

***Finance Applications and Theory 6th edition Cornett
Test Bank***

SKU: 9781264101580-TEST-BANK

Finance Applications and Theory Edition 6 Cornett

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

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

- 1) **Balance Sheet** You are evaluating the balance sheet for Cypress Corporation. From the balance sheet you find the following balances: Cash and marketable securities = \$680,000, Accounts receivable = \$880,000, Inventory = \$580,000, Accrued wages and taxes = \$121,000, Accounts payable = \$208,000, and Notes payable = \$1,080,000. What is Cypress's net working capital?
 - A) \$2,140,000
 - B) \$1,409,000
 - C) \$731,000
 - D) \$3,549,000
- 2) **Balance Sheet** You are evaluating the balance sheet for Campus Corporation. From the balance sheet you find the following balances: Cash and marketable securities = \$392,000, Accounts receivable = \$192,000, Inventory = \$92,000, Accrued wages and taxes = \$11,700, Accounts payable = \$317,000, and Notes payable = \$617,000. What is Campus's net working capital?
 - A) \$676,000
 - B) -\$269,700
 - C) \$1,621,700
 - D) \$945,700
- 3) **Balance Sheet** Jack and Jill Corporation's year-end 2021 balance sheet lists current assets of \$241,000, fixed assets of \$792,000, current liabilities of \$183,500, and long-term debt of \$293,000. What is Jack and Jill's total stockholders' equity?
 - A) There is not enough information to calculate total stockholder's equity.
 - B) \$556,500
 - C) \$1,033,000
 - D) \$476,500
- 4) **Balance Sheet** Nicole Corporation's year-end 2019 balance sheet lists current assets of \$751,000, fixed assets of \$601,000, current liabilities of \$544,000, and long-term debt of \$699,000. What is Nicole's total stockholders' equity?
 - A) \$109,000
 - B) \$1,352,000
 - C) \$1,243,000
 - D) There is not enough information to calculate total stockholder's equity.

TBEXAM.COM

Finance Applications and Theory Edition 6 Cornett

- 5) **Income Statement** Bullseye, Incorporated's 2021 income statement lists the following income and expenses: EBIT = \$901,000, Interest expense = \$86,500, and Net income = \$571,500. What is the 2021 Taxes reported on the income statement?
- A) \$243,000
 - B) \$329,500
 - C) There is not enough information to calculate 2021 Taxes.
 - D) \$814,500
- 6) **Income Statement** Bullseye, Incorporated's 2021 income statement lists the following income and expenses: EBIT = \$503,000, Interest expense = \$54,500, and Net income = \$319,500. What is the 2021 Taxes reported on the income statement?
- A) \$183,500
 - B) \$129,000
 - C) There is not enough information to calculate 2018 Taxes.
 - D) \$448,500
- 7) **Income Statement** Barnyard, Incorporated's 2021 income statement lists the following income and expenses: EBIT = \$508,000, Interest expense = \$52,000, and Taxes = \$160,000. Barnyard's has no preferred stock outstanding and 280,000 shares of common stock outstanding. What are its the 2021 earnings per share?
- Note: Round your answer to 2 decimal places.**
- A) \$1.81
 - B) \$1.24
 - C) \$1.63
 - D) \$1.06
- 8) **Income Statement** Bullseye, Incorporated's 2021 income statement lists the following income and expenses: EBIT = \$709,000, Interest expense = \$56,000, and Taxes = \$226,000. Bullseye's has no preferred stock outstanding and 390,000 shares of common stock outstanding. What are the 2021 earnings per share?
- Note: Round your answer to 2 decimal places.**
- A) \$1.67
 - B) \$1.82
 - C) \$1.24
 - D) \$1.10

Finance Applications and Theory Edition 6 Cornett

- 9) **Statement of Cash Flows** Paige's Properties Incorporated reported 2022 net income of \$2.40 million and depreciation of \$264,000. Paige's Properties, Incorporated's 2021 and 2022 balance sheets are listed below (in millions of dollars).

Current assets	2021	2022	Current liabilities	2021	2022
Cash and marketable securities	\$ 4.40	\$ 2.70	Accrued wages and taxes	\$ 1.14	\$ 1.14
Accounts receivable	4.70	6.40	Accounts payable	3.14	4.70
Inventory	7.40	5.70	Notes payable	12.22	8.96
Total	\$ 16.50	\$ 14.80	Total	\$ 16.50	\$ 14.80

What is the 2022 net cash flow from operating activities for Paige's Properties, Incorporated?

- A) -\$1,700,000
 B) \$2,400,000
 C) \$1,824,000
 D) \$4,224,000
- 10) **Statement of Cash Flows** In 2022, Upper Crust had cash flows from investing activities of -\$295,000 and cash flows from financing activities of -\$168,000. The balance in the firm's cash account was \$81,000 at the beginning of 2022 and \$123,000 at the end of the year. What was Upper Crust's cash flow from operations for 2022?
- A) \$123,000
 B) \$463,000
 C) \$505,000
 D) \$42,000
- 11) **Statement of Cash Flows** In 2022, Lower Case Productions had cash flows from investing activities of +\$60,000 and cash flows from financing activities of +\$82,000. The balance in the firm's cash account was \$116,000 at the beginning of 2022 and \$83,000 at the end of the year. What was Lower Case's cash flow from operations for 2022?
- A) \$83,000
 B) -\$33,000
 C) -\$175,000
 D) \$142,000

Finance Applications and Theory Edition 6 Cornett

- 12) **Free Cash Flow** You are considering an investment in Crew Cut, Incorporated and want to evaluate the firm's free cash flow. From the income statement, you see that Crew Cut earned an EBIT of \$23.11 million, paid taxes of \$3.89 million, and its depreciation expense was \$7.89 million. Crew Cut's gross fixed assets increased by \$10.11 million from 2021 to 2022. The firm's current assets increased by \$6.11 million and spontaneous current liabilities increased by \$3.89 million. What is Crew Cut's operating cash flow, investment in operating capital and free cash flow for 2022, respectively in millions?
- A) \$23.11, \$10.11, \$13.00
 - B) \$27.11, \$10.11, \$17.00
 - C) \$23.11, \$11.78, \$11.33
 - D) \$27.11, \$12.33, \$14.78
- 13) **Free Cash Flow** You are considering an investment in Cruise, Incorporated and want to evaluate the firm's free cash flow. From the income statement, you see that Cruise earned an EBIT of \$206 million, paid taxes of \$37 million, and its depreciation expense was \$61 million. Cruise's gross fixed assets increased by \$84 million from 2021 to 2022. The firm's current assets decreased by \$24 million and spontaneous current liabilities increased by \$7.4 million. What is Cruise's operating cash flow, investment in operating capital and free cash flow for 2022, respectively in millions?
- A) \$206, \$84, \$122
 - B) \$206, \$98, \$108
 - C) \$230, \$52.6, \$177.4
 - D) \$230, \$84, \$146
- 14) **Free Cash Flow** Catering Corporated reported free cash flows for 2022 of \$8.09 million and investment in operating capital of \$2.09 million. Catering listed \$1.09 million in depreciation expense and \$2.09 million in taxes on its 2022 income statement. What was Catering's 2022 EBIT?
- A) \$7 million
 - B) \$11.18 million
 - C) \$13.36 million
 - D) \$10.18 million

Finance Applications and Theory Edition 6 Cornett

- 15) **Free Cash Flow** Iron Ore Corporation reported free cash flows for 2022 of \$117 million and investment in operating capital of \$182 million. Iron Ore listed \$32 million in depreciation expense and \$58 million in taxes on its 2022 income statement. What was Iron Ore's 2022 EBIT?
- A) \$325 million
 - B) \$299 million
 - C) \$389 million
 - D) \$149 million
- 16) **Statement of Retained Earnings** TriCycle, Corporation began the year 2022 with \$28 million in retained earnings. The firm earned net income of \$8.3 million in 2022 and paid \$1.13 million to its preferred stockholders and \$3.13 million to its common stockholders. What is the year-end 2022 balance in retained earnings for TriCycle?
- A) \$32.04 million
 - B) \$40.56 million
 - C) \$36.3 million
 - D) \$28 million
- 17) **Statement of Retained Earnings** Triplette, Corporation began the year 2022 with -\$5.01 million in retained earnings. The firm earned net income of \$10.06 million in 2022 and paid \$2.06 million to its preferred stockholders and \$1.06 million to its common stockholders. What is the year-end 2022 balance in retained earnings for Triplette?
- A) \$1.93 million
 - B) \$8.17 million
 - C) \$18.19 million
 - D) \$5.01 million
- 18) **Statement of Retained Earnings** Night Scares, Corporation began the year 2022 with \$26 million in retained earnings. The firm suffered a net loss of \$3.1 million in 2022 and yet paid \$2.11 million to its preferred stockholders and \$1.11 million to its common stockholders. What is the year-end 2022 balance in retained earnings for Night Scares?
- A) \$22.9 million
 - B) \$19.68 million
 - C) \$32.32 million
 - D) \$25.88 million

Finance Applications and Theory Edition 6 Cornett

19) **Statement of Retained Earnings** Z, Corporation began the year 2022 with \$1 million in retained earnings. The firm earned net income of \$5 million in 2022 and paid \$3 million to its common stockholders. What is the year-end 2022 balance in retained earnings for Z?

- A) \$1 million
- B) \$9 million
- C) \$3 million
- D) \$6 million

20) **Statement of Retained Earnings** Use the following information to find dividends paid to common stockholders during 2022.

Balance of Retained Earnings, December 31, 2021	-\$ 23.0 million
Plus: Net Income for 2022	77.0 million

Less: Cash Dividends Paid

Preferred Stock	\$ 6.7 million
------------------------	----------------

Common Stock	?question mark million
---------------------	------------------------

Total Cash Dividends Paid	<u>?question mark million</u>
----------------------------------	-------------------------------

Balance of Retained Earnings, December 31, 2022	<u>\$ 10.2 million</u>
--	------------------------

- A) \$43.8 million
- B) \$106.7 million
- C) \$37.1 million
- D) \$87.2 million

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

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

Finance Applications and Theory Edition 6 Cornett

- 22) 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) balance sheet
 - B) income statement
 - C) statement of retained earnings
 - D) statement of cash flows
- 23) Which financial statement reports the amounts of cash that the firm generated and distributed during a particular time period?
- A) balance sheet
 - B) income statement
 - C) statement of retained earnings
 - D) statement of cash flows
- 24) 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) balance sheet
 - B) income statement
 - C) statement of retained earnings
 - D) statement of cash flows
- 25) On which of the four major financial statements would you find the common stock and paid-in surplus?
- A) balance sheet
 - B) income statement
 - C) statement of cash flows
 - D) statement of retained earnings
- 26) On which of the four major financial statements would you find the increase in inventory?
- A) balance sheet
 - B) income statement
 - C) statement of cash flows
 - D) statement of retained earnings
- 27) On which of the four major financial statements would you find net plant and equipment?
- A) balance sheet
 - B) income statement
 - C) statement of cash flows
 - D) statement of retained earnings

Finance Applications and Theory Edition 6 Cornett

- 28) 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) Facebook
 - B) a firm's website
 - C) Securities and Exchange Commission's (SEC) website
 - D) websites such as finance.yahoo.com
- 29) Which of the following changes are true of the Tax Cut and Jobs Act (TCJA) of 2017?
- A) Businesses are allowed to immediately deduct 100% of the cost of eligible property in the year it is placed into service through 2022.
 - B) Allowable bonus depreciations will phase down over four years.
 - C) Both options are true.
 - D) Neither of the options are true.
- 30) Which of the following statements is **NOT** true of the Tax Cut and Jobs Act (TCJA) of 2017?
- A) The act permanently lowers corporate taxes from a progressive schedule to a flat 21% starting in 2018.
 - B) The act limits the deductibility of net interest expense that exceeds 21% of a firm's adjusted taxable income starting in 2018.
 - C) Neither of the options are false.
 - D) Both of the options are false.
- 31) For which of the following would one expect the book value of the asset to differ widely from its market value?
- A) cash
 - B) accounts receivable
 - C) inventory
 - D) fixed assets
- 32) Common stockholders' equity divided by number of shares of common stock outstanding is the formula for
- A) earnings per share (EPS).
 - B) dividends per share (DPS).
 - C) book value per share (BVPS).
 - D) market value per share (MVPS).

