on the value of assets as shown on the balance sheet.
D) always consider market values.
E) only consider market values if they are less than book values.

Answer: D
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Market and book values
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

11) Which one of these, all else held constant, will increase the value of stockholders' equity?
A) Decrease in accounts receivable
B) Increase in long-term debt
C) Decrease in retained earnings
D) Increase in accounts payable
E) Increase in fixed assets

Answer: E
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

12) Which one of these statements is correct?
A) Long-term debt is the residual difference between assets and liabilities.
B) Net income that is not paid out in dividends decreases retained earnings.
C) Long-term debt requires a payout of cash within a stated time period.
D) Stockholders' equity is stated at market value on the balance sheet.
E) Stockholders' equity increases as the liquidity of a firm increases.

Answer: C
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

13) The carrying value or book value of assets
A) is always the best measure of a company's value to an investor.
B) represents an average market value over time.
C) is always higher than the replacement cost of the assets.
D) is determined under GAAP and is based on the cost of the assets.
E) is determined under GAAP and is based on the current market value of the assets.

Answer: D
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Market and book values
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

14) Stockholders' equity is equal to
A) net working capital plus long-term liabilities.
B) current assets plus fixed assets minus long-term liabilities.
C) total assets plus total liabilities.
D) current assets minus total liabilities plus fixed assets.
E) net working capital plus total fixed assets.

Answer: D
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

15) The income statement
A) measures a firm's performance as of a specific date.
B) determines the aftertax income of a firm.
C) excludes deferred taxes.
D) includes dividends as an expense.
E) determines the value of a firm to its stockholders.

Answer: B
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

16) As seen on an income statement,
A) interest is deducted from income and increases the total taxes incurred.
B) depreciation reduces both the pretax income and the net income.
C) depreciation is shown as an expense but does not affect the taxes payable.
D) the tax rate is applied to the earnings before interest and taxes when the firm has both depreciation and interest expenses.
E) both dividends and interest expense reduce corporate income taxes.

Answer: B
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

17) Depreciation
A) reduces both the net fixed assets and the costs of a firm.
B) decreases net fixed assets, net income, and operating cash flows.
C) is a noncash expense that decreases the selling, general, and administrative expenses.
D) is a noncash expense that reduces the pretax income.
E) increases the net fixed assets as shown on the balance sheet.

Answer: D
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Noncash items
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

18) Noncash items refer to
A) the credit sales of a firm.
B) the accounts payable of a firm.
C) all accounts on the balance sheet other than cash on hand.
D) the costs incurred for the purchase of intangible fixed assets.
E) expenses charged against revenues that do not directly affect cash flow.

Answer: E
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Noncash items
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

19) Assume both current and deferred taxes are positive values. Given this, deferred taxes will
A) reduce the current tax expense and thus increase net income.
B) increase expenses and increase operating cash flows.
C) increase expenses and lower operating cash flows.
D) reduce net income but not affect the operating cash flows.
E) reduce both net income and operating cash flows.

Answer: D
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Noncash items
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

20) Which one of these will increase earnings per share?
A) Decreasing deferred taxes
B) Increasing depreciation expense
C) Lowering the operating income
D) Increasing the average corporate tax rate
E) Increasing the addition to retained earnings by reducing dividends paid

Answer: A
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Per-share valuations
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

21) Revenue is recorded on an income statement when
A) payment for a sale has been received in full.
B) an order for goods is placed.
C) an exchange of goods or services has occurred and the earnings process is completed.
D) an order for goods or services is placed and an initial payment is received.
E) goods are placed in inventory and ready for future delivery.

Answer: C
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

22) Expenses are recorded on an income statement based on
A) their payment dates.
B) the date the expenses are expected.
C) the matching principle.
D) their invoice dates.
E) the average time principle.

Answer: C
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

23) Earnings per share is computed as
A) net income divided by total stockholders' equity.
B) EBIT divided by total stockholders' equity.
C) pretax income minus current taxes divided by total shares outstanding.
D) the addition to retained earnings divided by total shares outstanding.
E) net income divided by total shares outstanding.

