

M Finance 4th edition Cornett Test Bank

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MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Which financial statement reports a firm's assets, liabilities, and equity at a particular point in time?

- A) balance sheet
- B) statement of cash flows
- C) statement of retained earnings
- D) income statement

Answer: A

Which financial statement shows the total revenues that a firm earns and the total expenses the firm incurs to generate those revenues over a specific period of time—generally one year?

- A) statement of cash flows
- B) income statement
- C) statement of retained earnings
- D) balance sheet

Answer: B

Which financial statement reports the amounts of cash that the firm generated and distributed during a particular time period?

- A) balance sheet
- B) statement of cash flows
- C) income statement
- D) statement of retained earnings

Answer: B

Which financial statement reconciles net income earned during a given period and any cash dividends paid within that period using the change in retained earnings between the beginning and end of the period?

- A) statement of cash flows
- B) statement of retained earnings
- C) income statement
- D) balance sheet

Answer: B

On which of the four major financial statements would you find the common stock and paid-in surplus?

- A) statement of retained earnings
- B) income statement
- C) balance sheet
- D) statement of cash flows

Answer: C

On which of the four major financial statements would you find the increase in inventory?

- A) statement of retained earnings
- B) balance sheet
- C) income statement
- D) statement of cash flows

Answer: D

On which of the four major financial statements would you find net plant and equipment?

- A) income statement
- B) statement of retained earnings
- C) statement of cash flows
- D) balance sheet

Answer: D

Financial statements of publicly traded firms can be found in a number of places. Which of the following is *NOT* an option for finding publicly traded firms' financial statements?

- A) a firm's website
- B) Facebook
- C) websites such as finance.yahoo.com
- D) Securities and Exchange Commission's (SEC) website

Answer: B

For which of the following would one expect the book value of the asset to differ widely from its market value?

- A) fixed assets
- B) inventory
- C) cash
- D) accounts receivable

Answer: A

Common stockholders' calculating equity divided by number of shares of common stock outstanding is the formula for

- A) book value per share (BVPS).
- B) dividends per share (DPS).
- C) earnings per share (EPS).
- D) market value per share (MVPS).

Answer: A

When a firm alters its capital structure to include more or less debt (and, in turn, less or more equity), it impacts which of the following?

- A) the residual cash flows available for stockholders
- B) the earnings per share (EPS)
- C) the number of shares of stock outstanding
- D) all of these choices are correct.

Answer: D

This is the amount of additional taxes a firm must pay out for every additional dollar of taxable income it *earns*.

- A) marginal tax rate
- B) progressive tax system
- C) average tax rate
- D) earnings before tax

Answer: A

An equity-financed firm will

- A) pay the same in income taxes as a debt-finance firm.
- B) pay more in income taxes than a debt-financed firm.
- C) pay less in income taxes than a debt-financed firm.
- D) not pay any income taxes.

Answer: B

Deferred taxes occur when a company postpones taxes on profits pertaining to

- A) tax years they are under an audit by the Internal Revenue Service.
- B) a loss they intend to carry back or carry forward on their income tax returns.
- C) funds they have not collected because they use the accrual method of accounting.
- D) a particular period as they end up postponing part of their tax liability on this year's profits to future years.

Answer: D

Net operating profit after taxes (NOPAT) is defined as which of the following?

- A) net profit a firm earns after taxes, but before any financing costs
- B) net profit a firm earns before taxes, but after any financing costs
- C) net profit a firm earns before taxes, and before any financing cost
- D) net profit a firm earns after taxes, and after any financing cost

Answer: A

This is cash flow available for payments to stockholders and debt holders of a firm after the firm has made investments in assets necessary to sustain the ongoing operations of the firm.

- A) free cash flow
- B) net income available to common stockholders
- C) cash flow from operations
- D) net cash flow

Answer: A

Which of the following activities result in an increase in a firm's cash?

- A) decrease accounts payable
- B) decrease fixed assets
- C) repurchase of common stock
- D) pay dividends

Answer: B

These are cash inflows and outflows associated with buying and selling of fixed or other long-term assets.

- A) cash flows from operations
- B) cash flows from financing activities
- C) cash flows from investing activities
- D) net change in cash and cash equivalents

Answer: C

If a company reports a large amount of net income on its income statement during a year, the firm will have

- A) zero cash flow.
- B) negative cash flow.
- C) positive cash flow.
- D) all of these choices are correct.

Answer: D

Free cash flow is defined as

- A) cash flows available for payments to stockholders and debt holders of a firm that would be tax-free to the recipients.
- B) cash flows available for payments to stockholders of a firm after the firm has made payments to all others with claims against it.
- C) cash flows available for payments to stockholders and debt holders of a firm after the firm has made investments in assets necessary to sustain the ongoing operations of the firm.
- D) cash flows available for payments to stockholders and debt holders of a firm after the firm has made payments necessary to vendors.

Answer: C

The Sarbanes-Oxley Act requires public companies to ensure which of the following individuals have considerable experience applying generally accepted accounting principles (GAAP) for financial statements?

- A) chief financial officers
- B) internal auditors
- C) external auditors
- D) corporate boards' audit committees

Answer: D

You are evaluating the balance sheet for Campus Corporation. From the balance sheet you find the following balances: cash and marketable securities = \$400,000, accounts receivable = \$200,000, inventory = \$100,000, accrued wages and taxes = \$10,000, accounts payable = \$300,000, and notes payable = \$600,000. What is Campus's net working capital?

- A) \$910,000
- B) \$700,000
- C) -\$210,000
- D) \$1,610,000

Answer: C

Jack and Jill Corporation's year-end 2018 balance sheet lists current assets of \$250,000, fixed assets of \$800,000, current liabilities of \$195,000, and long-term debt of \$300,000. What is Jack and Jill's total stockholders' equity?

- A) \$555,000
- B) \$1,050,000
- C) \$495,000
- D) There is not enough information to calculate total stockholders' equity.

Answer: A

Bullseye, Inc.'s 2018 income statement lists the following income and expenses: EBIT = \$900,000, interest expense = \$85,000, and net income = \$570,000. What are the 2018 taxes reported on the income statement?

- A) \$815,000
- B) \$245,000
- C) \$330,000
- D) There is not enough information to calculate 2018 taxes.

Answer: B

Consider a firm with an EBIT of \$500,000. The firm finances its assets with \$2,000,000 debt (costing 6 percent) and 50,000 shares of stock selling at \$20.00 per share. To reduce the firm's risk associated with this financial leverage, the firm is considering reducing its debt by \$1,000,000 by selling an additional 50,000 shares of stock. The firm is in the 40 percent tax bracket. The change in capital structure will have no effect on the operations of the firm. Thus, EBIT will remain \$500,000. What is the change in the firm's EPS from this change in capital structure?