Finance Applications and Theory Edition 6 Cornett

- 33) 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 number of shares of stock outstanding
 - C) the earnings per share (EPS)
 - D) All of these choices are correct.
- 34) This is the amount of additional taxes a firm must pay out for every additional dollar of taxable income it *earns*.
- A) average tax rate
 - B) marginal tax rate
 - C) progressive tax system
 - D) earnings before tax
- 35) An all equity-financed firm will
- A) pay more in income taxes than a primarily debt-financed firm.
 - B) pay less in income taxes than a primarily debt-financed firm.
 - C) pay the same in income taxes as a primarily debt-financed firm.
 - D) not pay any income taxes.
- 36) Deferred taxes occur when a company ~~postpones taxes~~ ^{defers taxes} on profits pertaining to
- A) tax years they are under an audit by the Internal Revenue Service.
 - B) funds they have not collected because they use the accrual method of accounting.
 - C) a loss they intend to carry back or carry forward on their income tax returns.
 - D) a particular period as they end up postponing part of their tax liability on this year's profits to future years.
- 37) When evaluating the statement of cash flows, which of the following statement(s) is/are true?
- A) Negative cash flow could be a result of investments in new fixed assets or inventory.
 - B) Cash expenditures used to expand the firm could drain cash during expansion periods.
 - C) Can assist financial professionals in identifying where cash is generated and dispersed.
 - D) All of the options are true.
- 38) Net operating profit after taxes (NOPAT) is defined as which of the following?
- A) net profit a firm earns before taxes, but after any financing costs
 - B) net profit a firm earns after taxes, and after any financing cost
 - C) net profit a firm earns after taxes, but before any financing costs
 - D) net profit a firm earns before taxes, and before any financing cost

Finance Applications and Theory Edition 6 Cornett

- 39) 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) net income available to common stockholders
 - B) cash flow from operations
 - C) net cash flow
 - D) free cash flow
- 40) Which of the following activities result in an increase in a firm's cash?
- A) decrease fixed assets
 - B) decrease accounts payable
 - C) pay dividends
 - D) repurchase of common stock
- 41) 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 investing activities
 - C) cash flows from financing activities
 - D) net change in cash and cash equivalents
- 42) Which statement regarding retained earnings is false?
- A) Reinvesting earnings is more expensive than raising capital from outside sources.
 - B) Increases in retained earnings can occur because a firm has net income.
 - C) Increases in retained earnings can occur when the firm's common stockholders let management reinvest net income back into the firm rather than payout dividends.
 - D) None of the options are false.
- 43) If a company reports a large amount of net income on its income statement during a year, the firm could have
- A) positive cash flow.
 - B) negative cash flow.
 - C) zero cash flow.
 - D) All of these choices are correct.

Finance Applications and Theory Edition 6 Cornett

44) Free cash flow is defined as

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

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

46) Within the GAAP framework

- A) Managers may smooth earnings to show investors that firm assets are growing.
- B) Managers may take steps to over or understate earnings.
- C) Both options are possible.
- D) None of the options are possible.

47) 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) -\$210,000
- B) \$700,000
- C) \$910,000
- D) \$1,610,000

Finance Applications and Theory Edition 6 Cornett

- 48) Jack and Jill Corporation's year-end 2021 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) \$495,000
 - B) \$555,000
 - C) \$1,050,000
 - D) There is not enough information to calculate total stockholders' equity.
- 49) Bullseye, Incorporated's 2021 income statement lists the following income and expenses: EBIT = \$900,000, interest expense = \$85,000, and net income = \$570,000. What are the 2021 taxes reported on the income statement?
- A) \$245,000
 - B) \$330,000
 - C) \$815,000
 - D) There is not enough information to calculate 2021 taxes.
- 50) 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 \$1.68
 - B) decrease EPS by \$1.92
 - C) decrease EPS by \$3.20
 - D) increase EPS by \$0.72
- 51) 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 \$9.29
 - B) decrease EPS by \$18.70
 - C) decrease EPS by \$19.29
 - D) increase EPS by \$2.14

Finance Applications and Theory Edition 6 Cornett

- 52) Barnyard, Incorporated's 2022 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 2022 earnings per share?
- A) \$2.50
 - B) \$2.28
 - C) \$1.74
 - D) \$1.52

- 53) Eccentricity, Incorporated had \$300,000 in year-end taxable income. Assuming the following tax schedule, what are the company's year-end income taxes, average tax, 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) \$78,000, 26.00%, 39%
- C) \$100,250, 33.42%, 39%
- D) \$139,250, 46.42%, 39%

TBEXAM.COM

- 54) Paige's Properties Incorporated reported 2022 net income of \$5 million and depreciation of \$1,500,000. Paige's Properties, Incorporated's 2021 and 2022 balance sheets are listed as follows (in millions of dollars).

Current assets	2021	2022	Current liabilities	2021	2022
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 2022 net cash flow from operating activities for Paige's Properties, Incorporated?

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

Finance Applications and Theory Edition 6 Cornett

- 55) In 2022, 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 2022 and \$105,000 at the end of the year. What was Upper Crust's cash flow from operations for 2022?
- A) \$15,000
 - B) \$105,000
 - C) \$400,000
 - D) \$415,000
- 56) In 2022, 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 2022 and \$65,000 at the end of the year. What was Lower Case's cash flow from operations for 2022?
- A) -\$15,000
 - B) -\$150,000
 - C) -\$165,000
 - D) -\$65,000
- 57) You are considering an investment in Crew Cut, Incorporated 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 2021 to 2022. 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 2022, respectively in millions?
- A) \$23, \$10, \$13
 - B) \$23, \$12, \$11
 - C) \$27, \$10, \$17
 - D) \$27, \$12, \$15

Finance Applications and Theory Edition 6 Cornett

- 58) You are considering an investment in Cruise, Incorporated 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 2021 to 2022. 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 2022, respectively, in millions?
- A) \$202, \$70, \$130
 - B) \$226, \$70, \$156
 - C) \$226, \$54, \$172
 - D) \$226, \$74, \$152
- 59) Catering Corporation reported free cash flows for 2022 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 2022 income statement. What was Catering's 2022 EBIT?
- A) \$7 million
 - B) \$10 million
 - C) \$11 million
 - D) \$13 million
- 60) Tri Cycle, Corporation began the year 2022 with \$25 million in retained earnings. The firm earned net income of \$7 million in 2022 and paid \$1 million to its preferred stockholders and \$3 million to its common stockholders. What is the year-end 2022 balance in retained earnings for Tri Cycle?
- A) \$25 million
 - B) \$28 million
 - C) \$32 million
 - D) \$36 million
- 61) Night Scapes, Corporation began the year 2022 with \$10 million in retained earnings. The firm suffered a net loss of \$2 million in 2022 and yet paid \$2 million to its preferred stockholders and \$1 million to its common stockholders. What is the year-end 2022 balance in retained earnings for Night Scapes?
- A) \$5 million
 - B) \$8 million
 - C) \$9 million
 - D) \$15 million

Finance Applications and Theory Edition 6 Cornett

62) Use the following information to find dividends paid to common stockholders during 2022.

Balance of Retained Earnings, December 31, 2021 \$52 million

Plus: Net Income for 2022 21 million

Less: Cash Dividends Paid

Preferred Stock \$7 million

Common Stock ? million

Total Cash Dividends Paid ? million

Balance of Retained Earnings, December 31, 2022 \$56 million

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

63) 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) \$250,000, \$500,000
- B) \$250,000, \$1 million
- C) \$750,000, \$500,000
- D) \$750,000, \$1 million

64) School Books, Incorporated 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) \$3 million, \$2 million
- B) \$3 million, \$3 million
- C) \$2.4 million, \$2 million
- D) \$2.4 million, \$3 million

Finance Applications and Theory Edition 6 Cornett

- 65) 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) \$400,000, \$1 million
 - B) \$1.6 million, \$2 million
 - C) \$1.6 million, \$3 million
 - D) \$2 million, \$3 million
- 66) 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) \$1 million, \$8 million
 - B) \$2 million, \$4 million
 - C) \$2 million, \$8 million
 - D) \$3 million, \$4 million
- 67) 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) \$12 million, \$77 million
 - B) \$27 million, \$92 million
 - C) \$40 million, \$50 million
 - D) \$67 million, \$142 million
- 68) 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) \$10 million, \$35 million
 - C) \$30 million, \$35 million
 - D) \$30 million, \$41 million

Finance Applications and Theory Edition 6 Cornett

- 69) 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) \$8 million, \$23 million
 - B) \$23 million, \$25 million
 - C) \$23 million, \$28 million
 - D) \$31 million, \$28 million
- 70) You are considering a stock investment in one of two firms (AllDebt, Incorporated and AllEquity, Incorporated), both of which operate in the same industry and have identical operating income of \$600,000. AllDebt, Incorporated 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, Incorporated 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 35%, respectively
 - C) 37.5%, and 37.5%, respectively
 - D) 50%, and 50%, respectively TBEXAM.COM
- 71) You are considering a stock investment in one of two firms (AllDebt, Incorporated and AllEquity, Incorporated), both of which operate in the same industry and have identical operating income of \$3 million. AllDebt, Incorporated 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, Incorporated 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) 27.5%, and 30%, respectively
 - B) 31.67%, and 30%, respectively
 - C) 33%, and 30%, respectively
 - D) 50%, and 50%, respectively

Finance Applications and Theory Edition 6 Cornett

- 72) You are considering a stock investment in one of two firms (AllDebt, Incorporated and AllEquity, Incorporated.), both of which operate in the same industry and have identical operating income of \$400,000. AllDebt, Incorporated 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, Incorporated 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) 46.25%, and 50%, respectively
 - D) 50%, and 50%, respectively
- 73) You have been given the following information for Fina's Furniture Corporation: 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 Corporation?
- A) \$12,100,000
 - B) \$12,400,000
 - C) \$14,100,000
 - D) \$14,400,000
- 74) You have been given the following information for Romeo's Rockers Corporation: 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 Corporation?
- A) \$900,000
 - B) \$1,100,000
 - C) \$1,500,000
 - D) \$1,600,000

TBEXAM.COM

Finance Applications and Theory Edition 6 Cornett

- 75) You have been given the following information for Nicole's Neckties Corporation: 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 Corporation?
- A) \$550,000
 - B) \$600,000
 - C) \$650,000
 - D) \$820,000
- 76) You have been given the following information for Sherry's Sandwich Corporation: 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 Corporation?
- A) \$20,000, and \$200,000, respectively
 - B) \$100,000, and \$20,000, respectively
 - C) \$200,000, and \$20,000, respectively
 - D) \$200,000, and \$36,500, respectively
- 77) You have been given the following information for Kaye's Krumpet Corporation: 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 Corporation?
- A) \$10,000, and \$50,000, respectively
 - B) \$50,000, and \$10,000, respectively
 - C) \$50,000, and \$22,000, respectively
 - D) \$62,000, and \$10,000, respectively
- 78) You have been given the following information for Ross's Rocket Corporation: 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 Corporation?
- A) \$100,000, and \$600,000, respectively
 - B) \$600,000, and \$100,000, respectively
 - C) \$600,000, and \$200,000, respectively
 - D) \$700,000, and \$100,000, respectively

Finance Applications and Theory Edition 6 Cornett

79) The Carolina Corporation had a 20XX 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) \$857,650, 28.59%, 34%, respectively
- B) \$875,500, 29.18%, 34%, respectively
- C) \$875,500, 34.00%, 34%, respectively
- D) \$1,020,000, 34.00%, 34%, respectively

80) The Ohio Corporation had a 20XX 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) \$6,416,667, 12.83%, 35%, respectively
- B) \$13,829,725, 27.66%, 35%, respectively
- C) \$17,329,725, 34.66%, 35%, respectively
- D) \$17,340,750, 34.68%, 35%, respectively

81) The Sasnak Corporation had a 20XX 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) \$1,349,800, 30.33%, 34%, respectively
- B) \$1,349,800, 34.00%, 34%, respectively
- C) \$1,564,000, 34.00%, 34%, respectively
- D) \$1,564,000, 35.15%, 34%, respectively

Finance Applications and Theory Edition 6 Cornett

82) The AOK Corporation had a 20XX 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) \$793,900, 34%, 34%, respectively
- B) \$793,900, 36.0864%, 34%, respectively
- C) \$972,400, 34%, 34%, respectively
- D) \$972,400, 44.2%, 34%, respectively

83) Suppose that in addition to the \$5.5 million of taxable income from operations, Emily's Flowers, Incorporated received \$500,000 of interest on state-issued bonds and \$300,000 of dividends on common stock it owns in Amy's Iris Bulbs, Incorporated 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) \$1,900,600, 34%, 34%, respectively
- B) \$1,972,000, 34%, 34%, respectively
- C) \$2,070,600, 34%, 34%, respectively
- D) \$2,142,000, 34%, 34%, respectively

84) Suppose that in addition to the \$300,000 of taxable income from operations, Liam's Burgers, Incorporated received \$25,000 of interest on state-issued bonds and \$50,000 of dividends on common stock it owns in Sodas, Incorporated. 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) \$106,100, 33.68%, 39%, respectively
- B) \$122,850, 39.00%, 39%, respectively
- C) \$129,500, 34.53%, 39%, respectively
- D) \$139,250, 37.13%, 39%, respectively

Finance Applications and Theory Edition 6 Cornett

85) Fina's Faucets, Incorporated 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) \$3 million
- C) \$7 million
- D) \$9 million

86) Zoe's Dog Biscuits, Incorporated 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) \$20 million
- B) \$25 million
- C) \$45 million
- D) \$65 million