Answer: E
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

24) Which one of these is both a product cost and a fixed cost in the short run?
A) Monthly electric bill for manufacturing facility
B) Salary for company CEO
C) Overtime pay for production employees
D) Sales commission paid based on monthly sales
E) Monthly lease payment for production equipment

Answer: E
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

25) Your ________ tax rate is the percentage of the next taxable dollar of income you earn that is payable as a tax.
A) deductible
B) residual
C) marginal
D) average
E) total

Answer: C
Difficulty: 1 Easy
Section: 2.3 Taxes
Topic: Taxes
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

26) Your ________ tax rate measures the total taxes you pay divided by your total taxable income.
A) average
B) marginal
C) total
D) deductible
E) residual

Answer: A
Difficulty: 1 Easy
Section: 2.3 Taxes
Topic: Taxes
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

27) When you are making a financial decision, the most relevant tax rate is the ________ rate.
A) average
B) fixed
C) marginal
D) total
E) variable

Answer: C
Difficulty: 1 Easy
Section: 2.3 Taxes
Topic: Taxes
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

28) ________ refers to the difference between a firm's current assets and its current liabilities.
A) Operating cash flow
B) Capital spending
C) Net working capital
D) Cash flow from assets
E) Cash flow to creditors

Answer: C
Difficulty: 1 Easy
Section: 2.4 Net Working Capital
Topic: Net working capital
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

29) A firm starts its year with positive net working capital. During the year, the firm acquires more short-term debt than it does short-term assets. This means that
A) the ending net working capital might be positive, negative, or equal to zero.
B) both accounts receivable and inventory decreased during the year.
C) the beginning current assets were less than the beginning current liabilities.
D) accounts payable increased and inventory decreased during the year.
E) the ending net working capital will be negative.

Answer: A
Difficulty: 3 Hard
Section: 2.4 Net Working Capital
Topic: Net working capital
Bloom's: Level 3 Apply
Accessibility: Keyboard Navigation

30) ________ is calculated by adding back noncash expenses to earnings before interest and taxes, subtracting taxes, and adjusting for any changes in total assets or current liabilities that affect cash flows.
A) Distributable cash flow
B) Capital spending
C) Cash flow from assets
D) Cash flow from investing activities
E) Cash flow to creditors

Answer: A
Difficulty: 2 Medium
Section: 2.5 Cash Flow of the Firm
Topic: Cash flows
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

31) ________ refers to a firm's interest payments minus any net new borrowing.
A) Operating cash flow
B) Distributable cash flow
C) Net working capital
D) Cash flow to stockholders
E) Cash flow to creditors

Answer: E
Difficulty: 1 Easy
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to creditors
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

32) ________ refers to a firm's dividend payments minus any net new equity raised.
A) Operating cash flow
B) Capital spending
C) Net working capital
D) Cash flow to stockholders
E) Cash flow from creditors

Answer: D
Difficulty: 1 Easy
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to stockholders
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

33) Al's has a positive net income and a marginal tax rate of 34 percent. Given this, an increase in which one of the following will cause the operating cash flow to increase?
A) Fixed assets
B) Taxes
C) Net working capital
D) Cost of goods sold
E) Depreciation

Answer: E
Difficulty: 2 Medium
Section: 2.5 Cash Flow of the Firm
Topic: Operating cash flow
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

34) The cash flow to creditors increases when
A) cash is used to reduce accounts payable.
B) new shares of stock are sold for cash.
C) interest is paid on outstanding debt.
D) an asset is sold for cash.
E) a long-term debt is incurred.

Answer: C
Difficulty: 2 Medium
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to creditors
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

35) Cash flow to stockholders must be positive when
A) the net sale of common stock exceeds the amount of dividends paid.
B) no income is distributed but new shares of stock are sold.
C) both the cash flow to assets and the cash flow to creditors are negative.
D) both the cash flow to assets and the cash flow to creditors are positive.
E) the dividends paid exceed the net new equity raised.

Answer: E
Difficulty: 2 Medium
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to stockholders
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

36) What is the formula for computing operating cash flow?
A) EBIT + Depreciation − Current taxes
B) EBIT + Depreciation − Interest expense − Current taxes
C) EBIT + NWC − Depreciation
D) EBIT − Depreciation + Current taxes
E) EBIT − Change in NWC + Depreciation − Current taxes

Answer: A
Difficulty: 1 Easy
Section: 2.5 Cash Flow of the Firm
Topic: Operating cash flow
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

37) Capital spending is equal to
A) the net purchases and sales of fixed assets.
B) total cash flow to stockholders less interest and dividends paid.
C) net income plus depreciation.
D) the net change in total assets.
E) the change in current assets minus the change in current liabilities.

Answer: A
Difficulty: 2 Medium
Section: 2.5 Cash Flow of the Firm
Topic: Capital spending
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

38) Cash flow to stockholders is best defined as
A) the total dividends paid.
B) the cash flow from assets plus the cash flow to creditors.
C) cash dividends plus repurchases of equity minus new equity financing.
D) repurchases of equity less cash dividends paid plus new equity sold.
E) the net change in common stock and capital surplus.

