Survey of Accounting 1st edition Kimmel Test Bank

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CHAPTER 2

A FURTHER LOOK AT FINANCIAL STATEMENTS

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVE AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	K	6.	1	K	11.	2	K	16.	2	C	21.	2	K
2.	1	K	7.	1	C	12.	2	K	17.	2	K	22.	2	K
3.	1	K	8.	2	K	13.	2	K	18.	2	K	23.	2	K
4.	1	K	9.	2	C	14.	2	K	19.	2	K	24.	2	K
5.	1	C	10.	2	K	15.	2	K	20.	2	K	25.	2	C
Multiple Choice Questions														
26.	1	K	44.	2	K	62.	2	K	80.	2	K	98.	2	C
27.	1	K	45.	1	AP	63.	2	AP	81.	2	C	99.	2	C
28.	1	K	46.	1	AP	64.	2	AP	82.	2	C	100.	2	C
29.	1	K	47.	1	AP	65.	2	K	83.	2	K	101.	2	C
30.	1	K	48.	2	AP	66.	2	K	84.	2	K	102.	2	AP
31.	1	K	49.	2	AP	67.	2	C	85.	1	AP	103.	2	AP
32.	1	K	50.	1	AP	68.	2	K	86.	2	AP	104.	2	AP
33.	1	K	51.	1	AP	69.	2	AN	87.	2	AP	105.	2	AP
34.	1	K	52.	1	AP	70.	2	AN	88.	2	AP	106.	2	K
35.	1	K	53.	2	AP	71.	2	AP	89.	2	AP	107.	2	K
36.	1	K	54.	2	AP	72.	2	AN	90.	2	AP	108.	2	K
37.	1	K	55.	1	AP	73.	2	K	91.	2	AP	109.	2	K
38.	1	K	56.	1	AP	74.	2	K	92.	2	AP	110.	2	AP
39.	1	K	57.	1	AP	75.	2	K	93.	2	AP	111.	2	AP
40.	1	K	58.	1	AP	76.	2	C	94.	2	AP	112.	2	AN
41.	1	K	59.	1	AP	77.	2	K	95.	2	K	113.	2	AP
42.	1	AP	60.	2	AP	78.	2	K	96.	2	K	114.	2	AP
43.	1	K	61.	2	AP	79.	2	K	97.	2	K	115.	2	C
Brief Exercises														
116.	1	AP	117.	2	AP	118.	2	AP						
Exercises														
119.	1	AP	123.	1, 2	AP	127.	2	AP	131.	2	K			
120.	1	K	124.	1	AP	128.	2	AP	132.	2	AP			
121.	1	AP	125.	1	AP	129.	2	AP	133.	2	AP			
122.	1, 2	AP	126.	2	AP	130.	2	AN	134.	2	AN			
Completion Statements														
135.	2	K	136.	1	K	137.	2	K	138.	2	K			
Matching														
139.	1-2	K												
Short Answer Essay														
140.	1	K	141.	2	K	142.	1, 2	K	143.	2	C	144.	2	E

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SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 1											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
1.	TF	28.	MC	37.	MC	47.	MC	85.	MC	136.	CS
2.	TF	29.	MC	38.	MC	50.	MC	116.	BE	139.	Ma
3.	TF	30.	MC	39.	MC	51.	MC	119.	Ex	140.	SA
4.	TF	31.	MC	40.	MC	52.	MC	120.	Ex	142.	SA
5.	TF	32.	MC	41.	MC	55.	MC	121.	Ex		
6.	TF	33.	MC	42.	MC	56.	MC	122.	Ex		
7.	TF	34.	MC	43.	MC	57.	MC	123.	Ex		
26.	MC	35.	MC	45.	MC	58.	MC	124.	Ex		
27.	MC	36.	MC	46.	MC	59.	MC	125.	Ex		
Learning Objective 2											
Item	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**	**Item**	**Type**
8.	TF	25.	TF	71.	MC	89.	MC	106.	MC	129.	Ex
9.	TF	44.	MC	72.	MC	90.	MC	107.	MC	130.	Ex
10.	TF	48.	MC	73.	MC	91.	MC	108.	MC	131.	Ex
11.	TF	49.	MC	74.	MC	92.	MC	109.	MC	132.	Ex
12.	TF	53.	MC	75.	MC	93.	MC	110.	MC	133.	Ex
13.	TF	54.	MC	76.	MC	94.	MC	111.	MC	134.	Ex
14.	TF	60.	MC	77.	MC	95.	MC	112.	MC	135.	CS
15.	TF	61.	MC	78.	MC	96.	MC	113.	MC	137.	CS
16.	TF	62.	MC	79.	MC	97.	MC	114.	MC	138.	CS
17.	TF	63.	MC	80.	MC	98.	MC	115.	MC	141.	SA
18.	TF	64.	MC	81.	MC	99.	MC	117.	BE	142.	SA
19.	TF	65.	MC	82.	MC	100.	MC	118.	BE	143.	SA
20.	TF	66.	MC	83.	MC	101.	MC	122.	Ex	144.	SA
21.	TF	67.	MC	84.	MC	102.	MC	123.	Ex		
22.	TF	68.	MC	86.	MC	103.	MC	126.	Ex		
23.	TF	69.	MC	87.	MC	104.	MC	127.	Ex		
24.	TF	70.	MC	88.	MC	105.	MC	128.	Ex		

Note: TF = True-False
MC = Multiple Choice
Ma = Matching
C = Completion
Ex = Exercise
SA = Short Answer Essay

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CHAPTER LEARNING OBJECTIVES

1. ***Identify the sections of a classified balance sheet.*** In a classified balance sheet, companies classify assets as current assets; long-term investments; property, plant, and equipment; and intangibles. They classify liabilities as either current or long-term. A stockholders' equity section shows common stock and retained earnings.

2. ***Use ratios to evaluate a company's profitability, liquidity, and solvency.*** Ratio analysis expresses the relationship among selected items of financial statements data. Profitability ratios, such as earnings per share (EPS), measure aspects of the operating success of a company for a given period of time.

   Liquidity ratios, such as the current ratio, measure the short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash. Solvency ratios, such as the debt to assets ratio, measure the ability of a company to survive over a long period.

   Free cash flow indicates a company's ability to generate cash from operations that is sufficient to pay debts, acquire assets, and distribute dividends.

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TRUE-FALSE STATEMENTS

1. Cash and supplies are both classified as current assets.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

2. Long-term investments appear in the property, plant, and equipment section of the balance sheet.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

3. A liability is classified as a current liability if it is to be paid within the coming year.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

4. Stockholders' equity is divided into two parts: common stock and retained earnings.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

5. It is possible for an asset to be a current asset even though the expected conversion of that asset into cash is to be longer than one year or the normal operating cycle.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

6. The investment category on the balance sheet normally includes investments that are intended to be held for a short period of time (less than one year).

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

7. The main difference between intangible assets and property, plant and equipment is the length of the asset's life.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

8. Profitability means having enough funds on hand to pay debts when they fall due.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

9. Earnings per share is calculated by dividing net income minus preferred stock dividends for the period by the average number of common shares outstanding during the period.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

10. Earnings per share measures the net income earned on each share of common stock.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

11. Liquidity ratios measure the short-term ability of a company to pay its maturing obligations and meet unexpected needs for cash.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

12. Solvency ratios measure the ability of a company to survive over a short period of time.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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13. Profitability ratios measure the operating success of a company for a given period of time.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

14. The current ratio is computed as current liabilities divided by current assets.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

15. The excess of current assets over current liabilities is called working capital.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

16. The current ratio takes into account the composition of current assets.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

17. Solvency ratios measure the short-term ability of the company to pay its maturing obligations.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

18. The debt to assets ratio measures the percentage of assets financed by creditors.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

19. Solvency is a company's ability to pay interest as it comes due and to repay the balance of a debt due at its maturity.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FC: Risk Management, AICPA PC: Project Management, IMA: Business Economics

20. Net cash provided by operating activities takes into account that a company must invest in capital expenditures just to maintain its current level of operations.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

21. Both investors and creditors have an interest in a company’s ability to generate favorable cash flows.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

22. Free cash flow is net cash provided by operating activities less capital expenditures.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

23. In the statement of cash flows, net cash provided by operating activities indicates the cash-generating capability of the company.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

24. Free cash flow is net cash provided by operating activities less dividends.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

25. Long-term creditors consider a high free cash flow amount an indication of solvency.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC: None, IMA: Business Economics

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Answers to True-False Statements

1.	T	14.	F
2.	F	15.	T
3.	T	16.	F
4.	T	17.	F
5.	F	18.	T
6.	F	19.	T
7.	F	20.	F
8.	F	21.	T
9.	T	22.	F
10.	T	23.	T
11.	T	24.	F
12.	F	25.	T
13.	T		

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MULTIPLE CHOICE QUESTIONS

26. In a classified balance sheet, assets are usually classified as
    a. current assets; long-term assets; property, plant, and equipment; and intangible assets.
    b. current assets; long-term investments; property, plant, and equipment; and common stocks.
    c. current assets; long-term investments; tangible assets; and intangible assets.
    d. current assets; long-term investments; property, plant, and equipment; and intangible assets.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

27. On a classified balance sheet, short-term investments are classified as
    a. an intangible asset.
    b. property, plant, and equipment.
    c. a current asset.
    d. a long-term investment.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

28. A current asset is
    a. the last asset purchased by a business.
    b. an asset which is currently being used to produce a product or service.
    c. usually found as a separate classification in the income statement.
    d. expected to be converted to cash or used in the business within a relatively short period of time.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

29. Which of the following is not classified properly as a current asset?
    a. Supplies
    b. Debt investments
    c. A fund to be used to purchase a building within the next year
    d. A receivable from the sale of an asset to be collected in two years

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

30. An intangible asset
    a. derives its value from the rights and privileges it provides the owner.
    b. is worthless because it has no physical substance.
    c. is converted into a tangible asset during the operating cycle.
    d. cannot be classified on the balance sheet because it lacks physical substance.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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31. Which of the following is not considered an asset?
    a. Equipment
    b. Dividends
    c. Accounts receivable
    d. Inventory