TBEXAM.COM

87) Nickolas's Nut Farms, Incorporated 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) \$2 million
- B) \$3 million
- C) \$7 million
- D) \$9 million

Finance Applications and Theory Edition 6 Cornett

- 88) 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) \$25 million
 - B) \$20 million
 - C) \$15 million
 - D) \$35 million
- 89) Full Moon Productions Incorporated 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) \$5 million
 - B) \$20 million
 - C) \$30 million
 - D) \$35 million
- TBEXAM.COM
- 90) Café Creations Incorporated 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) \$10 million
 - B) \$20 million
 - C) \$30 million
 - D) \$40 million

Finance Applications and Theory Edition 6 Cornett

- 91) The 2022 income statement for Pedro'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. Pedro's free cash flow for the year was \$630 million. What is their end of year balance for net operating working capital?
- A) \$24 million
 - B) \$264 million
 - C) \$654 million
 - D) \$1,064 million
- 92) The 2022 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) \$1.8 million
 - B) \$3.8 million
 - C) \$5.8 million
 - D) \$12.2 million
- TBEXAM.COM
- 93) The 2022 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) \$10.5 million
 - B) \$14 million
 - C) \$20.5 million
 - D) \$30.5 million

Finance Applications and Theory Edition 6 Cornett

- 94) The 2022 income statement for Briana'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. Briana's free cash flow for the year was \$625 million. What was the beginning of year balance for gross fixed assets?
- A) \$359 million
 - B) \$380 million
 - C) \$849 million
 - D) \$1,094 million
- 95) The 2022 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) \$43 million
 - B) \$85 million
 - C) \$84 million
 - D) \$163 million
- 96) Bike and Hike, Incorporated 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 stockholders and \$22 million to common stock holders. What was Bike and Hike's net income for the year?
- A) \$28 million
 - B) \$31 million
 - C) \$59 million
 - D) \$128 million
- 97) Soccer Starz, Incorporated 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 stockholders and \$6 million to common stockholders. What was Soccer Starz's net income for the year?
- A) \$7 million
 - B) \$15 million
 - C) \$40 million
 - D) \$49 million

Finance Applications and Theory Edition 6 Cornett

98) Jamaican Ice Cream Corporation 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 stockholders and \$15 million to common stockholders. What is Jamaican Ice Cream's end of year balance in retained earnings?

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

99) The following is the 2020 income statement for Lamps, Incorporated

Lamps, Incorporated	
Income Statement for Year Ending December 31, 2020	
(in millions of dollars)	
Net sales	\$ 100
Less: Cost of goods sold	80
Gross profits	20
Less: Depreciation	5
Earnings before interest and taxes (EBIT)	15
Less: Interest	2
Earnings before taxes (EBT)	13
Less: Taxes	5
Net income	\$ 8

The CEO of Lamps wants the company to earn a net income of \$12 million in 2021. 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) \$29 million
- C) \$116 million
- D) \$124 million

Finance Applications and Theory Edition 6 Cornett

100) You have been given the following information for Halle's Holiday Store Corporation for the year 2020: 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 2021, 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 2020, 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 2021?

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

101) Monique's Moving Van 4U, Incorporated had free cash flow during 2022 of \$1 million, EBIT of \$30 million, tax expense of \$8 million, and depreciation of \$4 million.

- ☐ Beginning of the year gross fixed assets were \$30 million and end of the year gross fixed assets were \$40 million.
- ☐ Beginning of the year current assets were \$110 million and end of the year current assets were \$130 million.
- ☐ Beginning of the year current liabilities were \$85 million.
- ☐ Accrued wages and taxes at the end of the year were \$20 million and Notes Payable at the end of the year were \$35 million.

Using the above information, what was Monique's Accounts Payable ending balance in 2022?

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

102) 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) \$2,000,000
- B) \$2,100,000
- C) \$1,400,000
- D) \$1,900,000

Finance Applications and Theory Edition 6 Cornett

- 103) Zoeckler Mowing & Landscaping's year-end 2022 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) \$115,000
 - B) \$490,000
 - C) \$345,000
 - D) \$500,000
- 104) Reed's Birdie Shot, Incorporated's 2022 income statement lists the following income and expenses: EBIT = \$550,000, interest expense = \$43,000, and net income = \$300,000. Calculate the 2022 taxes reported on the income statement.
- A) \$85,000
 - B) \$107,000
 - C) \$309,000
 - D) \$207,000
- 105) Reed's Birdie Shot, Incorporated's 2022 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 2022 earnings per share.
- A) \$3.49
 - B) \$2.29
 - C) \$3.14
 - D) \$2.79
- 106) Oakdale Fashions Incorporated had \$255,000 in 2022 taxable income. If the firm paid \$82,100 in taxes, what is the firm's average tax rate?
- A) 34.70%
 - B) 32.20%
 - C) 29.90%
 - D) 28.20%
- 107) Hunt Taxidermy, Incorporated is concerned about the taxes paid by the company in 2022. 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) \$40,250,000
 - B) \$38,150,000
 - C) \$36,900,000
 - D) \$36,620,000

Finance Applications and Theory Edition 6 Cornett

- 108) Ramakrishnan Incorporated reported 2022 net income of \$20 million and depreciation of \$1,500,000. The top part of Ramakrishnan, Incorporated's 2021 and 2022 balance sheets is listed as follows (in millions of dollars).

Assets	2021	2022	Liabilities & Equity	2021	2022
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	\$ 200	\$ 225	Total	\$ 103	\$ 115

Calculate the 2022 net cash flow from operating activities for Ramakrishnan, Incorporated

- A) \$12,500,000
 B) \$10,500,000
 C) \$8,500,000
 D) \$7,100,000
- 109) In 2022, Usher Sports Shop had cash flows from investing activities of (\$2,150,000) and cash flows from financing activities of ~~(\$3,219,000)~~ ~~(\$3,219,000)M~~. The balance in the firm's cash account was \$980,000 at the beginning of 2022 and \$1,025,000 at the end of the year. Calculate Usher Sports Shop's cash flow from operations for 2022.
- A) \$6,219,000
 B) \$5,414,000
 C) \$4,970,000
 D) \$5,980,000
- 110) You are considering an investment in Fields and Struthers, Incorporated 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 2021 to 2022. 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 2022.
- A) OCF = \$42,000,000; IOC = \$37,000,000; FCF = \$5,000,000
 B) OCF = \$47,000,000; IOC = \$37,000,000; FCF = \$10,000,000
 C) OCF = \$42,000,000; IOC = \$46,000,000; FCF = -\$4,000,000
 D) OCF = \$47,000,000; IOC = \$46,000,000; FCF = \$1,000,000

Finance Applications and Theory Edition 6 Cornett

- 111) Tater and Pepper Corporation reported free cash flows for 2022 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 2022 income statement. Calculate Tater and Pepper's 2022 EBIT.
- A) \$49,000,000
 - B) \$42,000,000
 - C) \$39,000,000
 - D) \$47,000,000
- 112) Mr. Husker's Tuxedos, Corporation began the year 2022 with \$205 million in retained earnings. The firm earned net income of \$30 million in 2022 and paid \$5 million to its preferred stockholders and \$12 million to its common stockholders. What is the year-end 2022 balance in retained earnings for Mr. Husker's Tuxedos?
- A) \$193,000,000
 - B) \$200,000,000
 - C) \$213,000,000
 - D) \$218,000,000
- 113) Lakeview 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. Lakeview'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 Lakeview's Bar and Grill's balance sheet?
- A) \$2.4 million; \$1 million
 - B) \$3.4 million; \$2 million
 - C) \$1.4 million; \$1 million
 - D) \$0.4 million; \$3 million
- 114) Xin'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 Xin's Tobacco Shop's balance sheet?
- A) \$18 million; \$27 million
 - B) \$12 million; \$12 million
 - C) \$14 million; \$29 million
 - D) \$13 million; \$18 million

Finance Applications and Theory Edition 6 Cornett

- 115) Muffin's Masonry, Incorporated'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: \$28 million; Market Value: \$32.75 million
 - B) Book Value: \$32 million; Market Value: \$42.25 million
 - C) Book Value: \$32 million; Market Value: \$32.75 million
 - D) Book Value: \$28 million; Market Value: \$42.25 million
- 116) Xin'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 Xin's Tobacco Shop's balance sheet?
- A) \$1,970,842.88
 - B) \$1,214,285.71
 - C) \$1,521,989.23
 - D) \$1,970,842.88
- TBEXAM.COM
- 117) 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 sheet 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) \$37 million
 - B) \$34 million
 - C) \$33 million
 - D) \$35 million

Finance Applications and Theory Edition 6 Cornett

- 118) The 2022 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) \$403 million
 - B) \$300 million
 - C) \$203 million
 - D) \$103 million
- 119) The CEO of Tom and Sue's wants the company to earn a net income of \$3.25 million in 2022. 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) \$26.02 million
 - B) \$29.36 million
 - C) \$21.48 million
 - D) \$28.25 million
- 120) All of the following would be a result of changing to the MACRS method of depreciation *EXCEPT*
- A) higher depreciation expense.
 - B) lower taxes in the early years of a project's life.
 - C) lower taxable income in the early years of a project's life.
 - D) All of these choices are correct.
- 121) Which of the following is *NOT* a source of cash?
- A) The firm reduces its inventory.
 - B) The firm pays off some of its long-term debt.
 - C) The firm has positive net income.
 - D) The firm sells more common stock.
- 122) Which of the following is a use of cash?
- A) The firm takes its depreciation expense.
 - B) The firm sells some of its fixed assets.
 - C) The firm issues more long-term debt.
 - D) The firm decreases its accrued wages and taxes.

Finance Applications and Theory Edition 6 Cornett

- 123) 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 increases the firm's cash.
 - B) Yes, this can occur when a firm is growing very rapidly.
 - C) Yes, this is possible if the firm window-dressed its financial statements.
 - D) No, this is impossible since net income and cash are highly correlated.
- 124) All of the following are cash flows from operations *EXCEPT*
- A) increases or decreases in cash.
 - B) net income.
 - C) depreciation.
 - D) increases or decreases in accounts payable.
- 125) All of the following are cash flows from financing *EXCEPT* a(n)
- A) increase in accounts payable.
 - B) issuing stock.
 - C) stock repurchases.
 - D) paying dividends.
- 126) 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) net operating working capital.
 - C) free cash flow.
- 127) Investment in operating capital is
- A) the change in assets plus the change in current liabilities.
 - B) the change in gross fixed assets plus depreciation.
 - C) the change in gross fixed assets plus the change in free cash flow.
 - D) None of the options.
- 128) 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) \$763
 - B) \$737
 - C) \$813
 - D) \$788

Finance Applications and Theory Edition 6 Cornett

- 129) Which of the following is an example of a capital structure?
- A) 15 percent current assets and 85 percent fixed assets
 - B) 10 percent current liabilities and 90 percent long-term debt
 - C) 20 percent debt and 80 percent equity
- 130) Lemmon Incorporated 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) \$156.50
 - B) \$112.50
 - C) \$104.50
 - D) \$144.50
- 131) 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) \$725
 - B) \$795
 - C) \$835
 - D) \$965
- 132) All of the following are reasons that one should be cautious in interpreting financial statements *EXCEPT*
- A) firms can take steps to over- or understate earnings at various times.
 - B) it is difficult to compare two firms that use different depreciation methods.
 - 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.
- 133) Which of the following statements is correct?
- A) The bottom line on the statement of cash flows equals the change in the retained earnings on the balance sheet.
 - B) The reason the statement of cash flows is important is because cash is what pays the firm's obligations, not accounting profit.
 - C) If a firm has accounting profit, its cash account will always increase.
 - D) All of these choices are correct.