- A) decrease EPS by \$3.20
- B) decrease EPS by \$1.68
- C) decrease EPS by \$1.92
- D) increase EPS by \$0.72

Answer: C

Consider a firm with an EBIT of \$5,000,000. The firm finances its assets with \$20,000,000 debt (costing 5 percent) and 70,000 shares of stock selling at \$50.00 per share. To reduce the firm's risk associated with this financial leverage, the firm is considering reducing its debt by \$5,000,000 by selling an additional 100,000 shares of stock. The firm is in the 40 percent tax bracket. The change in capital structure will have no effect on the operations of the firm. Thus, EBIT will remain \$5,000,000. What is the change in the firm's EPS from this change in capital structure?

- A) decrease EPS by \$18.70
- B) decrease EPS by \$9.29
- C) decrease EPS by \$19.29
- D) increase EPS by \$2.14

Answer: C

Barnyard, Inc.'s 2018 income statement lists the following income and expenses: EBIT = \$500,000, interest expense = \$45,000, and taxes = \$152,000. Barnyard's has no preferred stock outstanding and 200,000 shares of common stock outstanding. What are its 2018 earnings per share?

- A) \$2.275
- B) \$2.50
- C) \$1.515
- D) \$1.74

Answer: C

Eccentricity, Inc. had \$300,000 in 2018 taxable income. Using the tax schedule from Table 2.3, what are the company's 2018 income taxes, average tax rate, and marginal tax rate, respectively?

Taxable income	Pay this amount on Base income	Plus this percentage on anything over the base
\$0 – \$50,000	\$ 0	15 %
\$50,001 – \$75,000	\$ 7,500	25 %
\$75,001 – \$100,000	\$ 13,750	34 %
\$100,001 – \$335,000	\$ 22,250	39 %
\$335,000 – \$10,000,000	\$ 113,900	34 %

- A) \$22,250, 7.42%, 39%
- B) \$100,250, 33.42%, 39%
- C) \$78,000, 26.00%, 39%
- D) \$139,250, 46.42%, 39%

Answer: B

Swimmy, Inc. had \$400,000 in 2018 taxable income. Using the tax schedule from Table 2.3, what are the company's 2018 income taxes, average tax rate, and marginal tax rate, respectively?

Taxable income	Pay this amount on Base income	Plus this percentage on anything over the base
\$0 – \$50,000	\$ 0	15 %
\$50,001 – \$75,000	\$ 7,500	25 %
\$75,001 – \$100,000	\$ 13,750	34 %
\$100,001 – \$335,000	\$ 22,250	29 %
\$335,000 – \$10,000,000	\$ 113,900	34 %

- A) \$113,900, 28.48%, 34%
- B) \$136,000, 34.00%, 34%
- C) \$136,000, 39.00%, 34%
- D) \$22,100, 5.53%, 34%

Answer: B

Scuba, Inc. is concerned about the taxes paid by the company in 2018. In addition to \$5 million of taxable income, the firm received \$80,000 of interest on state-issued bonds and \$500,000 of dividends on common stock it owns in Boating Adventures, Inc. What are Scuba's tax liability, average tax rate, and marginal tax rate, respectively?

- A) \$1,637,100, 31.79%, 34%
- B) \$1,870,000, 34.00%, 34%
- C) \$1,751,000, 34.00%, 34%
- D) \$1,983,900, 36.07%, 34%

Answer: C

Paige's Properties Inc. reported 2018 net income of \$5 million and depreciation of \$1,500,000. The top part Paige's Properties, Inc.'s 2017 and 2018 balance sheets is listed as follows (in millions of dollars).

Current assets	2017	2018	Current liabilities	2017	2018
Cash and marketable securities	\$ 10	\$ 20	Accrued wages and taxes	\$ 5	\$ 11
Accounts receivable	20	34	Accounts payable	25	29
Inventory	10	11	Notes payable	10	25
Total	<u>\$ 40</u>	<u>\$ 65</u>	Total	<u>\$ 40</u>	<u>\$ 65</u>

What is the 2018 net cash flow from operating activities for Paige's Properties, Inc.?

- A) -\$13,500,000
- B) \$6,500,000
- C) \$1,500,000
- D) \$5,000,000

Answer: C

In 2018, Upper Crust had cash flows from investing activities of (\$250,000) and cash flows from financing activities of (\$150,000). The balance in the firm's cash account was \$90,000 at the beginning of 2018 and \$105,000 at the end of the year. What was Upper Crust's cash flow from operations for 2018?

- A) \$105,000
- B) \$400,000
- C) \$415,000
- D) \$15,000

Answer: C

In 2018, Lower Case Productions had cash flows from investing activities of +\$50,000 and cash flows from financing activities of +\$100,000. The balance in the firm's cash account was \$80,000 at the beginning of 2018 and \$65,000 at the end of the year. What was Lower Case's cash flow from operations for 2018?

- A) -\$150,000
- B) -\$165,000
- C) -\$65,000
- D) -\$15,000

Answer: B

You are considering an investment in Crew Cut, Inc. and want to evaluate the firm's free cash flow. From the income statement, you see that Crew Cut earned an EBIT of \$23 million, paid taxes of \$4 million, and its depreciation expense was \$8 million. Crew Cut's gross fixed assets increased by \$10 million from 2017 to 2018. The firm's current assets increased by \$6 million and spontaneous current liabilities increased by \$4 million. What is Crew Cut's operating cash flow, investment in operating capital and free cash flow for 2018, respectively in millions?

- A) \$27, \$10, \$17
- B) \$23, \$12, \$11
- C) \$27, \$12, \$15
- D) \$23, \$10, \$13

Answer: C

You are considering an investment in Cruise, Inc. and want to evaluate the firm's free cash flow. From the income statement, you see that Cruise earned an EBIT of \$202 million, paid taxes of \$51 million, and its depreciation expense was \$75 million. Cruise's gross fixed assets increased by \$70 million from 2017 to 2018. The firm's current assets decreased by \$10 million and spontaneous current liabilities increased by \$6 million. What is Cruise's operating cash flow, investment in operating capital, and free cash flow for 2018, respectively, in millions?

- A) \$202, \$70, \$130
- B) \$226, \$54, \$172
- C) \$226, \$74, \$152
- D) \$226, \$70, \$156

Answer: B

Catering Corp. reported free cash flows for 2018 of \$8 million and investment in operating capital of \$2 million. Catering listed \$1 million in depreciation expense and \$2 million in taxes on its 2018 income statement. What was Catering's 2018 EBIT?

- A) \$11 million
- B) \$13 million
- C) \$7 million
- D) \$10 million

Answer: A

TriCycle, Corp. began the year 2018 with \$25 million in retained earnings. The firm earned net income of \$7 million in 2018 and paid \$1 million to its preferred stockholders and \$3 million to its common stockholders. What is the year-end 2018 balance in retained earnings for TriCycle?