Answer: C
Difficulty: 2 Medium
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to stockholders
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

39) Free cash flow is
A) equal to net income.
B) equal to net income plus taxes.
C) a term used to describe an increase in net working capital.
D) cash that is available to distribute to creditors and equity holders.
E) another term for operating cash flow.

Answer: D
Difficulty: 1 Easy
Section: 2.5 Cash Flow of the Firm
Topic: Free cash flow
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

40) The cash flow of a firm, also referred to as cash flow from assets, must be equal to the cash flow to
A) debt holders minus the cash flow to equity holders.
B) equity holders plus the cash flow to debt holders.
C) the government plus the cash flow to equity holders.
D) equity holders minus the cash flow to debt holders.
E) the government, the debt holders, and the equity holders.

Answer: B
Difficulty: 1 Easy
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow from assets
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

41) Which one of these is handled differently in calculating cash flows for accounting versus financial purposes?
A) Change in net working capital
B) Depreciation expense
C) Interest expense
D) Deferred taxes
E) Dividends paid

Answer: C
Difficulty: 1 Easy
Section: 2.6 The Accounting Statement of Cash Flows
Topic: Cash flows
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

42) ________ refers to the cash flow resulting from a firm's ongoing, normal business activities.
A) Cash flow from assets
B) Net working capital
C) Capital spending
D) Cash flow from operating activities
E) Cash flow from investing activities

Answer: D
Difficulty: 1 Easy
Section: 2.6 The Accounting Statement of Cash Flows
Topic: Operating activities
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

43) ________ refers to the changes in net fixed assets.
A) Cash flow from assets
B) Net working capital
C) Cash flow from investing activities
D) Cash flow from operating activities
E) Cash flow to creditors

Answer: C
Difficulty: 1 Easy
Section: 2.6 The Accounting Statement of Cash Flows
Topic: Investing activities
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

44) A change in which one of these accounts will appear as an investing activity in an accounting statement of cash flows?
A) Accounts payable
B) Inventory
C) Interest expense
D) Fixed assets
E) Sales

Answer: D
Difficulty: 1 Easy
Section: 2.6 The Accounting Statement of Cash Flows
Topic: Investing activities
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

45) A change in which one of these accounts is treated as a cash flow from operating activities in an accounting statement of cash flows?
A) Long-term debt
B) Inventory
C) Dividends
D) Fixed assets
E) Depreciation

Answer: B
Difficulty: 1 Easy
Section: 2.6 The Accounting Statement of Cash Flows
Topic: Operating activities
Bloom's: Level 1 Remember
Accessibility: Keyboard Navigation

46) The cash flow from operating activities decreases when
A) fixed assets are sold.
B) interest expense increases.
C) dividends increase.
D) depreciation increases.
E) accounts receivables decrease.

Answer: B
Difficulty: 2 Medium
Section: 2.6 The Accounting Statement of Cash Flows
Topic: Operating activities
Bloom's: Level 2 Understand
Accessibility: Keyboard Navigation

47) A firm has total equity of $2,011, net working capital of $175, long-term debt of $890, and current liabilities of $420. What is the amount of the net fixed assets?
A) $2,325
B) $2,974
C) $2,726
D) $3,075
E) $2,825

Answer: C
Explanation: Net fixed assets = $890 + $2,011 – $175 = $2,726
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

48) A firm has $480 in inventory, $1,860 in fixed assets, $520 in accounts receivables, $190 in net working capital, and $120 in cash. What is the amount of the current liabilities?
A) $550
B) $770
C) $820
D) $760
E) $930

Answer: E
Explanation: Current liabilities = ($120 + $520 + $480) – $190 = $930
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Net working capital
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

49) Brad's Company has equipment with a book value of $1,380 that could be sold today at a 20 percent discount. Its inventory is valued at $360 and could be sold to a competitor for 90 percent of that value. The firm has $45 in cash and customers owe them $240, of which 97 percent is collectible. What is the accounting value of its liquid assets?
A) $601.80
B) $350.00
C) $2,025.00
D) $645.00
E) $1,705.80

Answer: D
Explanation: Liquid assets = $360 + $45 + $240 = $645
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Liquidity
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