TBEXAM.COM

Finance Applications and Theory Edition 6 Cornett

- 134) ABC Incorporated has \$100 in cash on its balance sheet at the end of 2021. During 2022, 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 2022?
- A) \$75
 - B) \$140
 - C) \$225
 - D) -\$25
- 135) Beauty Cosmetics Incorporated has \$300 in cash on its balance sheet at the end of 2021. During 2022, the firm issued \$350 in common stock, reduced its notes payable by \$30, purchased fixed assets in the amount of \$550, and had cash flows from operating activities of \$325. How much cash did Beauty Cosmetics Incorporated have on its balance sheet at the end of 2021?
- A) \$125
 - B) \$440
 - C) \$395
 - D) -\$225
- 136) LLV Incorporated 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) \$59.45
 - B) \$195.00
 - C) \$42.25
 - D) \$74.00
- 137) LLV Incorporated 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) \$1,403.82
 - B) \$1,3009.18
 - C) \$1,123.34
 - D) \$1,296.51

Finance Applications and Theory Edition 6 Cornett

- 138) 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) \$15
 - B) \$75
 - C) -\$45
 - D) -\$55
- 139) Beauty Cosmetics Incorporated has sales of \$900, EBIT of \$200, depreciation of \$30, and fixed assets increased by \$275. 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) \$55
 - B) \$105
 - C) -\$105
 - D) -\$55
- 140) GW Incorporated 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?
- TBEXAM.COM
- A) \$725 million
 - B) \$917 million
 - C) \$882 million
 - D) \$807 million
- 141) Beauty Cosmetics Incorporated had \$500 million in retained earnings at the beginning of the year. During the year, the firm paid \$0.50 per share dividend and generated \$1.70 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) \$725 million
 - B) \$900 million
 - C) \$620 million
 - D) \$670 million

Finance Applications and Theory Edition 6 Cornett

- 142) 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) accounts payable
 - C) notes payable
 - D) equity
- 143) Which of these is the term for the ease of conversion of an asset into cash at a fair value?
- A) liquidity
 - B) fair market value (FMV)
 - C) book value
 - D) current asset
- 144) Epic, Incorporated's 2022 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 2022 earnings per share?
- A) \$10.00
 - B) \$9.25
 - C) \$7.225
 - D) \$6.475
- 145) Downtown Development, Incorporated's 2022 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 2022 earnings per share?
- A) \$14.00
 - B) \$12.00
 - C) \$10.64
 - D) \$8.64
- 146) Beauty Cosmetics Incorporated's 2022 income statement lists the following income and expenses: EBIT = \$500,000, interest expense = \$100,000, and taxes = \$150,000. Beauty Cosmetics has no preferred stock outstanding and 20,000 shares of common stock outstanding. What are its 2022 earnings per share?
- A) \$14.00
 - B) \$12.50
 - C) \$10.50
 - D) \$8.50

TBEXAM.COM

Finance Applications and Theory Edition 6 Cornett

- 147) 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) \$490,000
 - B) \$540,000
 - C) \$690,000
 - D) \$800,000
- 148) 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) \$ 8,000
 - B) \$18,000
 - C) \$28,000
 - D) \$32,000
- 149) You are evaluating the balance sheet for Beauty Cosmetics Incorporated. From the balance sheet you find the following balances: cash and marketable securities = \$20,000, accounts receivable = \$3,000, inventory = \$30,000, accrued wages and taxes = \$2,000, accounts payable = \$2,000, and notes payable = \$15,000. Calculate Beauty Cosmetics' net working capital.
- A) \$13,000
 - B) \$18,000
 - C) \$38,000
 - D) \$34,000
- 150) 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) commingling
 - B) delisting
 - C) window dressing
 - D) earnings management

Finance Applications and Theory Edition 6 Cornett

- 151) 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) \$7400
 - B) \$600
 - C) \$500
 - D) -\$1,220
- 152) 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 there was a \$1,000 increase in net operating working capital, what is the firm's free cash flow?
- A) \$10,000
 - B) \$9,000
 - C) \$8,000
 - D) \$1,200
- 153) Ultra Incorporated 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) \$117.5 million
 - C) \$120 million
 - D) \$145 million
- 154) Beauty Cosmetics Incorporated had \$120 million in retained earnings at the beginning of the year. During the year, the firm paid \$0.35 per share dividend and generated \$2.00 earnings per share. The firm has 15 million shares outstanding. At the end of year, what was the level of retained earnings for GW?
- A) \$120 million
 - B) \$127.5 million
 - C) \$150 million
 - D) \$144.75 million

TBEXAM.COM

Finance Applications and Theory Edition 6 Cornett

Answer Key

Test name: Chapter 02

1) C

net working capital = current assets – current liabilities.

Cypress's current assets

Cash and marketable securities	\$ 680,000
Accounts receivable	\$ 880,000
Inventory	\$ 580,000
Total current assets	\$ 2,140,000

Current liabilities

Accrued wages and taxes	\$ 121,000
Accounts payable	\$ 208,000
Notes payable	\$ 1,080,000
Total current liabilities	\$ 1,409,000

So the firm's net working capital was \$731,000 = (\$2,140,000 – \$1,409,000).

2) B

TBEXAM.COM

net working capital = current assets – current liabilities.

Cypress's current assets

Cash and marketable securities	\$ 392,000
Accounts receivable	\$ 192,000
Inventory	\$ 92,000
Total current assets	\$ 676,000

Current liabilities

Accrued wages and taxes	\$ 11,700
Accounts payable	\$ 317,000
Notes payable	\$ 617,000
Total current liabilities	\$ 945,700

So the firm's net working capital was -\$269,700 = (\$676,000 – \$945,700).

3) B

Finance Applications and Theory Edition 6 Cornett

Recall the balance sheet identity in Equation 2-1: Assets = Liabilities + Equity.

Rearranging this equation: Equity = Assets - Liabilities. Thus, the balance sheets would appear as follows:

		Book value	
Assets		Liabilities and Equity	
Current assets	\$ 241,000	Current liabilities	\$ 183,500
Fixed assets	792,000	Long-term debt	293,000
		Stockholder's equity	556,500
Total	<u>\$ 1,033,000</u>	Total	<u>\$ 1,033,000</u>

4) A

Recall the balance sheet identity in Equation 2-1: Assets = Liabilities + Equity.

Rearranging this equation: Equity = Assets - Liabilities. Thus, the balance sheets would appear as follows:

Assets		Liabilities and Equity	
Current assets	\$ 751,000	Current liabilities	\$ 544,000
Fixed assets	601,000	Long-term debt	699,000
		Stockholder's equity	109,000
Total	<u>\$ 1,352,000</u>	Total	<u>\$ 1,352,000</u>

5) A

Using the setup of an Income Statement in Table 2.2:

EBIT	\$ 901,000
Interest expense	-86,500
EBT	<u>814,500</u>
Taxes	-243,000
Net income	<u>\$ 571,500</u>

6) B

Using the setup of an Income Statement in Table 2.2

EBIT	\$ 503,000
Interest expense	-54,500
EBT	<u>448,500</u>
Taxes	-129,000
Net income	<u>\$ 319,500</u>

7) D

Finance Applications and Theory Edition 6 Cornett

Using the setup of an Income Statement in Table 2.2:

EBIT	\$ 508,000
Interest expense	-52,000
EBT	456,000
Taxes	-160,000
Net income	\$ 296,000

Thus, Earnings per share (EPS) = $\$296,000 \div 280,000 = \1.06 per share

8) D

Using the setup of an Income Statement in Table 2.2:

EBIT	\$ 709,000
Interest expense	-56,000
EBT	653,000
Taxes	-226,000
Net income	\$ 427,000

Thus, Earnings per share (EPS) = $427,000 \div 390,000 = \$1.10$ per share

9) D

Cash Flows from Operating Activities

Net income	TBEXAM.COM	\$ 2,400,000
Additions (sources of cash):		
Depreciation		264,000
Decrease in inventory		1,700,000
Increase in accounts payable		1,560,000
Subtractions (uses of cash):		
Increase in accounts receivable		-1,700,000
Net cash flow from operating activities:		\$ 4,224,000

10) C

Net Change in Cash and Marketable Securities = $\$123,000 - \$81,000 = \$42,000$

Cash flows from operating activities	\$ 505,000
Cash flows from investing activities	-295,000
Cash flows from financing activities	-168,000
Net change in cash and marketable securities	\$ 42,000

11) C

Finance Applications and Theory Edition 6 Cornett

Net Change in Cash and Marketable Securities = \$83,000 – \$116,000 = –\$33,000

Cash Flows from Operating Activities	–\$ 175,000
Cash Flows from Investing Activities	+60,000
Cash Flows from Financing Activities	+82,000
Net Change in Cash and Marketable Securities	<u><u>–\$ 33,000</u></u>

12) D

Crew Cut's operating cash flow was:

OCF = EBIT – Taxes + Depreciation

= (\$23.11 million – \$3.89 million + \$7.89 million) = \$27.11 million

Investment in operating capital for 2022 was:

IOC = Δ Gross fixed assets + Δ Net operating working capital

= \$10.11 million + (\$6.11 million – \$3.89 million) = \$12.33 million

Accordingly, Crew Cut's free cash flow for 2022 was:

FCF = Operating cash flow – Investment in operating capital

= \$27.11 million – \$12.33 million = \$14.78 million

In other words, in 2022, Crew Cut had cash flows of \$14.78 million available to pay its stockholders and debtholders.

13) C

TBEXAM.COM

Cruise's operating cash flow was:

OCF = EBIT – Taxes + Depreciation

= (\$206 million – \$37 million + \$61 million) = \$230 million

Investment in operating capital for 2022 was:

IOC = Δ Gross fixed assets + Δ Net operating working capital

= \$84 million + (\$–24 million – \$7.4 million) = \$52.6 million

Accordingly, Cruise's free cash flow for 2022 was:

FCF = Operating cash flow – Investment in operating capital

= \$230 million – \$52.6 million = \$177.4 million

In other words, in 2022, Cruise had cash flows of \$177.4 million available to pay its stockholders and debtholders.

14) B

Finance Applications and Theory Edition 6 Cornett

Catering's free cash flow for 2022 was:

FCF = Operating cash flow - Investment in operating capital

\$8.09 million = Operating cash flow - \$2.09 million

So, operating cash flow = \$8.09 million + \$2.09 million = \$10.18 million

Catering's operating cash flow was:

OCF = EBIT - Taxes + Depreciation

\$10.18 million = (EBIT - \$2.09 million + \$1.09 million)

So, EBIT = \$10.18 million + \$2.09 million - \$1.09 million = \$11.18 million

15) A

Iron Ore's free cash flow for 2022 was:

FCF = Operating cash flow - Investment in operating capital

\$117 million = Operating cash flow - \$182 million

So, operating cash flow = \$117 million + \$182 million = \$299 million

Iron Ore's operating cash flow was:

OCF = EBIT - Taxes + Depreciation

\$299 million = (EBIT - \$58 million + \$32 million)

So, EBIT = \$299 million + \$58 million - \$32 million = \$325 million

16) A

TBEXAM.COM

The statement of retained earnings for 2022 is as follows:

Balance of Retained Earnings, December 31, 2021	\$ 28 million
Plus: Net Income for 2022	8.3 million
Less: Cash Dividends Paid	
Preferred Stock	\$ 1.13 million
Common Stock	3.13 million
Total Cash Dividends Paid	<u>4.26 million</u>
Balance of Retained Earnings, December 31, 2022	<u><u>\$ 32.04 million</u></u>

17) A

Finance Applications and Theory Edition 6 Cornett

The statement of retained earnings for 2022 is as follows:

	2018
Balance of Retained Earnings, December 31, 2021	\$ -5.01 million
Plus: Net Income for 2022	10.06 million
Less: Cash Dividends Paid	
Preferred Stock	\$ 2.06 million
Common Stock	1.06 million
Total Cash Dividends Paid	3.12 million
Balance of Retained Earnings, December 31, 2022	\$ 1.93 million

18) B

The statement of retained earnings for 2022 is as follows:

Balance of Retained Earnings, December 31, 2021	\$ 26 million
Less: Net Income for 2022	3.1 million
Less: Cash Dividends Paid	
Preferred Stock	\$ 2.11 million
Common Stock	1.11 million
Total Cash Dividends Paid	3.22 million
Balance of Retained Earnings, December 31, 2022	\$ 19.68 million

19) C

Finance Applications and Theory Edition 6 Cornett

The statement of retained earnings for 2022 is as follows:

	2018
Balance of Retained Earnings, December 31, 2021	\$ 1 million
Plus: Net Income for 2022	5 million
Less: Cash Dividends Paid	3 million
Balance of Retained Earnings, December 31, 2022	<u>\$ 3 million</u>

20) C

Total Cash Dividends Paid = \$10.2 million. - \$77.0 million. + \$23.0 million. = - \$43.8 million.

Thus, common stock dividends paid = \$43.8 million. - \$6.7 million = \$37.1 million.

21) A

22) B

23) D

24) C

25) A

26) C

27) A

28) A

29) C

30) B

31) D

32) C

33) D

34) B

35) A

36) D

37) D

38) C

39) D

40) A

41) B

42) A

43) D

44) C

45) D

46) C

47) A

TBEXAM.COM

Finance Applications and Theory Edition 6 Cornett

Cypress's current assets

Cash and marketable securities	\$ 400,000
Accounts receivable	\$ 200,000
Inventory	\$ 100,000
Total current assets	\$ 700,000
Accrued wages and taxes	\$ 10,000
Accounts payable	\$ 300,000
Notes payable	\$ 600,000
Total current liabilities	\$ 910,000

Net working capital = Current assets – Current liabilities

So the firm's net working capital is \$700,000 – \$910,000 = -\$210,000.

48) B

Assets		Book value Liabilities and Equity	
Current assets	\$ 250,000	Current liabilities	\$ 195,000
Fixed assets	800,000	Long-term debt	300,000
		Stockholder's equity	555,000
Total	\$ 1,050,000	Total	\$ 1,050,000

49) A

Using the setup of an Income Statement in Table 2.2:

EBIT	\$ 900,000
Interest expense	-85,000
EBT	815,000
Taxes	-245,000
Net income	\$ 570,000

50) B

Finance Applications and Theory Edition 6 Cornett

Using the setup of an Income Statement in Example 2.2:

Change	Before Capital Structure Change	After Capital Structure Change
EBIT	\$ 500,000	\$ 500,000
-Interest ($\$2,000,000 \times 0.06$)	120,000	
-Interest ($\$1,000,000 \times 0.06$)		60,000
EBT	\$ 380,000	\$ 440,000
-Taxes (40%)	152,000	176,000
Net Income	\$ 228,000	\$ 264,000
Divide # of Shares	50,000	100,000
EPS	\$ 4.56	\$ 2.64

The change in capital structure would dilute the stockholders' EPS by \$1.92.