- A) \$28 million
- B) \$25 million
- C) \$36 million
- D) \$32 million

Answer: A

Night Scapes, Corp. began the year 2018 with \$10 million in retained earnings. The firm suffered a net loss of \$2 million in 2018 and yet paid \$2 million to its preferred stockholders and \$1 million to its common stockholders. What is the year-end 2018 balance in retained earnings for Night Scapes?

- A) \$9 million
- B) \$5 million
- C) \$8 million
- D) \$15 million

Answer: B

Use the following information to find dividends paid to common stockholders during 2018.

Balance of Retained Earnings, December 31, 2017	\$ 52 m
Plus: Net Income for 2018	21 m
Less: Cash Dividends Paid	
Preferred Stock	\$ 7 m
Common Stock	<u>10 m</u>
Total Cash Dividends Paid	17 m
Balance of Retained Earnings, December 31, 2018	<u>\$ 56 m</u>

- A) \$4 million
- B) \$10 million
- C) \$17 million
- D) \$3 million

Answer: B

Harvey's Hamburger Stand has total assets of \$3 million of which \$1 million are current assets. Cash makes up 20 percent of the current assets and accounts receivable makes up another 5 percent of current assets. Harvey's gross plant and equipment has a book value of \$1.5 million and other long-term assets have a book value of \$1 million. Using this information, what is the balance of inventory and the balance of depreciation on Harvey's Hamburger Stand's balance sheet?

- A) \$750,000, \$500,000
- B) \$750,000, \$1 million
- C) \$250,000, \$500,000
- D) \$250,000, \$1 million

Answer: A

School Books, Inc. has total assets of \$18 million of which \$6 million are current assets. Cash makes up 10 percent of the current assets and accounts receivable makes up another 40 percent of current assets. School Books' gross plant and equipment has an original cost of \$13 million and other long-term assets have a cost value of \$2 million. Using this information, what are the balance of inventory and the balance of depreciation on School Books' balance sheet?

- A) \$2.4 million, \$2 million
- B) \$3 million, \$2 million
- C) \$2.4 million, \$3 million
- D) \$3 million, \$3 million

Answer: D

Ted's Taco Shop has total assets of \$5 million. Forty percent of these assets are financed with debt of which \$400,000 is current liabilities. The firm has no preferred stock but the balance in common stock and paid-in surplus is \$1 million. Using this information what is the balance for long-term debt and retained earnings on Ted's Taco Shop's balance sheet?

- A) \$1.6 million, \$3 million
- B) \$1.6 million, \$2 million
- C) \$400,000, \$1 million
- D) \$2 million, \$3 million

Answer: B

Hair Etc. has total assets of \$15 million. Twenty percent of these assets are financed with debt of which \$1 million is current liabilities. The firm has no preferred stock but the balance in common stock and paid-in surplus is \$8 million. Using this information what is the balance for long-term debt and retained earnings on Hair Etc.'s balance sheet?

- A) \$2 million, \$8 million
- B) \$1 million, \$8 million
- C) \$3 million, \$4 million
- D) \$2 million, \$4 million

Answer: D

Acme Bricks balance sheet lists net fixed assets as \$40 million. The fixed assets could currently be sold for \$50 million. Acme's current balance sheet shows current liabilities of \$15 million and net working capital of \$12 million. If all the current accounts were liquidated today, the company would receive \$77 million cash after paying \$15 million in liabilities. What is the book value of Acme's assets today? What is the market value of these assets?

- A) \$27 million, \$92 million
- B) \$67 million, \$142 million
- C) \$40 million, \$50 million
- D) \$12 million, \$77 million

Answer: B

Glo's Glasses balance sheet lists net fixed assets as \$20 million. The fixed assets could currently be sold for \$25 million. Glo's current balance sheet shows current liabilities of \$7 million and net working capital of \$3 million. If all the current accounts were liquidated today, the company would receive \$9 million cash after paying \$7 million in liabilities. What is the book value of Glo's assets today? What is the market value of these assets?

- A) \$10 million, \$16 million
- B) \$30 million, \$35 million
- C) \$30 million, \$41 million
- D) \$10 million, \$35 million

Answer: C

Rupert's Rims balance sheet lists net fixed assets as \$15 million. The fixed assets could currently be sold for \$17 million. Rupert's current balance sheet shows current liabilities of \$5 million and net working capital of \$3 million. If all the current accounts were liquidated today, the company would receive \$6 million cash after paying \$5 million in liabilities. What is the book value of Rupert's assets today? What is the market value of these assets?

- A) \$23 million, \$25 million
- B) \$31 million, \$28 million
- C) \$8 million, \$23 million
- D) \$23 million, \$28 million

Answer: D

You are considering a stock investment in one of two firms (AllDebt, Inc. and AllEquity, Inc.), both of which operate in the same industry and have identical operating income of \$600,000. AllDebt, Inc. finances its \$1.2 million in assets with \$1 million in debt (on which it pays 10 percent interest annually) and \$0.2 million in equity. AllEquity, Inc. finances its \$1.2 million in assets with no debt and \$1.2 million in equity. Both firms pay a tax rate of 30 percent on their taxable income. What are the asset funders' (the debt holders and stockholders) resulting return on assets for the two firms?

- A) 29.17%, and 35%, respectively
- B) 37.5%, and 37.5%, respectively
- C) 37.5%, and 35%, respectively
- D) 50%, and 50%, respectively

Answer: C

You are considering a stock investment in one of two firms (AllDebt, Inc. and AllEquity, Inc.), both of which operate in the same industry and have identical operating income of \$3 million. AllDebt, Inc. finances its \$6 million in assets with \$5 million in debt (on which it pays 5 percent interest annually) and \$1 million in equity. AllEquity, Inc. finances its \$6 million in assets with no debt and \$6 million in equity. Both firms pay a tax rate of 40 percent on their taxable income. What are the asset funders' (the debt holders and stockholders) resulting return on assets for the two firms?

- A) 33%, and 30%, respectively
- B) 50%, and 50%, respectively
- C) 31.67%, and 30%, respectively
- D) 27.5%, and 30%, respectively

Answer: C

You are considering a stock investment in one of two firms (AllDebt, Inc. and AllEquity, Inc.), both of which operate in the same industry and have identical operating income of \$400,000. AllDebt, Inc. finances its \$800,000 in assets with \$600,000 in debt (on which it pays 5 percent interest annually) and \$200,000 in equity. AllEquity, Inc. finances its \$800,000 in assets with no debt and \$800,000 in equity. Both firms pay a tax rate of 30 percent on their taxable income. What are the asset funders' (the debt holders and stockholders) resulting return on assets for the two firms?