50) Martha's Enterprises spent $3,300 to purchase equipment 2 years ago. This equipment is currently valued at $2,357 on today's balance sheet but could actually be sold for $2,750. Net working capital is $860 and long-term debt is $1,650. Assuming this equipment is the firm's only fixed asset, what is the book value of shareholders' equity?
A) $1,960
B) $1,800
C) $1,567
D) $2,510
E) $1,633

Answer: C
Explanation: Book value of shareholders' equity = $2,357 + $860 – $1,650 = $1,567
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Market and book values
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

51) A firm has beginning retained earnings of $4,200 and ending retained earnings of $4,150. What is the amount of dividends paid if the firm earned a net income of $1,950?
A) $1,500
B) $1,950
C) $1,900
D) $2,000
E) $2,100

Answer: D
Explanation: Dividends paid = $1,950 – ($4,150 – $4,200) = $2,000
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Statement of retained earnings
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

52) MLM Enterprises has net income of $984, interest expense of $146, sales of $6,320, addition to retained earnings of $495, selling and general expenses of $1,210, and depreciation of $1,140. What is the amount of dividends paid if the tax rate is 34 percent?
A) $1,479
B) $1,162
C) $489
D) $507
E) $783

Answer: C
Explanation: Dividends paid = $984 – $495 = $489
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

53) Assume sales are $1,100, cost of goods sold is $510, depreciation expense is $80, interest paid is $40, selling and general expenses are $230, dividends paid is $45, and the tax rate is 34 percent. What is the addition to retained earnings?
A) $203.40
B) $113.40
C) $166.20
D) $109.60
E) $158.40

Answer: B
Explanation: Net income = (1 – 0.34)($1,100 – $510 – $230 – $80 – $40) = $158.40
Addition to retained earnings = $158.40 – $45 = $113.40
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

54) Lester's has $33,600 in sales, $17,200 in cost of goods sold, $2,300 in depreciation, $980 in interest expense, and $5,800 in selling, general, and administrative expenses. The firm owes no taxes for this year. What is the amount of the period costs that are included in the operating cash flow?
A) $25,300
B) $3,280
C) $23,980
D) $23,000
E) $5,800

Answer: E
Explanation: Period costs = Selling, general, and administrative expenses = $5,800
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 2 Understand
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

55) The Down Towner has annual costs of goods sold of $42,600, interest expense of $650, selling and administrative expenses of $7,800, dividends paid of $1,200, depreciation of $1,100, and a tax rate of 34 percent. What is the firm's taxable income if it added $2,500 to retained earnings during the year?
A) $2,181.30
B) $8,711.18
C) $3,700.00
D) $5,606.06
E) $10,882.35

Answer: D
Explanation: Net income = $1,200 + $2,500 = $3,700
Taxable income = $3,700 / (1 – 0.34) = $5,606.06
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

56) Brewster's has annual sales of $11,800, dividends of $270, interest expense of $320, cost of goods sold of $7,230, addition to retained earnings of $510, selling and administrative expenses of $1,940, and a tax rate of 34 percent. What is the amount of the depreciation expense?
A) $584.18
B) $1,385.82
C) $1,128.18
D) $1,215.00
E) $1,474.24

Answer: C
Explanation: Net income = $270 + $510 = $780
Taxable income = $780 / (1 – 0.34) = $1,181.82
Earnings before interest and taxes = $1,181.82 + $320 = $1,501.82
Depreciation = $11,800 – $7,230 – $1,940 – $1,501.82 = $1,128.18
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

57) Assume sales are $2,220; cost of goods sold is $1,055, general expenses are $630, depreciation expense is $210, and the tax rate is 35 percent. What is the net income amount if the firm paid $40 in interest expense?
A) $171.25
B) $99.75
C) $185.25
D) $120.25
E) $270.75

Answer: C
Explanation: Net Income = (1 – 0.35)($2,220 – $1,055 – $630 – $210 – $40) = $185.25
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

58) Atlantic Fisheries has an EBIT of $3,280, depreciation of $1,850, cost of goods sold of $6,920, dividends paid of $750, interest expense of $860, and sales of $6,500. What is the taxable income?
A) $2,376
B) $1,805
C) $1,610
D) $1,670
E) $2,420

Answer: E
Explanation: Taxable income = $3,280 – $860 = $2,420
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

59) Art's Boutique has sales of $610,000 and costs of $480,000. Interest expense is $40,000, dividends paid is $37,000, and depreciation is $60,000. The tax rate is 34 percent and there are 8,500 shares of stock outstanding. What is the earnings per share?
A) $1.99
B) $2.33
C) $3.53
D) $4.28
E) $2.67

Answer: B
Explanation: Earnings per share = [($610,000 – $480,000 – $60,000 – $40,000)(1 – 0.34)] / 8,500 = $2.33
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

60) Given the tax rates as shown, what is the average tax rate for a firm with taxable income of $228,610?