51) C

Using the setup of an Income Statement in Example 2.2:

Change	Before Capital Structure Change	After Capital Structure Change
EBIT	\$ 5,000,000	\$ 5,000,000
-Interest ($\$20,000,000 \times 0.05$)	1,000,000	
-Interest ($\$15,000,000 \times 0.05$)		750,000
EBT	\$ 4,000,000	\$ 4,250,000
-Taxes (40%)	1,600,000	1,700,000
Net Income	\$ 2,400,000	\$ 2,550,000
Divide # of Shares	70,000	170,000
EPS	\$ 34.29	\$ 15.00

The change in capital structure would dilute the stockholders' EPS by \$19.29.

52) D

Finance Applications and Theory Edition 6 Cornett

Using the setup of an Income Statement in Table 2.2:

EBIT	\$ 500,000
Interest expense	-45,000
EBT	455,000
Taxes	-152,000
Net income	\$ 303,000

Thus, Earnings per share (EPS) = $303,000 \div 200,000 = \$1.515$ per share

53) C

From the given tax schedule, the \$300,000 of taxable income puts Eccentricity in the 39 percent marginal tax bracket. Thus,

Tax liability = Tax on base amount + Tax rate (amount over base): = $\$22,250 + 0.39 (\$300,000 - \$100,000) = \$100,250$

Note that the base amount is the maximum dollar value listed in the previous tax bracket. The average tax rate for Eccentricity Incorporated comes to:

Average tax rate = $\$100,250 \div \$300,000 = 33.4167\%$

If Eccentricity earned \$1 more of taxable income, it would pay 39 cents (its tax rate of 39 percent) more in taxes. Thus, the firm's marginal tax rate is 39 percent.

54) B

Cash Flows from Operating Activities

Net income	\$ 5,000,000
Additions (sources of cash):	
Depreciation	1,500,000
Increase accrued wages and taxes	6,000,000
Increase in accounts payable	4,000,000
Subtraction (uses of cash):	
Increase in accounts receivable	-14,000,000
Increase in inventory	-1,000,000
Net cash flow from operating activities:	\$ 1,500,000

55) D

Finance Applications and Theory Edition 6 Cornett

Net change in cash and marketable securities = \$105,000 - \$90,000 = \$15,000.

Cash flows from operating activities =	\$ 415,000
Cash flows from investing activities =	-250,000
Cash flows from financing activities =	-150,000
Net change in cash and marketable securities =	<u>\$ 15,000</u>

56) C

Net change in cash and marketable securities = \$65,000 - \$80,000 = -\$15,000.

Cash Flows from Operating Activities =	-\$ 165,000
Cash Flows from Investing Activities =	+50,000
Cash Flows from Financing Activities =	+100,000
Net Change in Cash and Marketable Securities =	<u>-\$ 15,000</u>

57) D

Crew Cut's operating cash flow was:

OCF = EBIT - Taxes + Depreciation

= (\$23 million - \$4 million + \$8 million) = \$27 million

Investment in operating capital for 2022 was:

IOC = Δ Gross fixed assets + Δ Net operating working capital

= (\$10 million + \$6 million - \$4 million) = \$12 million

Accordingly, Crew Cut's free cash flow for 2022 was:

FCF = Operating cash flow - Investment in operating capital

= \$27 million - \$12 million = \$15 million

In other words, in 2022 Crew Cut had cash flows of \$15 million available to pay its stockholders and debt holders.

58) C

Cruise's operating cash flow was:

OCF = EBIT - Taxes + Depreciation

= (\$202 million - \$51 million + \$75 million) = \$226 million

Investment in operating capital for 2022 was:

IOC = Δ Gross fixed assets + Δ Net operating working capital

\$70 million + (-\$10 million - \$6 million) = \$54 million

Accordingly, Cruise's free cash flow for 2022 was:

= Operating cash flow - Investment in operating capital

\$226 million - \$54 million = \$172 million

In other words, in 2022 Cruise had cash flows of \$172 million available to pay its stockholders and debt holders.

Finance Applications and Theory Edition 6 Cornett

59) C

Catering's free cash flow for 2022 was:

FCF = Operating cash flow – Investment in operating capital

\$8 million = Operating cash flow – \$2 million

So, operating cash flow = \$8 million + \$2 million = \$10 million

Catering's operating cash flow was:

OCF = EBIT – Taxes + Depreciation

\$10 million = (EBIT – \$2 million + \$1 million)

So, EBIT = \$10 million + \$2 million – \$1 million = \$11 million

60) B

The statement of retained earnings for 2022 is as follows:

Balance of Retained Earnings, December 31, 2021	\$25 million
Plus: Net Income for 2022	7 million
Less: Cash Dividends Paid	
Preferred Stock	\$1 million
Common Stock	3 million
Total Cash Dividends Paid	<u>4 million</u>
Balance of Retained Earnings, December 31, 2022	<u><u>\$28 million</u></u>

61) A

Finance Applications and Theory Edition 6 Cornett

The statement of retained earnings for 2022 is as follows:

Balance of Retained Earnings, December 31, 2021	\$10 million
Less: Net Income for 2022	2 million
Less: Cash Dividends Paid	
Preferred Stock	\$2 million
Common Stock	1 million
Total Cash Dividends Paid	<u>3 million</u>
Balance of Retained Earnings, December 31, 2022	<u><u>\$5 million</u></u>

62) C

Total Cash Dividends Paid = \$56 million – \$21 million – \$52 million = –\$17 million. Thus, common stock dividends paid = \$17 million – \$7 million = \$10 million.

63) C

Current assets:

TBEXAM.COM

Cash and marketable Securities (0.2 × \$1)	\$ 0.20
Accounts receivable (0.05 × \$1)	0.05
Inventory	.75
Total	<u>\$ 1.0</u>

Fixed assets:

Gross plant and equipment	\$ 1.5
Less: Depreciation	0.5
Net plant and equipment	<u>\$ 1.0</u>
Other long-term assets	1.0
Total	<u>\$ 2.0</u>
Total assets	<u><u>\$ 3.0</u></u>

Step 1: Inventory = \$1 – \$0.20 – \$0.05 = \$0.75.

Step 2: Total fixed assets = \$3.0 – \$1.0 = \$2.0.

Step 3: Net plant equipment = \$2.0 – \$1.0 = \$1.0.

Step 4: Depreciation = \$1.5 – \$1.0 = \$0.5.

64) B

Finance Applications and Theory Edition 6 Cornett

Current assets:

Cash and marketable Securities (0.10 × \$6)	\$ 0.6
Accounts receivable (0.40 × \$6)	2.4
Inventory	3.0
Total	<u>\$ 6.0</u>

Fixed assets:

Gross plant and equipment	\$ 13.0
Less: Depreciation	3.0
Net plant and equipment	<u>\$ 10.0</u>
Other long-term assets	2.0
Total	<u>\$ 12.0</u>
Total assets	<u><u>\$ 18.0</u></u>

Step 1: Inventory = \$6 - \$0.6 - \$2.4 = \$3.0.

Step 2: Total fixed assets = \$18 - \$6 = \$12.0.

Step 3: Net plant equipment = \$12 - \$2 = \$10.0.

Step 4: Depreciation = \$13 - \$10 = \$3.0.

65) B

Total current liabilities TBEXAM.COM	\$ 0.4
Long-term debt:	\$ 1.6
Total debt:	<u>\$ 2</u>
Stockholder's equity:	
Preferred stock	\$ 0
Common stock and paid-in surplus (2 million shares)	1
Retained earnings	2
Total	<u>\$ 3</u>
Total liabilities and equity	<u><u>\$ 5</u></u>

Step 1: Total liabilities and equity = Total Assets = \$5.

Step 2: Total debt = 0.4 × \$5 = \$2.

Step 3: Long-term debt = \$2 - \$0.4 = \$1.6.

Step 4: Total Stockholder's Equity = \$5 - \$2 = \$3.

Step 5: Retained earnings = \$3 - \$1 = \$2.

66) B

Finance Applications and Theory Edition 6 Cornett

Total current liabilities	\$ 1
Long-term debt:	\$ 2
Total debt:	<u>\$ 3</u>
Stockholder's equity:	
Preferred stock	\$ 0
Common stock and paid-in surplus (2 million shares)	8
Retained earnings	4
Total	<u>\$ 12</u>
Total liabilities and equity	<u><u>\$ 15</u></u>

Step 1: Total liabilities and equity = Total Assets = \$15.

Step 2: Total debt = $0.2 \times \$15 \text{ million} = \3 .

Step 3: Long-term debt = $\$3 - \$1 = \$2$.

Step 4: Total Stockholder's Equity = $\$15 - \$3 = \$12$.

Step 5: Retained earnings = $\$12 - \$8 = \$4$.

67) D

Assets	Book value	Market value
Current assets	\$ 27 million	\$ 92 million
Fixed assets	40 million	50 million
Total	<u>\$ 67 million</u>	<u>\$ 142 million</u>

Step 1: Net working capital (book value) = Current assets (book value) - Current liabilities (book value) = \$12 million = Current assets (book value) - \$15m => Current assets (book value) = \$12 million + \$15 million = \$27 million.

Step 2: Total assets (book value) = \$27 million + \$40 million = \$67 million.

Step 3: Net working capital (market value) = Current assets (market value) - Current liabilities (market value) = \$77 million = Current assets (market value) - \$15 million => Current assets (market value) = \$77 million + \$15 million = \$92 million.

Step 4: Total assets (market value) = \$92 million + \$50 million = \$142 million.

68) D

Finance Applications and Theory Edition 6 Cornett

Assets	Book value	Market value
Current assets	\$ 10 million	\$ 16 million
Fixed assets	20 million	25 million
Total	\$ 30 million	\$ 41 million

Step 1: Net working capital (book value) = Current assets (book value) – Current liabilities (book value) = \$3 million = Current assets (book value) – \$7 million => Current assets (book value) = \$3 million + \$7 million = \$10 million.

Step 2: Total assets (book value) = \$10 million + \$20 million = \$30 million.

Step 3: Net working capital (market value) = Current assets (market value) – Current liabilities (market value) = \$9 million = Current assets (market value) – \$7 million => Current assets (market value) = \$9 million + \$7 million = \$16 million.

Step 4: Total assets (market value) = \$16 million + \$25 million = \$41 million.

69) C

Assets	Book value	Market value
Current assets	\$ 8 million	\$ 11 million
Fixed assets	15 million	17 million
Total	\$ 23 million	\$ 28 million

Step 1: Net working capital (book value) = Current assets (book value) – Current liabilities (book value) = \$3m = Current assets (book value) – \$5 million => Current assets (book value) = \$3 million + \$5 million = \$8 million.

Step 2: Total assets (book value) = \$8 million + \$15 million = \$23 million.

Step 3: Net working capital (market value) = Current assets (market value) – Current liabilities (market value) = \$6 million = Current assets (market value) – \$5 million => Current assets (market value) = \$6 million + \$5 million = \$11 million.

Step 4: Total assets (market value) = \$11 million + \$17 million = \$28 million.

70) B

Finance Applications and Theory Edition 6 Cornett

	AllDebt	AllEquity
Operating income	\$ 0.6 million	\$ 0.6 million
Less: Interest	0.1 million	0 million
Taxable income	0.5 million	0.6 million
Less: Taxes (30%)	0.15 million	0.18 million
Net income	\$ 0.35 million	\$ 0.42 million
Income available for asset funders (= operating income - taxes)	\$ 0.45 million	\$ 0.42 million

Return on assets funders' investment:

Interest = \$1 million $\times$ 0.1 = \$0.1 million.

AllDebt = \$0.45 million $\div$ \$1.2 million = 37.50%.

AllEquity = \$0.42 million $\div$ \$1.2 million = 35.00%.

71) B

	AllDebt	AllEquity
Operating income	\$ 3 million	\$ 3 million
Less: Interest	0.25 million	0 million
Taxable income	2.75 million	3 million
Less: Taxes (40%)	1.1 million	1.2 million
Net income	\$ 1.65 million	\$ 1.8 million
Income available for asset funders (= operating income - taxes)	\$ 1.9 million	\$ 1.8 million

Return on assets funders' investment:

Interest = \$5 million $\times$ 0.05 = \$0.25 million.

AllDebt = \$1.9 million $\div$ \$6 million = 31.67%.

AllEquity = \$1.8 million $\div$ \$6 million = 30.00%.