- A) 32.375%, and 35.00%, respectively
- B) 36.125%, and 35.00%, respectively
- C) 50%, and 50%, respectively
- D) 46.25%, and 50%, respectively

Answer: B

You have been given the following information for Fina's Furniture Corp.: Net sales = \$25,500,000; Cost of goods sold = \$10,250,000; Addition to retained earnings = \$305,000; Dividends paid to preferred and common stockholders = \$500,000; Interest expense = \$2,000,000. The firm's tax rate is 30 percent. What is the depreciation expense for Fina's Furniture Corp.?

- A) \$14,100,000
- B) \$12,100,000
- C) \$14,400,000
- D) \$12,400,000

Answer: B

You have been given the following information for Romeo's Rockers Corp.: Net sales = \$5,200,000; Cost of goods sold = \$2,100,000; Addition to retained earnings = \$1,000,000; Dividends paid to preferred and common stockholders = \$400,000; Interest expense = \$200,000. The firm's tax rate is 30 percent. What is the depreciation expense for Romeo's Rockers Corp.?

- A) \$1,600,000
- B) \$1,100,000
- C) \$1,500,000
- D) \$900,000

Answer: D

You have been given the following information for Nicole's Neckties Corp.: Net sales = \$2,500,000; Cost of goods sold = \$1,300,000; Addition to retained earnings = \$30,000; Dividends paid to preferred and common stockholders = \$300,000; Interest expense = \$50,000. The firm's tax rate is 40 percent. What is the depreciation expense for Nicole's Neckties Corp.?

- A) \$550,000
- B) \$650,000
- C) \$600,000
- D) \$820,000

Answer: C

You have been given the following information for Sherry's Sandwich Corp.: Net sales = \$300,000; Gross profit = \$100,000; Addition to retained earnings = \$30,000; Dividends paid to preferred and common stockholders = \$8,500; Depreciation expense = \$25,000. The firm's tax rate is 30 percent. What are the cost of goods sold and the interest expense for Sherry's Sandwich Corp.?

- A) \$200,000, and \$20,000, respectively
- B) \$200,000, and \$36,500, respectively
- C) \$100,000, and \$20,000, respectively
- D) \$20,000, and \$200,000, respectively

Answer: A

You have been given the following information for Kaye's Krumpet Corp.: Net sales = \$150,000; Gross profit = \$100,000; Addition to retained earnings = \$20,000; Dividends paid to preferred and common stockholders = \$8,000; Depreciation expense = \$50,000. The firm's tax rate is 30 percent. What are the cost of goods sold and the interest expense for Kaye's Krumpet Corp.?

- A) \$10,000, and \$50,000, respectively
- B) \$50,000, and \$22,000, respectively
- C) \$50,000, and \$10,000, respectively
- D) \$62,000, and \$10,000, respectively

Answer: C

You have been given the following information for Ross's Rocket Corp.: Net sales = \$1,000,000; Gross profit = \$400,000; Addition to retained earnings = \$60,000; Dividends paid to preferred and common stockholders = \$90,000; Depreciation expense = \$50,000. The firm's tax rate is 40 percent. What are the cost of goods sold and the interest expense for Ross's Rocket Corp.?

- A) \$600,000, and \$200,000, respectively
- B) \$600,000, and \$100,000, respectively
- C) \$100,000, and \$600,000, respectively
- D) \$700,000, and \$100,000, respectively

Answer: B

The Carolina Corporation had a 2018 taxable income of \$3,000,000 from operations after all operating costs but before

- (1) interest charges of \$500,000,
- (2) dividends received of \$75,000,
- (3) dividends paid of \$1,000,000, and
- (4) income taxes.

Using the tax schedule in Table 2.3, what is Carolina's income tax liability? What are Carolina's average and marginal tax rates on taxable income from operations?

- A) \$1,020,000, 34.00%, 34%, respectively
- B) \$875,500, 34.00%, 34%, respectively
- C) \$857,650, 28.59%, 34%, respectively
- D) \$875,500, 29.18%, 34%, respectively

Answer: C

The Ohio Corporation had a 2018 taxable income of \$50,000,000 from operations after all operating costs but before

- (1) interest charges of \$500,000,
- (2) dividends received of \$45,000,
- (3) dividends paid of \$10,000,000, and
- (4) income taxes.

Using the tax schedule in Table 2.3, what is Ohio's income tax liability? What are Ohio's average and marginal tax rates on taxable income from operations?

- A) \$17,329,725, 34.66%, 35%, respectively
- B) \$6,416,667, 12.83%, 35%, respectively
- C) \$13,829,725, 27.66%, 35%, respectively
- D) \$17,340,750, 34.68%, 35%, respectively

Answer: A

The Sasnak Corporation had a 2018 taxable income of \$4,450,000 from operations after all operating costs but before

- (1) interest charges of \$750,000,
- (2) dividends received of \$900,000,
- (3) dividends paid of \$500,000, and
- (4) income taxes.

Using the tax schedule in Table 2.3, what is Sasnak's income tax liability? What are Sasnak's average and marginal tax rates on taxable income from operations?

- A) \$1,564,000, 34.00%, 34%, respectively
- B) \$1,349,800, 30.33%, 34%, respectively
- C) \$1,349,800, 34.00%, 34%, respectively
- D) \$1,564,000, 35.15%, 34%, respectively

Answer: B

The AOK Corporation had a 2018 taxable income of \$2,200,000 from operations after all operating costs but before

- (1) interest charges of \$90,000,
- (2) dividends received of \$750,000,
- (3) dividends paid of \$80,000, and
- (4) income taxes.

Using the tax schedule in Table 2.3, what is AOK's income tax liability? What are AOK's average and marginal tax rates on taxable income from operations?

- A) \$972,400, 34%, 34%, respectively
- B) \$793,900, 34%, 34%, respectively
- C) \$793,900, 36.0864%, 34%, respectively
- D) \$972,400, 44.2%, 34%, respectively

Answer: C

Suppose that in addition to the \$5.5 million of taxable income from operations, Emily's Flowers, Inc. received \$500,000 of interest on state-issued bonds and \$300,000 of dividends on common stock it owns in Amy's Iris Bulbs, Inc. Using the tax schedule in Table 2.3 what is Emily's Flowers' income tax liability? What are Emily's Flowers' average and marginal tax rates on total taxable income?

- A) \$1,972,000, 34%, 34%, respectively
- B) \$1,900,600, 34%, 34%, respectively
- C) \$2,142,000, 34%, 34%, respectively
- D) \$2,070,600, 34%, 34%, respectively

Answer: B

Suppose that in addition to the \$300,000 of taxable income from operations, Liam's Burgers, Inc. received \$25,000 of interest on state-issued bonds and \$50,000 of dividends on common stock it owns in Sodas, Inc. Using the tax schedule in Table 2.3 what is Liam's income tax liability? What are Liam's average and marginal tax rates on total taxable income?