Taxable Income			Tax Rate
$0	–	50,000	15%
50,001	–	75,000	25%
75,001	–	100,000	34%
100,001	–	335,000	39%

A) 36.38%
B) 33.88%
C) 31.67%
D) 34.64%
E) 39.00%

Answer: C
Explanation: Tax = 0.15($50,000) + 0.25($25,000) + 0.34($25,000) + 0.39($228,610 – $100,000) = $72,407.90
Average tax rate = $72,407.90 / $228,610 = 0.3167, or 31.67%
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Bloom's: Level 3 Apply
AACSB: Analytical Thinking

61) The tax rates are as shown. Your firm currently has taxable income of $73,900. How much additional tax will the firm owe if it increases its taxable income by $10,000?

Taxable Income			Tax Rate
$0	–	50,000	15%
50,001	–	75,000	25%
75,001	–	100,000	34%
100,001	–	335,000	39%

A) $3,400
B) $3,500
C) $2,500
D) $2,950
E) $3,301

Answer: E
Explanation: Additional tax = 0.25($75,000 – $73,900) + 0.34[$10,000 – ($75,000 – $73,900)] = $3,301
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

62) The tax rates are as shown. Lasseter's currently has taxable income of $163,400. What is the firm's average tax rate?

Taxable Income			Tax Rate
$0	–	50,000	15%
50,001	–	75,000	25%
75,001	–	100,000	34%
100,001	–	335,000	39%

A) 34.00%
B) 36.03%
C) 28.75%
D) 39.00%
E) 30.32%

Answer: C
Explanation: Average tax rate = [0.15($50,000) + 0.25($25,000) + 0.34($25,000) + 0.39($163,400 – $100,000)] / $163,400 = 0.2875, or 28.75%
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Bloom's: Level 3 Apply
AACSB: Analytical Thinking

63) Total assets are $2,630, fixed assets are $1,825, long-term debt is $1,015, and short-term debt is $530. What is the amount of net working capital?
A) $1,295
B) $275
C) $1,085
D) $350
E) $400

Answer: B
Explanation: Net working capital = ($2,630 – $1,825) – $530 = $275
Difficulty: 3 Hard
Section: 2.4 Net Working Capital
Topic: Net working capital
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

64) School House Antiques has current assets of $340 and current liabilities of $190 at the end of the year. At the beginning of the year, the current assets were $415 and the current liabilities were $210. What is the change in net working capital?
A) –$95
B) $0
C) $55
D) $95
E) –$55

Answer: E
Explanation: Change in net working capital = ($340 – $190) – ($415 – $210) = –$55
Difficulty: 3 Hard
Section: 2.4 Net Working Capital
Topic: Net working capital
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

65) You are given the following balance sheets.

	2016	2017
Assets		
Cash	$ 101	$ 128
Other current assets	289	307
Net fixed assets	624	631
Total assets	$ 1,014	$ 1,066
Liabilities and Equity		
Accounts payable	$ 123	$ 118
Long-term debt	306	302
Stockholders' equity	585	646
Total liabilities and equity	$ 1,014	$ 1,066

What is the change in the net working capital from 2016 to 2017?
A) $45
B) –$35
C) $50
D) –$50
E) $35

Answer: C
Explanation: Change in net working capital = ($128 + $307 – $118) – ($101 + $289 – $123) = $50
Difficulty: 3 Hard
Section: 2.4 Net Working Capital
Topic: Net working capital
Bloom's: Level 3 Apply
AACSB: Analytical Thinking

66) Charter Tours has the following balance sheets:

	2016	2017
Assets		
Cash	$ 203	$ 197
Accounts receivable	684	726
Inventory	918	1,023
Net fixed assets	2,014	1,989
Total assets	$ 3,819	$ 3,935
Liabilities and Equity		
Accounts payable	$ 748	$ 818
Deferred taxes	306	302
Long-term debt	1,647	1,722
Stockholders' equity	1,118	1,093
Total liabilities and equity	$ 3,819	$ 3,935

What is the amount of net working capital for 2017?
A) $751
B) $1,057
C) $1,128
D) $1,734
E) $826

Answer: C
Explanation: NWC_{2017} = $197 + $726 + $1,023 – $818 = $1,128
Difficulty: 3 Hard
Section: 2.4 Net Working Capital
Topic: Net working capital
Bloom's: Level 3 Apply
AACSB: Analytical Thinking