72) B

Finance Applications and Theory Edition 6 Cornett

	AllDebt	AllEquity
Operating income	\$ 0.4 million	\$ 0.4 million
Less: Interest	0.03 million	0 million
Taxable income	0.37 million	0.4 million
Less: Taxes (30%)	0.111 million	0.12 million
Net income	\$ 0.259 million	\$ 0.28 million
Income available for asset funders (= operating income - taxes)	\$ 0.289 million	\$ 0.28 million

Return on assets funders' investment:

Interest = \$0.6 million $\times$ 0.05 = \$0.03 million.

AllDebt = \$0.289 million $\div$ \$0.8 million = 36.125%.

AllEquity = \$0.28 million $\div$ \$0.8 million = 35.00%.

73) A

TBEXAM.COM

Finance Applications and Theory Edition 6 Cornett

Net sales (all credit)	\$ 25,500,000
Less: Cost of goods sold	10,250,000
Gross profits	\$ 15,250,000
Less: Depreciation	\$ 12,100,000
Earnings before interest and taxes (EBIT)	\$ 3,150,000
Less: Interest	2,000,000
Earnings before taxes (EBT)	\$ 1,150,000
Less: Taxes	
 Net income	 \$ 805,000
Less: Common and preferred stock dividends	\$ 500,000
Addition to retained earnings	\$ 305,000

Step 1: Net income = Common and preferred stock dividends + Addition to retained earnings = \$500,000 + \$305,000 = \$805,000.

Step 2: $EBT (1 - \text{tax rate}) = \text{Net income} \Rightarrow EBT = \text{Net income} \div (1 - \text{tax rate}) = \$805,000 \div (1 - 0.3) = \$1,150,000$.

Step 3: $EBIT - \text{Interest} = EBT \Rightarrow EBIT = EBT + \text{Interest} = \$1,150,000 + \$2,000,000 = \$3,150,000$.

Step 4: $\text{Gross profits} = \text{Net sales} - \text{Cost of goods sold} = \$25,500,000 - 10,250,000 = \$15,250,000$.

Step 5: $\text{Gross profits} - \text{Depreciation} = EBIT \Rightarrow \text{Depreciation} = \text{Gross profits} - EBIT = \$15,250,000 - \$3,150,000 = \$12,100,000$.

74) A

Finance Applications and Theory Edition 6 Cornett

Net sales (all credit)	\$ 5,200,000
Less: Cost of goods sold	2,100,000
Gross profits	\$ 3,100,000
Less: Depreciation	\$ 900,000
Earnings before interest and taxes (EBIT)	\$ 2,200,000
Less: Interest	200,000
Earnings before taxes (EBT)	\$ 2,000,000
Less: Taxes	
 Net income	 \$ 1,400,000
Less: Common and preferred stock dividends	\$ 400,000
Addition to retained earnings	\$ 1,000,000

Step 1: Net income = Common and preferred stock dividends + Addition to retained earnings = \$400,000 + \$1,000,000 = \$1,400,000.

Step 2: $EBT (1 - \text{tax rate}) = \text{Net income} \Rightarrow EBT = \text{Net income} \div (1 - \text{tax rate}) = \$1,400,000 \div (1 - 0.3) = \$2,000,000$.

Step 3: $EBIT - \text{Interest} = EBT \Rightarrow EBIT = EBT + \text{Interest} = \$2,000,000 + \$200,000 = \$2,200,000$.

Step 4: $\text{Gross profits} = \text{Net sales} - \text{Cost of goods sold} = \$5,200,000 - 2,100,000 = \$3,100,000$.

Step 5: $\text{Gross profits} - \text{Depreciation} = EBIT \Rightarrow \text{Depreciation} = \text{Gross profits} - EBIT = \$3,100,000 - \$2,200,000 = \$900,000$. TBEXAM.COM

75) B

Finance Applications and Theory Edition 6 Cornett

Net sales (all credit)	\$ 2,500,000
Less: Cost of goods sold	1,300,000
Gross profits	<u>\$ 1,200,000</u>
Less: Depreciation	\$ 600,000
Earnings before interest and taxes (EBIT)	<u>\$ 600,000</u>
Less: Interest	50,000
Earnings before taxes (EBT)	<u>\$ 550,000</u>
Less: Taxes	
Net income	<u>\$ 330,000</u>
Less: Common and preferred stock dividends	<u>\$ 300,000</u>
Addition to retained earnings	<u>\$ 30,000</u>

Step 1: Net income = Common and preferred stock dividends + Addition to retained earnings = \$300,000 + \$30,000 = \$330,000.

Step 2: $EBT (1 - \text{tax rate}) = \text{Net income} \Rightarrow EBT = \text{Net income} \div (1 - \text{tax rate}) = \$330,000 \div (1 - 0.4) = \$550,000$.

Step 3: $EBIT - \text{Interest} = EBT \Rightarrow EBIT = EBT + \text{Interest} = \$550,000 + \$50,000 = \$600,000$.

Step 4: $\text{Gross profits} = \text{Net sales} - \text{Cost of goods sold} = \$2,500,000 - 1,300,000 = \$1,200,000$.

Step 5: $\text{Gross profits} - \text{Depreciation} = EBIT \Rightarrow \text{Depreciation} = \text{Gross profits} - EBIT = \$1,200,000 - \$600,000 = \$600,000$.

TBEXAM.COM

76) C

Finance Applications and Theory Edition 6 Cornett

Net sales (all credit)	\$ 300,000
Less: Cost of goods sold	200,000
Gross profits	<u>\$ 100,000</u>
Less: Depreciation	\$ 25,000
Earnings before interest and taxes (EBIT)	<u>\$ 75,000</u>
Less: Interest	20,000
Earnings before taxes (EBT)	<u>\$ 55,000</u>
Less: Taxes	
Net income	\$ 38,500
Less: Common and preferred stock dividends	<u>\$ 8,500</u>
Addition to retained earnings	<u>\$ 30,000</u>

Step 1: Net income = Common and preferred stock dividends + Addition to retained earnings = \$8,500 + \$30,000 = \$38,500.

Step 2: $EBT(1 - \text{tax rate}) = \text{Net income} \Rightarrow EBT = \text{Net income} \div (1 - \text{tax rate}) = \$38,500 \div (1 - 0.3) = \$55,000$.

Step 3: Gross profits = Net sales – Cost of goods sold $\Rightarrow$ Net Sales – Gross Profit = Cost of Goods Sold = \$300,000 – 100,000 = \$200,000.

Step 4: Gross profits – Depreciation = EBIT = \$100,000 – \$25,000 = \$75,000.

Step 5: EBIT – Interest = EBT $\Rightarrow$ Interest = EBIT – EBT = \$75,000 – \$55,000 = \$20,000.

TBEXAM.COM

77) B

Finance Applications and Theory Edition 6 Cornett

Net sales (all credit)	\$ 150,000
Less: Cost of goods sold	50,000
Gross profits	\$ 100,000
Less: Depreciation	\$ 50,000
Earnings before interest and taxes (EBIT)	\$ 50,000
Less: Interest	10,000
Earnings before taxes (EBT)	\$ 40,000
Less: Taxes	
Net income	\$ 28,000
Less: Common and preferred stock dividends	\$ 8,000
Addition to retained earnings	\$ 20,000

Step 1: Net income = Common and preferred stock dividends + Addition to retained earnings = \$8,000 + \$20,000 = \$28,000.

Step 2: $EBT(1 - \text{tax rate}) = \text{Net income} \Rightarrow EBT = \text{Net income} \div (1 - \text{tax rate}) = \$28,000 \div (1 - 0.3) = \$40,000$.

Step 3: Gross profits = Net sales – Cost of goods sold $\Rightarrow$ Net Sales – Gross Profit = Cost of Goods Sold = \$150,000 – 100,000 = \$50,000.

Step 4: Gross profits – Depreciation = EBIT = \$100,000 – \$50,000 = \$50,000.

Step 5: EBIT – Interest = EBT $\Rightarrow$ Interest = EBIT – EBT = \$50,000 – \$40,000 = \$10,000.

TBEXAM.COM

78) B

Finance Applications and Theory Edition 6 Cornett

Net sales (all credit)	\$ 1,000,000
Less: Cost of goods sold	600,000
Gross profits	\$ 400,000
Less: Depreciation	\$ 50,000
Earnings before interest and taxes (EBIT)	\$ 350,000
Less: Interest	100,000
Earnings before taxes (EBT)	\$ 250,000
Less: Taxes	
Net income	\$ 150,000
Less: Common and preferred stock dividends	\$ 90,000
Addition to retained earnings	\$ 60,000

Step 1: Net income = Common and preferred stock dividends + Addition to retained earnings = \$90,000 + \$60,000 = \$150,000.

Step 2: $EBT(1 - \text{tax rate}) = \text{Net income} \Rightarrow EBT = \text{Net income} \div (1 - \text{tax rate}) = \$150,000 \div (1 - 0.4) = \$250,000$.

Step 3: Gross profits = Net sales - Cost of goods sold $\Rightarrow$ Net Sales - Gross Profit = Cost of Goods Sold = \$1,000,000 - 400,000 = \$600,000.

Step 4: Gross profits - Depreciation = EBIT = \$400,000 - \$50,000 = \$350,000.

Step 5: EBIT - Interest = EBT $\Rightarrow$ Interest = EBIT - EBT = \$350,000 - \$250,000 = \$100,000.

TBEXAM.COM

79) A

The first 70 percent of the dividends received by Carolina Corporation is not taxable. Thus, only 30 percent of the dividends received are taxed, so:

Taxable income = \$3,000,000 - \$500,000 + (0.3)\$75,000 = \$2,522,500.

Now Carolina's Corporation's tax liability will be:

Tax liability = \$113,900 + 0.34 (\$2,522,500 - \$335,000) = \$857,650.

Carolina Corporation's resulting average tax rate is now:

Average tax rate = \$857,650 $\div$ \$3,000,000 = 28.59%.

Finally, if Carolina Corporation earned \$1 more of taxable income, it would still pay 34 cents (based upon its marginal tax rate of 34 percent) more in taxes.

80) C

Finance Applications and Theory Edition 6 Cornett

The first 70 percent of the dividends received by Ohio Corporation is not taxable. Thus, only 30 percent of the dividends received are taxed, so:

$$\text{Taxable income} = \$50,000,000 - \$500,000 + (0.3)\$45,000 = \$49,513,500.$$

Now Ohio's Corporation's tax liability will be:

$$\text{Tax liability} = \$6,416,667 + 0.35 (\$49,513,500 - \$18,333,333) = \$17,329,725.45.$$

Ohio Corporation's resulting average tax rate is now:

$$\text{Average tax rate} = \$17,329,725.45 \div \$50,000,000 = 34.66\%.$$

Finally, if Ohio Corporation earned \$1 more of taxable income, it would still pay 35 cents (based upon its marginal tax rate of 35 percent) more in taxes.

81) A

The first 70 percent of the dividends received by Sasnak Corporation is not taxable. Thus, only 30 percent of the dividends received are taxed, so:

$$\text{Taxable income} = \$4,450,000 - \$750,000 + (0.3)\$900,000 = \$3,970,000.$$

Now Sasnak's Corporation's tax liability will be:

$$\text{Tax liability} = \$113,900 + 0.34 (\$3,970,000 - \$335,000) = \$1,349,800.$$

Sasnak Corporation's resulting average tax rate is now:

$$\text{Average tax rate} = \$1,349,800 \div \$4,450,000 = 30.33\%.$$

Finally, if Sasnak Corporation earned \$1 more of taxable income, it would still pay 34 cents (based upon its marginal tax rate of 34 percent) more in taxes.

TBEXAM.COM

82) B

The first 70 percent of the dividends received by AOK Corporation is not taxable. Thus, only 30 percent of the dividends received are taxed, so:

$$\text{Taxable income} = \$2,200,000 - \$90,000 + (0.3)\$750,000 = \$2,335,000.$$

Now AOK's Corporation's tax liability will be:

$$\text{Tax liability} = \$113,900 + 0.34 (\$2,335,000 - \$335,000) = \$793,900.$$

AOK Corporation's resulting average tax rate is now:

$$\text{Average tax rate} = \$793,900 \div \$2,200,000 = 36.0864\%.$$

Finally, if AOK Corporation earned \$1 more of taxable income, it would still pay 34 cents (based upon its marginal tax rate of 34 percent) more in taxes.

83) A

Finance Applications and Theory Edition 6 Cornett

Interest on the state-issued bonds is not taxable and should not be included in taxable income. Further, the first 70 percent of the dividends received from Amy's is not taxable. Thus, only 30 percent of the dividends received are taxed, so:

$$\text{Taxable income} = \$5,500,000 + (0.3) \$300,000 = \$5,590,000.$$

Now Emily's tax liability will be:

$$\text{Tax liability} = \$113,900 + 0.34 (\$5,590,000 - \$335,000) = \$1,900,600.$$

Emily's resulting average tax rate is now:

$$\text{Average tax rate} = \$1,900,600 \div \$5,590,000 = 34\%.$$

Finally, if Emily earned \$1 more of taxable income, it would still pay 34 cents (based upon its marginal tax rate of 34 percent) more in taxes.