- A) \$129,500, 34.53%, 39%, respectively
- B) \$122,850, 39.00%, 39%, respectively
- C) \$106,100, 33.68%, 39%, respectively
- D) \$139,250, 37.13%, 39%, respectively

Answer: C

Fina's Faucets, Inc. has net cash flows from operating activities for the last year of \$17 million. The income statement shows that net income is \$15 million and depreciation expense is \$6 million. During the year, the change in inventory on the balance sheet was an increase of \$4 million, change in accrued wages and taxes was an increase of \$1 million and change in accounts payable was an increase of \$1 million. At the beginning of the year the balance of accounts receivable was \$5 million. What was the end of year balance for accounts receivable?

- A) \$2 million
- B) \$9 million
- C) \$3 million
- D) \$7 million

Answer: D

Zoe's Dog Biscuits, Inc. has net cash flows from operating activities for the last year of \$226 million. The income statement shows that net income is \$150 million and depreciation expense is \$85 million. During the year, the change in inventory on the balance sheet was an increase of \$14 million, change in accrued wages and taxes was an increase of \$15 million and change in accounts payable was an increase of \$10 million. At the beginning of the year the balance of accounts receivable was \$45 million. What was the end of year balance for accounts receivable?

- A) \$25 million
- B) \$65 million
- C) \$20 million
- D) \$45 million

Answer: B

Nickolas's Nut Farms, Inc. has net cash flows from operating activities for the last year of \$25 million. The income statement shows that net income is \$15 million and depreciation expense is \$6 million. During the year, the change in inventory on the balance sheet was a decrease of \$4 million, change in accrued wages and taxes was a decrease of \$1 million and change in accounts payable was a decrease of \$1 million. At the beginning of the year the balance of accounts receivable was \$5 million. What was the end of year balance for accounts receivable?

- A) \$9 million
- B) \$7 million
- C) \$2 million
- D) \$3 million

Answer: D

Crispy Corporation has net cash flow from financing activities for the last year of \$20 million. The company paid \$5 million in dividends last year. During the year, the change in notes payable on the balance sheet was an increase of \$2 million, and change in common and preferred stock was an increase of \$3 million. The end of year balance for long-term debt was \$45 million. What was their beginning of year balance for long-term debt?

- A) \$20 million
- B) \$35 million
- C) \$15 million
- D) \$25 million

Answer: D

Full Moon Productions Inc. has net cash flow from financing activities for the last year of \$105 million. The company paid \$15 million in dividends last year. During the year, the change in notes payable on the balance sheet was an increase of \$40 million, and change in common and preferred stock was an increase of \$50 million. The end of year balance for long-term debt was \$50 million. What was their beginning of year balance for long-term debt?

- A) \$30 million
- B) \$5 million
- C) \$20 million
- D) \$35 million

Answer: C

Café Creations Inc. has net cash flow from financing activities for the last year of \$25 million. The company paid \$15 million in dividends last year. During the year, the change in notes payable on the balance sheet was a decrease of \$40 million, and change in common and preferred stock was an increase of \$50 million. The end of year balance for long-term debt was \$40 million. What was their beginning of year balance for long-term debt?

- A) \$40 million
- B) \$20 million
- C) \$10 million
- D) \$30 million

Answer: C

The 2010 income statement for Pete's Pumpkins shows that depreciation expense is \$250 million, EBIT is \$500 million, EBT is \$320 million, and the tax rate is 30 percent. At the beginning of the year, the balance of gross fixed assets was \$1,600 million and net operating working capital was \$640 million. At the end of the year gross fixed assets was \$2,000 million. Pete's free cash flow for the year was \$630 million. What is their end of year balance for net operating working capital?

- A) \$264 million
- B) \$24 million
- C) \$654 million
- D) \$1,064 million

Answer: A

The 2018 income statement for Lou's Shoes shows that depreciation expense is \$2 million, EBIT is \$5 million, EBT is \$3 million, and the tax rate is 40 percent. At the beginning of the year, the balance of gross fixed assets was \$16 million and net operating working capital was \$6 million. At the end of the year gross fixed assets was \$20 million. Lou's free cash flow for the year was \$4 million. What is their end of year balance for net operating working capital?

- A) \$5.8 million
- B) \$12.2 million
- C) \$3.8 million
- D) \$1.8 million

Answer: C

The 2018 income statement for Paige's Purses shows that depreciation expense is \$10 million, EBIT is \$25 million, EBT is \$15 million, and the tax rate is 30 percent. At the beginning of the year, the balance of gross fixed assets was \$80 million and net operating working capital was \$30 million. At the end of the year gross fixed assets was \$100 million. Paige's free cash flow for the year was \$20 million. What is their end of year balance for net operating working capital?

- A) \$14 million
- B) \$20.5 million
- C) \$30.5 million
- D) \$10.5 million

Answer: B

The 2018 income statement for Betty's Barstools shows that depreciation expense is \$100 million, EBIT is \$400 million, and taxes are \$120 million. At the end of the year, the balance of gross fixed assets was \$510 million. The increase in net operating working capital during the year was \$94 million. Betty's free cash flow for the year was \$625 million. What was the beginning of year balance for gross fixed assets?

- A) \$1,094 million
- B) \$849 million
- C) \$359 million
- D) \$380 million

Answer: B

The 2018 income statement for John's Gym shows that depreciation expense is \$20 million, EBIT is \$80 million, and taxes are \$24 million. At the end of the year, the balance of gross fixed assets was \$102 million. The increase in net operating working capital during the year was \$18 million. John's free cash flow for the year was \$41 million. What was the beginning of year balance for gross fixed assets?

- A) \$163 million
- B) \$85 million
- C) \$84 million
- D) \$43 million

Answer: B

Bike and Hike, Inc. started the year with a balance of retained earnings of \$100 million and ended the year with retained earnings of \$128 million. The company paid dividends of \$9 million to the preferred stock holders and \$22 million to common stock holders. What was Bike and Hike's net income for the year?

- A) \$31 million
- B) \$128 million
- C) \$59 million
- D) \$28 million

Answer: C

Soccer Starz, Inc. started the year with a balance of retained earnings of \$25 million and ended the year with retained earnings of \$32 million. The company paid dividends of \$2 million to the preferred stock holders and \$6 million to common stock holders. What was Soccer Starz's net income for the year?

- A) \$40 million
- B) \$15 million
- C) \$7 million
- D) \$49 million

Answer: B

Jamaican Ice Cream Corp. started the year with a balance of retained earnings of \$100 million. The company reported net income for the year of \$45 million, paid dividends of \$2 million to the preferred stock holders and \$15 million to common stock holders. What is Jamaican Ice Cream's end of year balance in retained earnings?