67) Frederick Antiques has the following balance sheets:

	2016	2017
Assets		
Cash	$ 182	$ 153
Accounts receivable	911	979
Inventory	1,304	1,223
Net fixed assets	2,659	2,037
Total assets	$ 5,056	$ 4,392
Liabilities and Equity		
Accounts payable	$ 1,248	$ 1,318
Deferred taxes	103	97
Long-term debt	2,804	2,607
Stockholders' equity	901	370
Total liabilities and equity	$ 5,056	$ 4,392

What is the change in net working capital?
A) –$118
B) $34
C) $12
D) $144
E) –$112

Answer: E
Explanation: Change in NWC = ($153 + $979 + $1,223 – $1,318) – ($182 + $911 + $1,304 – $1,248) = –$112
Difficulty: 3 Hard
Section: 2.4 Net Working Capital
Topic: Net working capital
Bloom's: Level 3 Apply
AACSB: Analytical Thinking

68) Murphy's Outlet has the following balance sheets:

	2016	2017
Assets		
Cash	$ 214	$ 187
Accounts receivable	1,306	1,259
Inventory	1,847	2,048
Net fixed assets	3,511	3,287
Total assets	$ 6,878	$ 6,781
Liabilities and Equity		
Accounts payable	$ 1,414	$ 1,632
Other current liabilities	624	598
Long-term debt	1,320	1,264
Stockholders' equity	3,520	3,287
Total liabilities and equity	$ 6,878	$ 6,781

What is the change in net working capital?
A) –$65
B) $91
C) $65
D) –$91
E) $57

Answer: A
Explanation: Change in NWC = ($187 + $1,259 + $2,048 – $1,632 – $598) – ($214 + $1,306 + $1,847 – $1,414 – $624) = –$65
Difficulty: 3 Hard
Section: 2.4 Net Working Capital
Topic: Net working capital
Bloom's: Level 3 Apply
AACSB: Analytical Thinking

69) Nel's Place has total sales of $1,456, costs are $782, and depreciation is $115. The tax rate is 34 percent. The firm does not have any interest expense. What is the operating cash flow?
A) $393.08
B) $524.40
C) $501.38
D) $483.94
E) $427.82

Answer: D
Explanation: Earnings before interest and taxes = $1,456 – $782 – $115 = $559
Tax = 0.34($559) = $190.06
Operating cash flow = $559 + $115 – $190.06 = $483.94
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Operating cash flow
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

70) Teddy's Pillows had beginning net fixed assets of $648 and ending net fixed assets of $621. Assets valued at $285 were sold during the year. Depreciation was $76. What is the amount of net capital spending?
A) $334
B) $236
C) $115
D) $49
E) $66

Answer: D
Explanation: Net capital spending = $621 – $648 + $76 = $49
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Capital spending
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

71) At the beginning of the year, Malek Farm's had long-term debt of $687 and total debt of $911. At the end of the year, the long-term debt is $579 and total debt is $898. If $58 of interest was paid during the year, what is the cash flow to the creditors?
A) –$50
B) –$166
C) $71
D) $166
E) $50

Answer: D
Explanation: Cash flow to the creditors = $58 – ($579 – $687) = $166
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to creditors
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

72) Pete's Boats has beginning long-term debt of $647 and ending long-term debt of $749. The beginning and ending total debt balances are $801 and $768, respectively. The interest paid is $54. What is the amount of the cash flow to the creditors?
A) –$10
B) –$48
C) $21
D) $156
E) $87

Answer: B
Explanation: Cash flow to the creditors = $54 – ($749 – $647) = –$48
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to creditors
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

73) Peggy Grey's Cookies has net income of $2,918. The firm pays out 35 percent of the net income to its shareholders as dividends. During the year, the company sold $150 worth of common stock. What is the cash flow to the stockholders?
A) $1,171.30
B) $871.30
C) $2,046.70
D) $1,224.20
E) $1,746.70

Answer: B
Explanation: Cash flow to the stockholders = 0.35($2,918) – $150 = $871.30
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to stockholders
Bloom's: Level 3 Apply
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

74) Thompson's Jet Skis has operating cash flow of $994. Depreciation is $102, taxes are $298, and interest paid is $65. A net total of $82 was paid on long-term debt. The firm spent $481 on fixed assets and increased its net working capital by $32. What is the amount of the cash flow to stockholders?
A) −$104
B) $334
C) $464
D) –$114
E) $138