84) A

Interest on the state-issued bonds is not taxable and should not be included in taxable income. Further, the first 70 percent of the dividends received from Sodas is not taxable. Thus, only 30 percent of the dividends received are taxed, so:

$$\text{Taxable income} = \$300,000 + (0.3) \$50,000 = \$315,000.$$

Now Liam's tax liability will be:

$$\text{Tax liability} = \$22,250 + 0.39 (\$315,000 - \$100,000) = \$106,100.$$

Liam's resulting average tax rate is now:

$$\text{Average tax rate} = \$106,100 \div \$315,000 = 33.68\%.$$

Finally, if Liam earned \$1 more of taxable income, it would still pay 39 cents (based upon its marginal tax rate of 39 percent) more in taxes.

85) C

Cash Flows from Operating Activities

Net income	\$ 15 million
Additions (sources of cash):	
Depreciation	6 million
Increase in accrued wages and taxes	1 million
Increase in accounts payable	1 million
Subtractions (uses of cash):	
Increase in accounts receivable	-2 million
Increase in inventory	-4 million
Net cash flow from operating activities:	<u>\$ 17 million</u>

Increase in accounts receivable = \$17 million - \$15 million - \$6 million - \$1 million - \$1 million + \$4 million = - \$2 million

Thus, end of year balance of accounts receivable = \$5 million + \$2 million = \$7 million.

Finance Applications and Theory Edition 6 Cornett

86) D

Cash Flows from Operating Activities

Net income	\$ 150 million
Additions (sources of cash):	
Depreciation	85 million
Increase in accrued wages and taxes	15 million
Increase in accounts payable	10 million
Subtractions (uses of cash):	
Increase in accounts receivable	-20 million
Increase in inventory	-14 million
Net cash flow from operating activities:	<u>\$ 226 million</u>

Increase in accounts receivable = \$226 million - \$150 million - \$85 million - \$15 million - \$10 million + \$14 million = - \$20 million

Thus, end of year balance of accounts receivable = \$45 million + \$20 million = \$65 million.

87) B

Cash Flows from Operating Activities

Net income	TBEXAM.COM	\$ 15 million
Additions (sources of cash):		
Depreciation		6 million
Decrease in accounts receivable		2 million
Decrease in inventory		4 million
Subtractions (uses of cash):		
Decrease in accrued wages and taxes		-1 million
Decrease in accounts payable		-1 million
Net cash flow from operating activities:		<u>\$ 25 million</u>

Decrease in accounts receivable = \$25 million - \$15 million - \$6 million - \$4 million + \$1 million + \$1 million = \$2 million

Thus, end of year balance of accounts receivable = \$5 million - \$2 million = \$3 million.

88) A

Finance Applications and Theory Edition 6 Cornett

Cash Flows from Financing Activities

Additions:

Increase in notes payable	\$ 2 million
Increase in long-term debt	20 million
Increase in common and preferred stock	3 million

Subtractions:

Pay stock dividends	-5 million
---------------------	------------

Net cash flow from financing activities:	<u>\$ 20 million</u>
--	----------------------

Increase in long-term debt = \$20 million + \$5 million - \$2 million - \$3 million = \$20 million

Thus, beginning of year balance for long-term debt = \$45 million - \$20 million = \$25 million.

89) B

Cash Flows from Financing Activities

Additions:

Increase in notes payable	\$ 40 million
Increase in long-term debt	30 million
Increase in common and preferred stock	50 million

Subtractions:

Pay stock dividends	-15 million
---------------------	-------------

Net cash flow from financing activities:	<u>\$ 105 million</u>
--	-----------------------

Increase in long-term debt = \$105 million + \$15 million - \$40 million - \$5 million = \$30 million

Thus, beginning of year balance for long-term debt = \$50 million - \$30 million = \$20 million.

90) A

Finance Applications and Theory Edition 6 Cornett

Cash Flows from Financing Activities

Additions:

Increase in long-term debt	30 million
Increase in common and preferred stock	50 million

Subtractions:

Decrease in notes payable	-40 million
Pay stock dividends	-15 million

Net cash flow from financing activities:	\$ 25 million
---	----------------------

Increase in long-term debt = \$25 million + \$15 million + \$40 million - \$50 million = \$30 million

Thus, beginning of year balance for long-term debt = \$40 million - \$30 million = \$10 million.

91) B

Taxes = \$320 million $\times$ (0.3) = \$96 million $\Rightarrow$ Pedro's operating cash flow was: $OCF = EBIT - \text{Taxes} + \text{Depreciation} = (\$500 \text{ million} - \$96 \text{ million} + \$250 \text{ million}) = \$654 \text{ million}$.

Pedro's free cash flow for 2010 was: $FCF = \text{Operating cash flow} - \text{Investment in operating capital}$.

$\$630 \text{ million} = \$654 \text{ million} - \text{Investment in operating capital} \Rightarrow \text{Investment in operating capital} = \$654 \text{ million} - \$630 \text{ million} = \24 million .

Accordingly, investment in operating capital for 2010 was: $IOC = \Delta \text{Gross fixed assets} + \Delta \text{Net operating working capital} \Rightarrow \$24 \text{ million} = (\$2,000 \text{ million} - \$1,600 \text{ million}) + (\text{Ending net operating working capital} - \$640 \text{ million}) \Rightarrow \text{Ending net operating working capital} = \$24 \text{ million} - (\$2,000 \text{ million} - \$1,600 \text{ million}) + \$640 \text{ million} = \$264 \text{ million}$.

92) B

Finance Applications and Theory Edition 6 Cornett

Taxes = \$3 million $\times$ (0.4) = \$1.2 million =>

Lou's operating cash flow was:

OCF = EBIT - Taxes + Depreciation.

= (\$5 million - \$1.2 million + \$2 million) = \$5.8 million.

Lou's free cash flow for 2022 was:

FCF = Operating cash flow - Investment in operating capital.

\$4 million = \$5.8 million - Investment in operating capital.

=> Investment in operating capital = \$5.8 million - \$4 million = \$1.8 million.

Accordingly, investment in operating capital for 2022 was:

IOC = Δ Gross fixed assets + Δ Net operating working capital.

\$1.8 million = (\$20 million - \$16 million) + (Ending net operating working capital - \$6 million).

=> Ending net operating working capital = \$1.8 million - (\$20 million - \$16 million) + \$6 million = \$3.8 million.

93) C

Taxes = \$15 million $\times$ (0.3) = \$4.5 million =>

Paige's operating cash flow was:

OCF = EBIT - Taxes + Depreciation.

= (\$25 million - \$4.5 million + \$10 million) = \$30.5 million.

Paige's free cash flow for 2022 was: [TBEXAM.COM](https://www.tbexam.com)

FCF = Operating cash flow - Investment in operating capital.

\$20 million = \$30.5 million - Investment in operating capital.

=> Investment in operating capital = \$30.5 million - \$20 million = \$10.5 million.

Accordingly, investment in operating capital for 2022 was:

IOC = Δ Gross fixed assets + Δ Net operating working capital.

\$10.5 million = (\$100 million - \$80 million) + (Ending net operating working capital - \$30 million).

=> Ending net operating working capital = \$10.5 million - (\$100 million - \$80 million) + 30 million = \$20.5 million.

94) C

Finance Applications and Theory Edition 6 Cornett

Briana's operating cash flow was:

$$\text{OCF} = \text{EBIT} - \text{Taxes} + \text{Depreciation}.$$

$$= (\$400 \text{ million} - \$120 \text{ million} + \$100 \text{ million}) = \$380 \text{ million}.$$

Briana's free cash flow for 2022 was:

$$\text{FCF} = \text{Operating cash flow} - \text{Investment in operating capital}.$$

$$\$625 \text{ million} = \$380 \text{ million} - \text{Investment in operating capital}.$$

$$\Rightarrow \text{Investment in operating capital} = \$380 \text{ million} - \$625 \text{ million} = -\$245 \text{ million}.$$

Accordingly, investment in operating capital for 2022 was:

$$\text{IOC} = \Delta \text{Gross fixed assets} + \Delta \text{Net operating working capital}.$$

$$-\$245 \text{ million} = (\$510 \text{ million} - \text{Beginning of year gross fixed assets}) + \$94 \text{ million}.$$

$$\Rightarrow \text{Beginning of year gross fixed assets} = 510 \text{ million} - (-\$245 \text{ million}) + \$94 \text{ million} = \$849 \text{ million}.$$

95) B

John's operating cash flow was:

$$\text{OCF} = \text{EBIT} - \text{Taxes} + \text{Depreciation}$$

$$= (\$80 \text{ million} - \$24 \text{ million} + \$20 \text{ million}) = \$76 \text{ million}$$

John's free cash flow for 2022 was:

$$\text{FCF} = \text{Operating cash flow} - \text{Investment in operating capital}$$

$$\$41 \text{ million} = \$76 \text{ million} - \text{Investment in operating capital}$$

$$\Rightarrow \text{Investment in operating capital} = \$76 \text{ million} - \$41 \text{ million} = \$35 \text{ million}$$

Accordingly, investment in operating capital for 2022 was:

$$\text{IOC} = \Delta \text{Gross fixed assets} + \Delta \text{Net operating working capital}$$

$$\$35 \text{ million} = (\$102 \text{ million} - \text{Beginning of year gross fixed assets}) + \$18 \text{ million}$$

$$\Rightarrow \text{Beginning of year gross fixed assets} = 102 \text{ million} - \$35 \text{ million} + \$18 \text{ million} = \$85 \text{ million}$$

96) C

Finance Applications and Theory Edition 6 Cornett

Statement of Retained Earnings as of December 31, 2021 (in millions of dollars)

Balance of retained earnings, December 31, 2020	\$ 100 million
Plus: Net income for 2021 (= \$128 million + 31 million - 100 million)	59 million
Less: Cash dividends paid	
Preferred stock	\$ 9 million
Common stock	22 million
Total cash dividends paid	31 million
Balance of retained earnings, December 31, 2021	\$ 128 million
Net income for 2021 = \$128 million + 31 million - 100 million = 59 million.	

97) B

Statement of Retained Earnings as of December 31, 2021 (in millions of dollars)

Balance of retained earnings, December 31, 2020	\$ 25 million
Plus: Net income for 2021 (= \$32 million + 8 million - 25 million)	15 million
Less: Cash dividends paid	
Preferred stock	\$ 2 million
Common stock	6 million
Total cash dividends paid	8 million
Balance of retained earnings, December 31, 2021	\$ 32 million
Net income for 2021 = \$32 million + 8 million - 25 million = 15 million.	

98) C

Finance Applications and Theory Edition 6 Cornett

Statement of Retained Earnings as of December 31, 2021 (in millions of dollars)

Balance of retained earnings, December 31, 2020	\$ 100 million
Plus: Net income for 2021	45 million
Less: Cash dividends paid	
Preferred stock	\$ 2 million
Common stock	15 million
Total cash dividends paid	17 million
Balance of retained earnings, December 31, 2021	\$ 128 million

99) C

Lamps, Incorporated
Income Statement for Year Ending December 31, 2021
(in millions of dollars)

Net sales	\$ 116
Less: Cost of goods sold	87
Gross profits	29
Less: Depreciation	5
Earnings before interest and taxes (EBIT)	24
Less: Interest	4
Earnings before taxes (EBT)	20
Less: Taxes	
Net income	\$ 12

Step 1: $EBT(1 - t) = \text{Net income} = \$12 \text{ million} = EBT(1 - 0.4) \Rightarrow EBT = \$12 \text{ million} \div (1 - 0.4) = \$20 \text{ million}.$

Step 2: $EBIT = EBT + \text{Interest} = \$20 \text{ million} + \$4 \text{ million} = \$24 \text{ million}.$

Step 3: $\text{Gross profits} = EBIT + \text{Depreciation} = \$24 \text{ million} + \$5 \text{ million} = \$29 \text{ million}.$

Step 4: $\text{Net sales} = \text{Gross profits} \div (1 - \text{Cost of goods sold percent}) = \$29 \text{ million} \div (1 - 0.75) = \$116 \text{ million}.$

Step 5: $\text{Cost of goods sold} = \text{Sales} - \text{Gross profits} = \$116 \text{ million} - \$29 = \$87 \text{ million}.$

100) B

Finance Applications and Theory Edition 6 Cornett

Income Statement for Year Ending December 31, 2020

(in millions of dollars)

Net sales (all credits)	\$ 50,000,000
Less: Cost of goods sold	35,000,000
Gross profits	15,000,000
Less: Depreciation (\$15 million - \$10,142,857)	4,857,143
Earnings before interest and taxes (EBIT) (\$7,142,857 + \$3 million)	10,142,857
Less: Interest	3,000,000
Earnings before taxes (EBT)	7,142,857
Less: Taxes	
 Net income	 \$ 5,000,000
Less: Preferred and common stock dividends	\$ 3,000,000
Addition to retained earnings	\$ 2,000,000

Depreciation = \$15,000,000 - \$10,142,857 = \$4,857,143.