- A) \$128 million
- B) \$162 million
- C) \$38 million
- D) \$55 million

Answer: A

The following is the 2018 income statement for Lamps, Inc.

Lamps, INC. Income Statement for Year Ending December 31, 2018 (in millions of dollars)	
Net sales	\$ 100
Less: Cost of goods sold	80
Gross profits	<u>\$ 20</u>
Less: Depreciation	5
Earnings before interest and taxes (EBIT)	<u>15</u>
Less: Interest	2
Earnings before taxes (EBT)	<u>\$ 13</u>
Less: Taxes	5
Net income	<u>\$ 8</u>

The CEO of Lamps wants the company to earn a net income of \$12 million in 2018. Cost of goods sold is expected to be 75 percent of net sales, depreciation expense is not expected to change, interest expense is expected to increase to \$4 million, and the firm's tax rate will be 40 percent. What is the net sales needed to produce net income of \$12 million?

- A) \$112 million
- B) \$124 million
- C) \$29 million
- D) \$116 million

Answer: D

You have been given the following information for Halle's Holiday Store Corp. for the year 2017: Net sales = \$50,000,000; Cost of goods sold = \$35,000,000; Addition to retained earnings = \$2,000,000; Dividends paid to preferred and common stockholders = \$3,000,000; Interest expense = \$3,000,000. The firm's tax rate is 30 percent. In 2018, net sales are expected to increase by \$5 million, cost of goods sold is expected to be 65 percent of net sales, expensed depreciation is expected to be the same as in 2017, interest expense is expected to be \$2,500,000, the tax rate is expected to be 30 percent of EBT, and dividends paid to preferred and common stockholders will not change. What is the addition to retained earnings expected in 2018?

- A) \$8,447,500
- B) \$5,325,000
- C) \$2,000,000
- D) \$10,304,643

Answer: B

Martha's Moving Van 4U, Inc. had free cash flow during 2018 of \$1 million, EBIT of \$30 million, tax expense of \$8 million, and depreciation of \$4 million. Using this information, what was Martha's Accounts Payable ending balance in 2018?

- A) \$45 million
- B) \$5 million
- C) \$35 million
- D) \$15 million

Answer: C

You are evaluating the balance sheet for Goodman's Bees Corporation. From the balance sheet you find the following balances: cash and marketable securities = \$200,000, accounts receivable = \$1,100,000, inventory = \$2,000,000, accrued wages and taxes = \$500,000, accounts payable = \$600,000, and notes payable = \$100,000. Calculate Goodman's Bees' net working capital.

- A) \$2,100,000
- B) \$1,400,000
- C) \$1,900,000
- D) \$2,000,000

Answer: A

Zoeckler Mowing & Landscaping's year-end 2011 balance sheet lists current assets of \$350,000, fixed assets of \$325,000, current liabilities of \$145,000, and long-term debt of \$185,000. Calculate Zoeckler's total stockholders' equity.

- A) \$490,000
- B) \$115,000
- C) \$500,000
- D) \$345,000

Answer: D

Reed's Birdie Shot, Inc.'s 2018 income statement lists the following income and expenses: EBIT = \$550,000, interest expense = \$43,000, and net income = \$300,000. Calculate the 2018 taxes reported on the income statement.

- A) \$207,000
- B) \$309,000
- C) \$107,000
- D) \$85,000

Answer: A

Reed's Birdie Shot, Inc.'s 2018 income statement lists the following income and expenses: EBIT = \$555,000, interest expense = \$178,000, and taxes = \$148,000. Reed's has no preferred stock outstanding and 100,000 shares of common stock outstanding. Calculate the 2018 earnings per share.

- A) \$2.29
- B) \$2.79
- C) \$3.49
- D) \$3.14

Answer: A

Oakdale Fashions Inc. had \$255,000 in 2018 taxable income. If the firm paid \$82,100 in taxes, what is the firm's average tax rate?

- A) 29.90%
- B) 28.20%
- C) 34.70%
- D) 32.20%

Answer: D

Hunt Taxidermy, Inc. is concerned about the taxes paid by the company in 2018. In addition to \$36.5 million of taxable income, the firm received \$1,250,000 of interest on state-issued bonds and \$400,000 of dividends on common stock it owns in Hunt Taxidermy, Inc. Calculate Hunt Taxidermy's taxable income.

- A) \$36,900,000
- B) \$36,620,000
- C) \$40,250,000
- D) \$38,150,000

Answer: B

Ramakrishnan Inc. reported 2018 net income of \$20 million and depreciation of \$1,500,000. The top part of Ramakrishnan, Inc.'s 2017 and 2018 balance sheets is listed as follows (in millions of dollars).

Assets	2017	2018	Liabilities & Equity	2017	2018
Current assets			Current liabilities		
Cash and marketable securities	\$ 15	\$ 20	Accrued wages and taxes	\$ 18	\$ 20
Accounts receivable	75	84	Accounts payable	45	50
Inventory	110	121	Notes payable	40	45
Total	<u>\$ 200</u>	<u>\$ 225</u>	Total	<u>\$ 103</u>	<u>\$ 115</u>

Calculate the 2018 net cash flow from operating activities for Ramakrishnan, Inc.

- A) \$8,500,000
- B) \$10,500,000
- C) \$12,500,000
- D) \$7,100,000

Answer: A

In 2018, Usher Sports Shop had cash flows from investing activities of (\$2,150,000) and cash flows from financing activities of (\$3,219,000). The balance in the firm's cash account was \$980,000 at the beginning of 2018 and \$1,025,000 at the end of the year. Calculate Usher Sports Shop's cash flow from operations for 2018.

- A) \$4,970,000
- B) \$5,980,000
- C) \$6,219,000
- D) \$5,414,000

Answer: D

You are considering an investment in Fields and Struthers, Inc. and want to evaluate the firm's free cash flow. From the income statement, you see that Fields and Struthers earned an EBIT of \$52 million, paid taxes of \$10 million, and its depreciation expense was \$5 million. Fields and Struthers' gross fixed assets increased by \$38 million from 2012 to 2013. The firm's current assets increased by \$20 million and spontaneous current liabilities increased by \$12 million. Calculate Fields and Struthers' operating cash flow (OCF), investment in operating capital (IOC), and free cash flow (FCF) for 2013.

- A) OCF = \$47,000,000; IOC = \$37,000,000; FCF = \$10,000,000
- B) OCF = \$42,000,000; IOC = \$37,000,000; FCF = \$5,000,000
- C) OCF = \$47,000,000; IOC = \$46,000,000; FCF = \$1,000,000
- D) OCF = \$42,000,000; IOC = \$46,000,000; FCF = -\$4,000,000

Answer: C

Tater and Pepper Corp. reported free cash flows for 2018 of \$20 million and investment in operating capital of \$15 million. Tater and Pepper listed \$8 million in depreciation expense and \$12 million in taxes on its 2018 income statement. Calculate Tater and Pepper's 2018 EBIT.