Answer: B
Explanation: CF(A) = $994 – $32 – $481 = $481
CF(B) = $65 – (–$82) = $147
CF(S) = $481 – $147 = $334
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to stockholders
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

75) You have compiled the following information on the Shoe Store:

	2016	2017
Assets		
Cash	$ 214	$ 187
Accounts receivable	1,306	1,259
Inventory	1,847	2,048
Net fixed assets	3,511	3,287
Total assets	$ 6,878	$ 6,781
Liabilities and Equity		
Accounts payable	$ 1,414	$ 1,632
Other current liabilities	624	598
Long-term debt	1,320	1,264
Stockholders' equity	3,520	3,287
Total liabilities and equity	$ 6,878	$ 6,781
Sales		$ 6,238
Cost of goods sold		2,789
General and administrative		847
Depreciation		415
EBIT		$ 2,187
Interest		90
EBT		$ 2,097
Taxes		713
Net income		$ 1,384

What is the amount of the net capital spending for 2017?
A) $224
B) $639
C) –$224
D) $362
E) $191

Answer: E
Explanation: Net capital spending = $3,287 – $3,511 + $415 = $191
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Capital spending
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

76) You have compiled the following information on Winslow, Inc.:

	2016	2017
Assets		
Cash	$ 298	$ 306
Accounts receivable	3,006	3,422
Inventory	5,210	5,650
Net fixed assets	32,780	36,400
Total assets	$ 41,294	$ 45,778
Liabilities and Equity		
Accounts payable	$ 6,219	$ 6,184
Other current liabilities	1,880	1,625
Long-term debt	17,951	21,991
Stockholders' equity	15,244	15,978
Total liabilities and equity	$ 41,294	$ 45,778
Sales		$ 11,418
Cost of goods sold		6,320
General and administrative		2,419
Depreciation		967
EBIT		$ 1,712
Interest		230
EBT		$ 1,482
Taxes		519
Net income		$ 963

What is the cash flow of the firm, or CF(A), for 2017?
A) –$1,273
B) –$3,581
C) $1,273
D) $2,160
E) $3,414

Answer: B
Explanation: Operating cash flow = $1,712 + $967 – $519 = $2,160
Change in net working capital = ($306 + $3,422 + $5,650 – $6,184 – $1,625) – ($298 + $3,006 + $5,210 – $6,219 – $1,880) = $1,154
Net capital spending = $36,400 – $32,780 + $967 = $4,587
Cash flow of the firm = $2,160 – $1,154 – $4,587 = –$3,581
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow from assets
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

77) You have compiled the following information on Winslow, Inc.:

	2016	2017
Assets		
Cash	$ 298	$ 306
Accounts receivable	3,006	3,422
Inventory	5,210	5,650
Net fixed assets	32,780	36,400
Total assets	$ 41,294	$ 45,778
Liabilities and Equity		
Accounts payable	$ 6,219	$ 6,184
Other current liabilities	1,880	1,625
Long-term debt	17,951	21,991
Stockholders' equity	15,244	15,978
Total liabilities and equity	$ 41,294	$ 45,778

Sales		$ 11,418
Cost of goods sold		6,320
General and administrative		2,419
Depreciation		967
EBIT		$ 1,712
Interest		230
EBT		$ 1,482
Taxes		519
Net income		$ 963

What is the amount of net new borrowing for 2017?
A) $3,750
B) $3,250
C) $3,360
D) $4,040
E) $3,480

Answer: D
Explanation: Net new borrowing = $21,991 – $17,951 = $4,040
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to creditors
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

78) You have compiled the following information on Winslow, Inc.:

	2016	2017
Assets		
Cash	$ 298	$ 306
Accounts receivable	3,006	3,422
Inventory	5,210	5,650
Net fixed assets	32,780	36,400
Total assets	$ 41,294	$ 45,778
Liabilities and Equity		
Accounts payable	$ 6,219	$ 6,184
Other current liabilities	1,880	1,625
Long-term debt	17,951	21,991
Stockholders' equity	15,244	15,978
Total liabilities and equity	$ 41,294	$ 45,778

Sales	$ 11,418
Cost of goods sold	6,320
General and administrative	2,419
Depreciation	967
EBIT	$ 1,712
Interest	230
EBT	$ 1,482
Taxes	519
Net income	$ 963

What is the cash flow to creditors for 2017?
A) $3,650
B) –$4,040
C) $3,350
D) –$4,270
E) –$3,810

Answer: E
Explanation: CF(B) = $230 – ($21,991 – $17,951) = –$3,810
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to creditors
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

79) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is net capital spending for 2017?
A) $1,115
B) $1,028
C) $80
D) $210
E) $946

Answer: B
Explanation: NCS_{2017} = $8,720 – $8,640 + $948 = $1,028
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Capital spending
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

80) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is the operating cash flow for 2017?
A) $3,690
B) $4,203
C) $2,645
D) $5,331
E) $4,807

Answer: B
Explanation: EBIT = $11,317 – $4,618 – $984 – $948 = $4,767
OCF = $4,767 + $948 – $1,512 = $4,203
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Operating cash flow
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

81) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is the cash flow of the firm, CF(A), for 2017?
A) $3,050
B) $2,813
C) $3,297
D) $3,147
E) $2,978

Answer: E
Explanation: EBIT = $11,317 – $4,618 – $984 – $948 = $4,767
OCF = $4,767 + $948 – $1,512 = $4,203
Additions to net working capital = ($97 + $2,960 + $5,138 – $3,209) – ($138 + $2,780 + $5,209 – $3,338) = $197
Net capital spending = $8,720 – $8,640 + $948 = $1,028
CF(A) = $4,203 – $197 – $1,028 = $2,978
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow from assets
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

82) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is the cash flow to creditors, CF(B), for 2017?
A) $400
B) –$915
C) $720
D) –$80
E) $915

Answer: C
Explanation: Cash flow to creditors or CF(B) = $320 – ($3,800 – $4,200) = $720
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to creditors
Bloom's: Level 3 Apply
AACSB: Analytical Thinking

83) The financial information on Lazy Day, Inc. is as follows:

	2016	2017
Cash	$ 138	$ 97
Sales	10,204	11,317
Inventory	5,209	5,138
Depreciation	956	948
Cost of goods sold	4,207	4,618
Accounts payable	3,338	3,209
Long-term debt	4,200	3,800
Shareholders' equity	9,229	9,906
Accounts receivable	2,780	2,960
Net fixed assets	8,640	8,720
Interest expense	350	320
Selling and administrative expenses	1,015	984
Taxes	1,250	1,512

What is the cash flow to stockholders, CF(S), for 2017?
A) $3,058
B) $2,063
C) $2,258
D) $2,428
E) $3,698

Answer: C
Explanation: EBIT = $11,317 – $4,618 – $984 – $948 = $4,767
OCF = $4,767 + $948 – $1,512 = $4,203
Additions to net working capital = ($97 + $2,960 + $5,138 – $3,209) – ($138 + $2,780 + $5,209 – $3,338) = $197
Net capital spending = $8,720 – $8,640 + $948 = $1,028
CF(A) = $4,203 – $197 – $1,028 = $2,978
CF(B) = $320 – ($3,800 – $4,200) = $720
CF(C) = $2,978 – $720 = $2,258
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to stockholders
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking

84) Pineapple Express has selling and administrative expenses of $2,618, costs of goods sold of $24,318, depreciation of $915, and an interest expense of $520. The firm paid $150 in dividends and added $384 to retained earnings for the year. What is the firm's operating cash flow if the tax rate is 35 percent?

What is the operating cash flow?
A) $1,823.14
B) $2,072.12
C) $1,969.00
D) $2,516.48
E) $2,208.15

Answer: C
Explanation: Net income = $150 + $384 = $534
Taxable income = $534 / (1 – 0.35) = $821.54
Tax = 0.35($821.54) = $287.54
Earnings before interest and taxes = $821.54 + $520 = $1,341.54
Operating cash flow = $1,341.54 + $915 – $287.54 = $1,969.00
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Operating cash flow
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

85) Whistler's sales for this past year were $21,381. The interest expense was $248, costs of goods sold were $9,784, selling and general expenses were $1,208, depreciation was $811, and the addition to retained earnings was $325. The firm sold $500 of new stock shares and repurchased $125 of outstanding shares.

What was the cash flow to stockholders if the tax rate was 34 percent?
A) $725.50
B) $670.25
C) $202.72
D) $208.28
E) $235.55

Answer: D
Explanation: Taxable income = $21,381 – $9,784 – $1,208 – $811 – $248 = $9,330
Taxes = 0.34($9,330) = $3,172.20
Dividends paid = $9,330 – $3,172.20 – $325 = $583.28
CF(S) = $583.28 + $125 – $500 = $208.28
Difficulty: 3 Hard
Section: 2.5 Cash Flow of the Firm
Topic: Cash flow to stockholders
Bloom's: Level 4 Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation