

***Analysis for Financial Management 2026 Release 1st
edition Higgins Test Bank***

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Answers are located at the end of each chapter.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

- 1) Current liabilities are defined as liabilities with a maturity of less than one year.
 - ☐ true
 - ☐ false

- 2) A decline in the Net Property, Plant, and Equipment account between year-end 2024 and year-end 2025 is a clear indication that fixed assets were sold during 2025.
 - ☐ true
 - ☐ false

- 3) When reporting financial performance for tax purposes, U.S. companies prefer to use accelerated depreciation methods over the straight-line method.
 - ☐ true
 - ☐ false

- 4) Accounting rules require U.S. companies to depreciate research and development (R&D) expenditures using the straight-line method.
 - ☐ true
 - ☐ false

- 5) You can construct a sources and uses statement for 2025 if you have a company's year-end balance sheets for 2025 and 2026.
 - ☐ true
 - ☐ false

- 6) A reduction in long-term debt is a use of cash.
 - ☐ true
 - ☐ false

- 7) The accrual principle requires that revenue not be recognized until payment from a sale is received.
- ☐ true
 - ☐ false
- 8) An increase in the cash and cash equivalents account is a use of cash.
- ☐ true
 - ☐ false
- 9) A cash flow statement places each source or use of cash into one of three broad categories: operating activities, investing activities, or financing activities.
- ☐ true
 - ☐ false
- 10) The cost of equity is usually reported on the income statement right below interest expense.
- ☐ true
 - ☐ false
- 11) The United States was one of the first countries to adopt International Financial Reporting Standards.
- ☐ true
 - ☐ false

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

- 12) Which of the following statements concerning a firm's cash flows and profits is false?
- A) Managers must be at least as concerned with cash flows as with profits.
 - B) A company that sells merchandise at a profit can be assured of generating cash soon enough to replenish cash flows required for continued production.
 - C) The cash flows generated in a given time period can differ from the profits reported.
 - D) Profits are no assurance that cash flow will be sufficient to maintain solvency.
 - E) Due to required cash investments in current assets, fast-growing and profitable companies can literally "grow broke".

- 13) Which of the following is NOT a typical reason for differences between profits and cash flow?
- A) Goodwill
 - B) Depreciation expense
 - C) Changes in accounts receivable
 - D) Accrual accounting practices
- 14) Which one of the following is the financial statement that shows a financial snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets?
- A) Income statement
 - B) Creditor's statement
 - C) Balance sheet
 - D) Cash flow statement
 - E) Sources and uses statement
- 15) A balance sheet reports the value of a firm's assets, liabilities, and equity
- A) over an annual period.
 - B) over any period of time.
 - C) at any point in time.
 - D) at the end of the year only.
- 16) A company sells used equipment with a book value of \$100,000 for \$250,000 cash. How would this transaction affect the company's balance sheet?
- A) Equity rises \$250,000; net plant and equipment falls \$250,000.
 - B) Cash rises \$250,000; net plant and equipment falls \$100,000; equity rises \$150,000.
 - C) Cash rises \$250,000; accounts receivable falls \$100,000; goodwill rises \$150,000.
 - D) Cash rises \$250,000; net plant and equipment falls \$250,000.

- 17) A company purchases a new \$10 million building financed half with cash and half with a bank loan. How would this transaction affect the company's balance sheet?
- A) Net plant and equipment rises \$10 million; cash falls \$10 million; bank debt rises \$5 million.
 - B) Net plant and equipment rises \$5 million; cash falls \$10 million; bank debt rises \$5 million.
 - C) Net plant and equipment rises \$5 million; cash falls \$5 million; bank debt rises \$5 million.
 - D) Net plant and equipment rises \$10 million; cash falls \$5 million; bank debt rises \$5 million.
- 18) Which one of the following is the financial statement that summarizes a firm's revenue and expenses over a period of time?
- A) Income statement
 - B) Balance sheet
 - C) Cash flow statement
 - D) Sources and uses statement
 - E) Market value statement
- 19) The sources and uses of cash over a stated period of time are reflected in the
- A) income statement.
 - B) balance sheet.
 - C) shareholders' equity statement.
 - D) cash flow statement.
 - E) statement of operating position.
- 20) Which one of the following is a source of cash?
- A) Increase in accounts receivable
 - B) Decrease in notes payable
 - C) Decrease in common stock
 - D) Increase in inventory
 - E) Increase in accounts payable

- 21) Which one of the following is a use of cash?
- A) Increase in notes payable
 - B) Increase in inventory
 - C) Increase in long-term debt
 - D) Decrease in accounts receivable
 - E) Increase in common stock
- 22) Which one of the following is a source of cash?
- A) Decrease in accounts receivable
 - B) Decrease in common stock
 - C) Decrease in long-term debt
 - D) Decrease in accounts payable
 - E) Increase in inventory
- 23) Which of the following would NOT be considered a use of cash?
- A) Dividends paid
 - B) A decrease in accounts payable
 - C) Depreciation
 - D) An increase in the cash and marketable securities account
- 24) Which one of the following is the financial statement that summarizes changes in the company's cash balance over a period of time?
- A) Income statement
 - B) Balance sheet
 - C) Cash flow statement
 - D) Shareholders' equity statement
 - E) Market value statement
- 25) Which of the following is NOT a major category on the cash flow statement?
- A) Cash flows from selling activities
 - B) Cash flows from operating activities
 - C) Cash flows from financing activities
 - D) Cash flows from investing activities

- 26) The book value of an asset
- A) is always equal to its market value.
 - B) is always less than or equal to its market value.
 - C) is always greater than or equal to its market value.
 - D) could be greater than, equal to, or less than its market value.
- 27) Which of the following is a reason why a company's market value of equity can differ from its book value of equity?
- A) Shareholders are keenly aware of book values but have little interest in market values.
 - B) Accountants' charges for the cost of equity are often higher than they should be.
 - C) The value of some assets on the balance sheet are marked to market.
 - D) The value of some assets on the balance sheet reflect historical cost, adjusted for depreciation.
- 28) Depreciation expense
- A) decreases both taxes and net income.
 - B) increases net fixed assets.
 - C) increases net income.
 - D) increases both current assets and net income.
 - E) decreases both current assets and net income.
- 29) Suppose an acquiring firm pays \$100 million for a target firm, and the target's assets have a book value of \$60 million and an estimated replacement value of \$70 million. What amount would be allocated to the acquiring firm's goodwill account?
- A) \$0 million
 - B) \$20 million
 - C) \$30 million
 - D) \$70 million
 - E) \$80 million
 - F) None of the options are correct.

- 30) JM Case, Inc. has a market value of \$5 million with 500,000 shares outstanding. The book value of its equity is \$1,750,000. What is JM Case's price per share?
- A) \$3.50
 - B) \$5.00
 - C) \$10.00
 - D) \$25.00
 - E) \$50.00
 - F) None of the options are correct.
- 31) JM Case, Inc. has a market value of \$5 million with 500,000 shares outstanding. The book value of its equity is \$1,750,000. What is JM Case's book value per share?
- A) \$3.50
 - B) \$5.00
 - C) \$10.00
 - D) \$25.00
 - E) \$50.00
 - F) None of the options are correct.
- 32) JM Case, Inc. has a market value of \$5 million with 500,000 shares outstanding. The book value of its equity is \$1,750,000. If the company repurchases 20% of its shares in the stock market at the current market price, what will be the book value of equity after the repurchase if all else remains the same? (Assume there are no taxes, no transactions costs, and that investors do not change their perceptions of the firm.)
- A) \$750,000
 - B) \$1,000,000
 - C) \$1,250,000
 - D) \$1,400,000
 - E) \$4,000,000
 - F) None of the options are correct.

- 33) JM Case, Inc. has a market value of \$5 million with 500,000 shares outstanding. The book value of its equity is \$1,750,000. If the company repurchases 20% of its shares in the stock market at the current market price, what will be the market value of equity after the repurchase if all else remains the same? (Assume there are no taxes, no transactions costs, and that investors do not change their perceptions of the firm.)
- A) \$1,000,000
 - B) \$1,750,000
 - C) \$3,250,000
 - D) \$4,000,000
 - E) \$5,000,000
 - F) None of the options are correct.
- 34) ZZZ Corporation's income statement shows a provision for income taxes of \$65 million in 2025. At the end of 2024, ZZZ's balance sheet reported income taxes payable of \$12 million and deferred taxes of \$18 million. At the end of 2025, their balance sheet shows income taxes payable of \$13 million and deferred taxes of \$17 million. What were ZZZ's taxes paid in 2025?
- A) \$61 million
 - B) \$63 million
 - C) \$65 million
 - D) \$67 million
 - E) \$69 million
- 35) Which of the following formulas describes the calculation of cash flow from operating activities?
- A) $\text{Net income} + \text{Noncash charges} - \text{Net increase in current assets} + \text{Net increase in current liabilities}$
 - B) $\text{Net income} + \text{Capital expenditures} - \text{Dividends paid}$
 - C) $\text{Net income} - \text{Capital expenditures} - \text{Dividends paid}$
 - D) $\text{Net income} + \text{Net increase in current assets} - \text{Net increase in current liabilities}$
 - E) $\text{Net income} + \text{Noncash charges} - \text{Capital expenditures}$