- A) \$39,000,000
- B) \$47,000,000
- C) \$49,000,000
- D) \$42,000,000

Answer: A

Mr. Husker's Tuxedos, Corp. began the year 2018 with \$205 million in retained earnings. The firm earned net income of \$30 million in 2018 and paid \$5 million to its preferred stockholders and \$12 million to its common stockholders. What is the year-end 2018 balance in retained earnings for Mr. Husker's Tuxedos?

- A) \$213,000,000
- B) \$193,000,000
- C) \$218,000,000
- D) \$200,000,000

Answer: C

Brenda's Bar and Grill has total assets of \$17 million of which \$5 million are current assets. Cash makes up 12 percent of the current assets and accounts receivable makes up another 40 percent of current assets. Brenda's gross plant and equipment has a cost value of \$12 million and other long-term assets have a cost value of \$1,000,000. Using this information, what are the balance of inventory and the balance of depreciation on Brenda's Bar and Grill's balance sheet?

- A) \$0.4 million; \$3 million
- B) \$1.4 million; \$1 million
- C) \$2.4 million; \$1 million
- D) \$3.4 million; \$2 million

Answer: C

Ed's Tobacco Shop has total assets of \$100 million. Fifty percent of these assets are financed with debt of which \$37 million is current liabilities. The firm has no preferred stock but the balance in common stock and paid-in surplus is \$32 million. Using this information what is the balance for long-term debt and retained earnings on Ed's Tobacco Shop's balance sheet?

- A) \$13 million; \$18 million
- B) \$12 million; \$12 million
- C) \$14 million; \$29 million
- D) \$18 million; \$27 million

Answer: A

Muffin's Masonry, Inc.'s balance sheet lists net fixed assets as \$16 million. The fixed assets could currently be sold for \$17 million. Muffin's current balance sheet shows current liabilities of \$5.5 million and net working capital of \$6.5 million. If all the current accounts were liquidated today, the company would receive \$10.25 million cash after paying \$5.5 million in liabilities. What is the book value of Muffin's Masonry's assets today? What is the market value of these assets?

- A) Book Value: \$28m; Market Value: \$32.75m
- B) Book Value: \$28m; Market Value: \$42.25m
- C) Book Value: \$32m; Market Value: \$32.75m
- D) Book Value: \$32m; Market Value: \$42.25m

Answer: A

You have been given the following information for Corky's Bedding Corp.: Net sales = \$15,250,000; Cost of goods sold = \$5,750,000; Addition to retained earnings = \$4,000,000; Dividends paid to preferred and common stockholders = \$995,000; Interest expense = \$1,150,000. The firm's tax rate is 30 percent. Calculate the depreciation expense for Corky's Bedding Corp.

- A) \$1,521,989.23
- B) \$1,214,285.71
- C) \$1,970,842.88
- D) \$1,663,139.36

Answer: B

Dogs 4 U Corporation has net cash flow from financing activities for the last year of \$10 million. The company paid \$8 million in dividends last year. During the year, the change in notes payable on the balance was \$9 million, and change in common and preferred stock was \$0 million. The end of year balance for long-term debt was \$44 million. Calculate the beginning of year balance for long-term debt.

- A) \$33 million
- B) \$34 million
- C) \$35 million
- D) \$37 million

Answer: C

The 2011 income statement for Duffy's Pest Control shows that depreciation expense is \$180 million, EBIT is \$420 million, EBT is \$240 million, and the tax rate is 30 percent. At the beginning of the year, the balance of gross fixed assets was \$1,500 million and net operating working capital was \$500 million. At the end of the year gross fixed assets was \$1,803 million. Duffy's free cash flow for the year was \$425 million. Calculate the end of year balance for net operating working capital.

- A) \$103 million
- B) \$300 million
- C) \$203 million
- D) \$403 million

Answer: B

The CEO of Tom and Sue's wants the company to earn a net income of \$3.25 million in 2014. Cost of goods sold is expected to be 60 percent of net sales, depreciation expense is \$2.9 million, interest expense is expected to increase to \$1.050 million, and the firm's tax rate will be 30 percent. Calculate the net sales needed to produce net income of \$3.25 million.

- A) \$28.25 million
- B) \$21.48 million
- C) \$26.02 million
- D) \$29.36 million

Answer: B

All of the following would be a result of changing to the MACRS method of depreciation *EXCEPT*

- A) lower taxes in the early years of a project's life.
- B) lower taxable income in the early years of a project's life.
- C) higher depreciation expense.
- D) All of these choices are correct.

Answer: D

Which of the following is *NOT* a source of cash?

- A) The firm pays off some of its long-term debt.
- B) The firm sells more common stock.
- C) The firm reduces its inventory.
- D) The firm has positive net income.

Answer: A

Which of the following is a use of cash?

- A) The firm issues more long-term debt.
- B) The firm sells some of its fixed assets.
- C) The firm decreases its accrued wages and taxes.
- D) The firm takes its depreciation expense.

Answer: C

Is it possible for a firm to have positive net income and yet to have cash flow problems?

- A) No, this is impossible since net income and cash are highly correlated.
- B) Yes, this can occur when a firm is growing very rapidly.
- C) No, this is impossible since net income increases the firm's cash.
- D) Yes, this is possible if the firm window-dressed its financial statements.

Answer: B

All of the following are cash flows from operations *EXCEPT*

- A) depreciation.
- B) increases or decreases in cash.
- C) increases or decreases in accounts payable.
- D) net income.

Answer: B

All of the following are cash flows from financing *EXCEPT* a(n)

- A) increase in accounts payable.
- B) paying dividends.
- C) stock repurchases.
- D) issuing stock.

Answer: A

Cash flows available to pay the firm's stockholders and debt holders after the firm has made the necessary working capital investments, fixed asset investments, and developed the necessary new products to sustain the firm's ongoing operations is referred to as:

- A) operating cash flow.
- B) free cash flow.
- C) net operating working capital.

Answer: B

Investment in operating capital is:

- A) the change in gross fixed assets plus the change in free cash flow.
- B) the change in gross fixed assets plus depreciation.
- C) the change in assets plus the change in current liabilities.
- D) None of the options.

Answer: D

A firm had EBIT of \$1,000, paid taxes of \$225, expensed depreciation at \$13, and its gross fixed assets increased by \$25. What was the firm's operating cash flow?

- A) \$788
- B) \$763
- C) \$737
- D) \$813

Answer: A

Which of the following is an example of a capital structure?