Earnings before interest and taxes (EBIT) = \$7,142,857 + \$3,000,000 = \$10,142,857.

Earnings before taxes (EBT) = \$5,000,000 ÷ (1 - 0.30) = \$7,142,857.

101) C

TBEXAM.COM

Finance Applications and Theory Edition 6 Cornett

Monique's operating cash flow for 2022 was:

$$\text{OCF} = \text{EBIT} - \text{Taxes} + \text{Depreciation} = (\$30 \text{ million} - \$8 \text{ million} + \$4 \text{ million}) = \$26 \text{ million}$$

Monique's free cash flow was:

$$\text{FCF} = \text{Operating cash flow} - \text{Investment in operating capital}$$

$$\$1 \text{ million} = \$26 \text{ million} - \text{Investment in operating capital}$$

$$\text{So, Investment in operating capital} = \$26 \text{ million} - \$1 \text{ million} = \$25 \text{ million}$$

$$\text{IOC} = \Delta \text{Gross fixed assets} + \Delta \text{Net operating working capital}$$

$$\$25 \text{ million} = (\$40 \text{ million} - \$30 \text{ million}) + \Delta \text{Net operating working capital}$$

$$\Rightarrow \Delta \text{Net operating working capital} = \$25 \text{ million} - (\$40 \text{ million} - \$30 \text{ million}) = \$15 \text{ million}$$

$$\Delta \text{Net operating working capital} = \$15 \text{ million} = \Delta \text{Current assets} - \Delta \text{Current liabilities}$$

$$\$15 \text{ million} = (\$130 \text{ million} - \$110 \text{ million}) - \Delta \text{Current liabilities}$$

$$\Rightarrow \Delta \text{Current liabilities} = (\$130 \text{ million} - \$110 \text{ million}) - \$15 \text{ million} = \$5 \text{ million}$$

$$\Rightarrow 2022 \text{ Current liabilities} = \$85 \text{ million} + \$5 \text{ million} = \$90 \text{ million and } 2022 \text{ Current liabilities}$$

$$= \text{Accrued wages and taxes} + \text{Accounts payable} + \text{Notes payable}$$

$$\$90 \text{ million} = \$20 \text{ million} + \text{Accounts payable} + \$35 \text{ million}$$

$$\Rightarrow \text{Accounts payable} = \$90 \text{ million} - \$20 \text{ million} - \$35 \text{ million} = \$35 \text{ million}$$

Monique's Moving Van 4U, Incorporated

Balance Sheet as of December 31, 2020 and 2021

(in millions of dollars)

Assets	2021	2022	Liabilities and Equity	2021	2022
Current assets			Current liabilities		
Cash and marketable securities	\$ 10	\$ 15	Accrued wages and taxes	\$ 15	\$ 20
Accounts receivable	20	25	Accounts payable	40	35
Inventory	80	90	Notes payable	30	35
Total	\$ 110	\$ 130	Total	\$ 85	\$ 90
Fixed assets:			Long-term debt:	\$ 20	\$ 25
Gross plant and equipment	\$ 30	\$ 40	Stockholders' equity:		
Less: Depreciation	10	12	Preferred stock (5 million shares)	\$ 5	\$ 5
Net plant and equipment	\$ 20	\$ 28	Common stock and paid-in-surplus (20 million shares)	10	10
Other long-term assets	30	30	Retained earnings	40	58
Total	\$ 50	\$ 58	Total	\$ 55	\$ 73

Finance Applications and Theory Edition 6 Cornett

Total assets	\$	\$	Total liabilities and	\$	\$
	160	188	equity	160	188

102) B

$$(0.2 \text{ million} + 1.1 \text{ million} + 2.0 \text{ million}) - (0.5 \text{ million} + 0.6 \text{ million} + 0.1 \text{ million}) = 2.1 \text{ million.}$$

103) C

$$(0.350 + 0.325) - (0.145 + 0.185) = 0.345 \text{ million.}$$

104) D

$$(0.550 \text{ million} - 0.043 \text{ million}) - 0.3 \text{ million} = 0.207 \text{ million.}$$

105) B

$$(0.555 \text{ million} - 0.178 \text{ million} - 0.148 \text{ million}) \div 0.1 \text{ million} = \$2.29.$$

106) B

$$82,100 \div 255,000 = 32.20\%.$$

107) D

$$\$36.5 \text{ million} + (0.3)0.4 \text{ million} = 36.620 \text{ million.}$$

TBEXAM.COM

108) C

$$\$20 + (1.5 + 2 + 5) - (9 + 11) = \$8.5 \text{ million.}$$

109) B

$$(1,025,000 - 980,000) = X - 2,150,000 - 3,219,000; \Rightarrow X = \text{Cash flow from operations} = \$5,414,000.$$

110) D

$$\text{OCF} = \text{EBIT} - \text{Taxes} + \text{Depreciation} = (\$52 \text{ million} - \$10 \text{ million} + \$5 \text{ million}) = \$47 \text{ million.}$$

$$\text{Investment in operating capital: } \Delta \text{Gross fixed assets} + \Delta \text{Net operating working capital} = \$38 \text{ million} + (\$20 \text{ million} - \$12 \text{ million}) = \$46 \text{ million. Accordingly, Fields and Struthers' free cash flow for 2022 was: } \text{FCF} = \text{Operating cash flow} - \text{Investment in operating capital} = \$47 \text{ million} - \$46 \text{ million} = \$1 \text{ million.}$$

111) C

$$\text{FCF} = \text{Operating cash flow} - \text{Investment in operating capital}; \$20 \text{ million} = X - \$15 \text{ million}; X = \$35 \text{ million}; \text{OCF} = \text{EBIT} - \text{Taxes} + \text{Depreciation}; \$35 \text{ million} = (\text{EBIT} - \$12 \text{ million} + \$8 \text{ million}); \text{EBIT} = \$39 \text{ million.}$$

Finance Applications and Theory Edition 6 Cornett

112) D

\$205 million + \$30 million - \$5 million - \$12 million = \$218 million.

113) A

Step 1: Find Inventory: $CA = 5 = \text{Cash} + A/R + \text{Inv} = 0.12 \times 5 + 0.40 \times 5 + \text{Inv}$; $\Rightarrow \text{Inv} = \2.4 million;

Step 2: Find Depreciation Expense: $TA = CA + FA - \text{Accumulated Depreciation.}; 17 = 5 + (12 + 1) - \text{Accumulated Depreciation}$; $\Rightarrow \text{Accumulated Depreciation} = \1 million.

114) D

Step 1: Find long-term debt: $TL = CL + \text{long-term debt} = 0.5 \times 100 = 37 + \text{long-term debt}$; long-term debt = \$13 million;

Step 2: Find RE: $\text{Total equity} = 0.5 \times 100 = 50 = CS + P + RE = 32 + RE$; RE = \$18 million.

115) A

Step 1: Find CA (book value): $= CA - CL = NWC$; $\Rightarrow CA (\text{book value}) = 6.5 \text{ million} + 5.5 \text{ million} = \12 million .

Step 2: Find TA (book value): $TA = \text{Net FA} + CA = \$16 \text{ million} + \$12 \text{ million} = \28 million .

Step 3: Find CA (market value): $NWC (\text{market}) + CL = \$10.25 + \$5.5 \text{ million} = \15.75 million .

Step 4: Find TA (market value): $\text{Net FA} + CA = \$17 \text{ million} + \$15.75 \text{ million} = \32.75 million .

TBEXAM.COM

116) B

Step 1: $NI = \text{Dividends} + \text{Addition to RE} = \$4,000,000.00 + 995,000 = \$4,995,000$.

Step 2: $NI = EBT (1 - \text{tax rate}) \Rightarrow EBT = NI \div (1 - \text{tax rate}) = \$4,995,000 \div (1 - 0.30) = \$7,135,714.29$.

Step 3: $EBIT - \text{Interest} = EBT \Rightarrow EBIT = \$7,135,714.29 + \$1,150,000 = \$8,285,714.29$.

Step 4: $\text{Gross profits} = \text{Net sales} - \text{COGS} = \$15,250,000 - \$5,750,000 = \$9,500,000$.

Step 5: $\text{Gross profits} - \text{Depreciation} = EBIT \Rightarrow \text{Depreciation} = \$9,500,000 - \$8,285,714.29 = \$1,214,285.71$.

117) D

$\$10 = \$9 - \$8 - \$0 + \text{Change in long-term debt}$; $\Rightarrow \text{change in long-term debt} = \$9 = \text{Ending Balance} - \text{Change in long-term debt}$; $\Rightarrow \text{Beginning balance of long-term debt} = \35 .

118) B

Finance Applications and Theory Edition 6 Cornett

Step 1: Find OCF: $OCF = \$420 - (\$240 \times 0.3) + \$180 = \528 ;

Step 2: Find investment in operating capital: $FCF = \$425 = \$528 - \text{Investment in operating capital}$; Investment in operating capital = \$103

Step 3: Find ending level of net operating working cap: $\$103 = (\$1,803 - \$1,500) + (\text{Ending net operating working capital} - \$500)$;

Ending net operating working capital = \$300

119) C

Work backwards (up) the income statement: $EBT = 3.25 \div (1 - 0.3) = \4.64 million; $EBIT = \$4.64 \text{ million} + \$1.05 \text{ million} = \$5.69 \text{ million}$; Gross Profits = $\$5.69 \text{ million} + \$2.9 = \$8.59$ million; Net sales = $\$8.59 \div (1 - 0.6) = \21.475 million

120) D

121) B

122) D

123) B

124) A

125) A

126) C

127) D

128) D

TBEXAM.COM

$\$1,000 - \$225 + \$13 = \788 .

129) C

130) C

$(\$140 + \$16.50) - \$12 - \$40 = \$104.50$

131) C

$(\$1,000 - \$350 + \$185) = \835 .

132) D

133) B

134) A

$\$100 + 315 - 40 - 750 + 450 = \75 .

135) C

$\$300 + 325 - 30 - 550 + 350 = \395

136) C

Finance Applications and Theory Edition 6 Cornett

Step 1: Original forecasted NI = $[(1,000 - 675) - 90](1 - 0.35) = 152.75$;

Step 2: NI under increase in sales = $[1,200 - (0.675 \times 1,200) - 90](1 - 0.35) = 195$; Additional NI = $195 - 152.75 = 42.25$.

137) C

$150 \div (1 - 0.35) = \text{EBT} = 230.77$; $\text{EBT} + \text{Interest Expense} = \text{EBIT} = 325.77$; $\text{EBIT} \div (1 - 0.71) = \text{Sales} = 1,123.34$.

138) C

$[300 - (300 \times 0.4) + 40] - 265 = \text{FCF} = -\45 .

139) C

$[200 - (200 \times 0.3) + 30] - 275 = \text{FCF} = -\105

140) B

$\$800 \text{ million} + (1.92 \times 100 \text{ million}) - (0.75 \times 100 \text{ million}) = \917 million .

141) C

$\$500 \text{ million} + (1.70 \times 100 \text{ million}) - (0.50 \times 100 \text{ million}) = \620 million .

142) D

143) A

144) D

Using the setup of an Income Statement in Table 2.2 as shown:

EBIT	\$ 1,000,000
Interest expense	-75,000
EBT	925,000
Taxes	-277,500
Net income	647,500

Thus, Earnings per share (EPS) = $\$647,500 \div 100,000 = \6.475 per share.

145) D

Finance Applications and Theory Edition 6 Cornett

Using the setup of an Income Statement in Table 2.2 as shown:

EBIT	\$ 700,000
Interest expense	-100,000
EBT	600,000
Taxes	-168,000
Net income	432,000

Thus, Earnings per share (EPS) = $\$432,000 \div 50,000 = \8.64 EPS.

146) B

Using the setup of an Income Statement in Table 2.2 as shown:

EBIT	\$ 500,000
Interest expense	-100,000
EBT	400,000
Taxes	-150,000
Net income	250,000

Thus, Earnings per share (EPS) = $\$250,000 \div 20,000 = \12.5 EPS.

147) A

$(\$500,000 + 200,000 + 100,000) - (50,000 + 60,000 + 200,000) = \$490,000$.

TBEXAM.COM

148) B

$(\$10,000 + 2,000 + 20,000) - (1,000 + 3,000 + 10,000) = \$18,000$.

149) D

$(\$20,000 + 3,000 + 30,000) - (2,000 + 2,000 + 15,000) = \$34,000$.

150) D

151) C

$[\$3,000 - (3,000 \times 0.3) + 400] - 2,000 = \text{FCF} = \500 .

152) C

$[\$10,000 - (10,000 \times 0.3) + 4,000] - (2,000 + 1,000) = \text{FCF} = \$8,000$.

153) B

$\$100 \text{ million} + (2.00 \times 10 \text{ million}) - (0.25 \times 10 \text{ million}) = \117.5 million .

154) D

$\$120 \text{ million} + (2.00 \times 15 \text{ million}) - (0.35 \times 15 \text{ million}) = \$144,750,000$