- 36) Which of the following statements regarding the practice of reporting adjusted earnings is true?
- A) It is uncommon for large public U.S. corporations to report adjusted earnings.
 - B) A company's adjusted earnings are typically lower than official earnings.
 - C) U.S. corporations are required to explain differences between adjusted earnings and official earnings.
 - D) Managers must follow all generally accepted accounting principles when calculating adjusted earnings.
- 37) Which of the following statements concerning the cash flow–production cycle is true?
- A) The profits reported in a given time period equal the cash flows generated.
 - B) A company's operations and finances are independent of each other.
 - C) Financial statements have nothing to do with reality.
 - D) The movement of cash to inventory, to accounts receivable, and back to cash is known as the firm's working capital cycle.
 - E) A profitable company will always have sufficient cash to meet its obligations.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

- 38) The estimated replacement value of Little Rock, Inc.'s total assets is \$400,000. Suppose Big Rock Inc. acquires Little Rock's assets for \$1 million and finances the purchase with \$600,000 in new stock, \$300,000 in new debt, and existing cash of \$100,000. Describe how the acquisition affects Big Rock's balance sheet.

- 39) Playtime Products earned net income of \$500,000 last year. The firm increased its accounts receivable during the year by \$220,000. The book value of its assets declined by the year's depreciation charge, which was \$140,000, and the market value of its assets increased by \$50,000. Based only on this information, how much cash did Playtime Products generate during the year? Please ignore taxes for this problem.
- 40) During the past year, Lele Design earned net income of \$250,000. The firm neither bought nor sold any capital assets. The book value of its assets declined by the year's depreciation charge of \$200,000. The firm's operating cash flow for the year was \$450,000. The market value of its assets increased by \$300,000. Based only on this information, what was Lele Design's economic income for the year? Why is this figure different from its accounting income? Please ignore taxes for this problem.

- 41) Identify the sources and uses of cash for Blackhurst Corporation for 2025 based on the following year-end balance sheets.

	2024	2025
ASSETS		
Cash	40	30
Accounts receivable	100	150
Inventory	135	125
Net fixed assets	200	240
Total assets	475	545
LIABILITIES & EQUITY		
Bank loan	40	100
Long-term debt	200	180
Equity	235	265
Total liabilities & equity	475	545

SECTION BREAK. Answer all the part questions.

- 42) *[The following information applies to the questions displayed below.]*

Foodtek, Inc. Selected financial information (\$ millions) Table Summary : A table with 3 columns and 10 rows. Row 1 column 1 is blank.

	2024	2025
Net sales	296	364
Cost of goods sold	168	223
Depreciation	51	65
Net income	32	45
Finished goods inventory	34	29
Accounts receivable	47	87
Accounts payable	39	44
Net fixed assets	310	415
Year-end cash balance	186	123

- 42.1) Please refer to the financial information for Foodtek, Inc. above. During 2025, how much cash (in \$ millions) did Foodtek collect from sales?
- A) 277
 - B) 324
 - C) 364
 - D) 404
 - E) 451
 - F) None of the options are correct.
- 42.2) Please refer to the financial information for Foodtek, Inc. above. During 2025, what was the cost of merchandise (in \$ millions) produced by Foodtek?
- A) 194
 - B) 218
 - C) 223
 - D) 228
 - E) 252
 - F) None of the options are correct.
- 42.3) Please refer to the financial information for Foodtek, Inc. above. Assuming the company neither sold nor salvaged any assets during the year, what were Foodtek's capital expenditures (in \$ millions) during 2025?
- A) 40
 - B) 105
 - C) 170
 - D) 310
 - E) 415
 - F) None of the options are correct.

- 42.4) Please refer to the financial information for Foodtek, Inc. above. Assuming that there were no financing cash flows during 2025 and basing your answer solely on the information provided, what were Foodtek's cash flows from operations (in \$ millions) for 2025?
- A) 35
 - B) 45
 - C) 70
 - D) 90
 - E) 110
 - F) None of the options are correct.

Answer Key

Test name: Chapter 01

- 1) TRUE
- 2) FALSE
- 3) TRUE
- 4) FALSE
- 5) FALSE
- 6) TRUE
- 7) FALSE
- 8) TRUE
- 9) TRUE
- 10) FALSE
- 11) FALSE
- 12) B
- 13) A
- 14) C
- 15) C
- 16) B
- 17) D
- 18) A
- 19) D
- 20) E
- 21) B
- 22) A
- 23) C
- 24) C
- 25) A
- 26) D
- 27) D
- 28) A
- 29) C
- 30) C
- 31) A
- 32) A
- 33) D
- 34) C
- 35) A
- 36) C
- 37) D

38) Short Answer

39) Short Answer

40) Short Answer

41) Short Answer

42) Section Break

42.1) B

42.2) B

42.3) C

42.4) F