- A) 10 percent current liabilities and 90 percent long-term debt
- B) 20 percent debt and 80 percent equity
- C) 15 percent current assets and 85 percent fixed assets

Answer: B

Lemmon Inc. lists fixed assets of \$100 on its balance sheet. The firm's fixed assets have recently been appraised at \$140. The firm's balance sheet also lists current assets at \$15. Current assets were appraised at \$16.50. Current liabilities book and market values stand at \$12 and the firm's long-term debt is \$40. Calculate the market value of the firm's stockholders' equity.

- A) \$112.50
- B) \$104.50
- C) \$156.50
- D) \$144.50

Answer: B

A firm has operating income of \$1,000, depreciation expense of \$185, and its investment in operating capital is \$400. The firm is 100 percent equity financed and has a 35 percent tax rate. What is the firm's operating cash flow?

- A) \$965
- B) \$725
- C) \$795
- D) \$835

Answer: D

All of the following are reasons that one should be cautious in interpreting financial statements *EXCEPT*

- A) it is difficult to compare two firms that use different depreciation methods.
- B) firms can take steps to over- or understate earnings at various times.
- C) financial managers have quite a bit of latitude in using accounting rules to manage their reported earnings.
- D) All of these choices are correct.

Answer: D

Which of the following statements is correct?

- A) The reason the statement of cash flows is important is because cash is what pays the firm's obligations, not accounting profit.
- B) The bottom line on the statement of cash flows equals the change in the retained earnings on the balance sheet.
- C) If a firm has accounting profit, its cash account will always increase.
- D) All of these choices are correct.

Answer: A

ABC Inc. has \$100 in cash on its balance sheet at the end of 2017. During 2018, the firm issued \$450 in common stock, reduced its notes payable by \$40, purchased fixed assets in the amount of \$750, and had cash flows from operating activities of \$315. How much cash did ABC Inc. have on its balance sheet at the end of 2018?

- A) \$140
- B) \$225
- C) -\$25
- D) \$75

Answer: D

LLV Inc. originally forecasted the following financial data for next year: sales = \$1,000, cost of goods sold = \$675, and interest expense = \$90. The firm believes that COGS will always be 67.5 percent of sales. Due to increased global demand, the firm is now projecting that sales will be 20 percent higher than the original forecast. What is the additional net income (as compared to the original forecast) the firm can expect assuming a 35 percent tax rate?

- A) \$195.00
- B) \$74.00
- C) \$59.45
- D) \$42.25

Answer: D

LLV Inc. originally forecasted the following financial data for next year: sales = \$1,000, cost of goods sold = \$710, and interest expense = \$95. The firm believes that COGS will always be 71 percent of sales. Due to pressure from shareholders, the firm wants to achieve a net income of \$150. Assuming the interest expense will remain the same, how large must sales be to achieve this goal? Assume a 35 percent tax rate.

- A) \$1,296.51
- B) \$1,3009.18
- C) \$1,123.34
- D) \$1,403.82

Answer: C

A firm has sales of \$690, EBIT of \$300, depreciation of \$40, and fixed assets increased by \$265. If the firm's tax rate is 40 percent and there were no increases in net operating working capital, what is the firm's free cash flow?

- A) -\$45
- B) -\$55
- C) \$75
- D) \$15

Answer: A

GW Inc. had \$800 million in retained earnings at the beginning of the year. During the year, the firm paid \$0.75 per share dividend and generated \$1.92 earnings per share. The firm has 100 million shares outstanding. At the end of year, what was the level of retained earnings for GW?

- A) \$807 million
- B) \$882 million
- C) \$725 million
- D) \$917 million

Answer: D

For which of the following would one expect the book value of the asset to differ widely from its market value?

- A) accounts receivable
- B) equity
- C) notes payable
- D) accounts payable

Answer: B

Which of these is the term for the ease of conversion of an asset into cash at a fair value?

- A) book Value
- B) liquidity
- C) current Asset
- D) fair Market Value (FMV)

Answer: B

Epic, Inc.'s 2018 income statement lists the following income and expenses: EBIT = \$1,000,000, interest expense = \$75,000, and taxes = \$277,500. Epic has no preferred stock outstanding and 100,000 shares of common stock outstanding. What are its 2018 earnings per share?

- A) \$7.225
- B) \$10.00
- C) \$6.475
- D) \$9.25

Answer: C

Downtown Development, Inc.'s 2018 income statement lists the following income and expenses: EBIT = \$700,000, interest expense = \$100,000, and taxes = \$168,000. Downtown has no preferred stock outstanding and 50,000 shares of common stock outstanding. What are its 2018 earnings per share?

- A) \$14.00
- B) \$8.64
- C) \$10.64
- D) \$12.00

Answer: B

You are evaluating the balance sheet for Epic Corporation. From the balance sheet you find the following balances:

cash and marketable securities = \$500,000, accounts receivable = \$200,000, inventory = \$100,000, accrued wages and taxes = \$50,000, accounts payable = \$60,000, and notes payable = \$200,000.

Calculate Epic's net working capital.

- A) \$540,000
- B) \$490,000
- C) \$690,000
- D) \$800,000

Answer: B

You are evaluating the balance sheet for Ultra Corporation. From the balance sheet you find the following balances:

cash and marketable securities = \$10,000, accounts receivable = \$2,000, inventory = \$20,000, accrued wages and taxes = \$1,000, accounts payable = \$3,000, and notes payable = \$10,000.

Calculate Ultra's net working capital.

- A) \$28,000
- B) \$32,000
- C) \$ 8,000
- D) \$18,000

Answer: D

Which of the following is the term within the GAAP framework whereby firms can engage in a process of controlling their earnings, otherwise known as "smoothing" their earnings, as long as it's not taken to an extreme.

- A) delisting
- B) earnings management
- C) window dressing
- D) commingling

Answer: B

A firm has sales of \$10,000, EBIT of \$3,000, depreciation of \$400, and fixed assets increased by \$2,000. If the firm's tax rate is 30 percent and there were no increases in net operating working capital, what is the firm's free cash flow?

- A) \$600
- B) \$7400
- C) -\$1,220
- D) \$500

Answer: D

A firm has sales of \$50,000, EBIT of \$10,000, depreciation of \$4,000, and fixed assets increased by \$2,000. If the firm's tax rate is 30 percent and a \$1,000 increase in net operating working capital, what is the firm's free cash flow?

- A) \$9,000
- B) \$10,000
- C) \$8,000
- D) \$1,200

Answer: C

Ultra Inc. had \$100 million in retained earnings at the beginning of the year. During the year, the firm paid \$0.25 per share dividend and generated \$2.00 earnings per share. The firm has 10 million shares outstanding. At the end of year, what was the level of retained earnings for GW?

- A) \$100 million
- B) \$120 million
- C) \$145 million
- D) \$117.5 million

Answer: D