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

32. Trademarks would appear in which balance sheet section?
    a. Intangible assets
    b. Investments
    c. Property, plant, and equipment
    d. Current assets

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

33. Liabilities are generally classified on a balance sheet as
    a. small liabilities and large liabilities.
    b. present liabilities and future liabilities.
    c. tangible liabilities and intangible liabilities.
    d. current liabilities and long-term liabilities.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

34. Which of the following would not be classified as a long-term liability?
    a. Current maturities of long-term debt
    b. Bonds payable
    c. Mortgage payable
    d. Lease liabilities

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

35. Which of the following is not a current liability?
    a. Salaries and Wages Payable
    b. Accounts Payable
    c. Taxes Payable
    d. Bonds Payable

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

36. Equipment is classified on the balance sheet as
    a. a current asset.
    b. property, plant, and equipment.
    c. an intangible asset.
    d. a long-term investment.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

37. It is not true that current assets are resources that are expected to be
    a. realized in cash within one year.
    b. sold within one year.
    c. consumed within one year.
    d. acquired within one year.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

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38. The operating cycle of a company is the average time that is required to go from cash to
    a. sales in producing revenues.
    b. cash in producing revenues.
    c. inventory in producing revenues.
    d. accounts receivable in producing revenues.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

39. On a classified balance sheet, companies usually list current assets
    a. in alphabetical order.
    b. with the largest dollar amounts first.
    c. in the order in which they are expected to be converted into cash.
    d. in the order of acquisition.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

40. Intangible assets are
    a. listed directly under current assets on the balance sheet.
    b. not listed on the balance sheet because they do not have physical substance.
    c. listed after property, plant, and equipment.
    d. listed as a long-term investment on the balance sheet.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

41. Which statement about long-term investments is not true?
    a. They will be held for more than one year.
    b. They are not currently used in the operation of the business.
    c. They include investments in stock of other companies and land held for future use.
    d. They do not include long-term notes receivable.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

42. These are selected account balances on December 31, 2017.

Land	$150,000
Land (held for future use)	225,000
Buildings	1,200,000
Inventory	300,000
Equipment	675,000
Furniture	150,000
Accumulated Depreciation	450,000

    What is the total amount of property, plant, and equipment that will appear on the balance sheet?
    a. $2,250,000
    b. $1,950,000
    c. $2,700,000
    d. $1,725,000

Ans: D, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $150,000 + $1,200,000 + $675,000 + $150,000 – $450,000 = $1,725,000
(Land + Build. + Equip + Furn –Acc. Dep.)

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43. What is the order in which assets are generally listed on a classified balance sheet?
    a. Current and long-term
    b. Current; property, plant and equipment; long-term investments; intangibles
    c. Current; property, plant and equipment; intangibles; long-term investments
    d. Current; long-term investments; property, plant and equipment, intangibles

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

44. Ratios that measure the income or operating success of a company for a given period of time are
    a. liquidity ratios.
    b. profitability ratios.
    c. solvency ratios.
    d. trending ratios.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

45. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	$480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	255,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

    a. $855,000
    b. $600,000
    c. $510,000
    d. $435,000

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $195,000 + $150,000 + $165,000 + $90,000 = $600,000
(Cash + Acc. rec. + Inven. + Prep. ins.)

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46. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	255,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

a. $990,000
b. $525,000
c. $735,000
d. $585,000

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $270,000 + $255,000 = $525,000
[Land + (Build. — Acc. dep.)]

47. Use the following data to determine the total dollar amount of assets to be classified as investments.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	$480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	255,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

a. $0
b. $525,000
c. $255,000
d. $465,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: Stock investments = $255,000

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48. Use the following data to determine the total amount of working capital.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	$480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	275,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

a. $360,000
b. $390,000
c. $130,000
d. $180,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($195,000 + $150,000 + $165,000 + $90,000) – ($210,000 + $30,000) = $360,000
(Cash + Acc. rec.+ Inv. + Prep. Ins.) – (Acct. pay + Sal./wag. pay.)

49. Use the following data to calculate the current ratio.

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash		$ 195,000	Accounts payable	$ 210,000
Accounts receivable		150,000	Salaries and wages payable	30,000
Inventory		165,000	Mortgage payable	240,000
Prepaid insurance		90,000	Total liabilities	$480,000
Stock investments		255,000		
Land		270,000		
Buildings	$315,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	275,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,590,000	stockholders' equity	$1,590,000

a. 2.13 : 1
b. 1.44 : 1
c. 2.86 : 1
d. 2.50 : 1

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($195,000 + $150,000 + $165,000 + $90,000) ÷ ($210,000 + $30,000) = 2.50:1
(Cash + Acc. rec. + Inv. + Prep . ins.) ÷ (Acc. pay. + Sal. / wag. pay.)

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50. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. $390,000
b. $250,000
c. $570,000
d. $330,000

Ans: A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $70,000 + $100,000 + $140,000 + $80,000 = $390,000
(Cash + Acc. rec. + Inv. + Prep. ins.)

51. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. $540,000
b. $500,000
c. $360,000
d. $420,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $190,00 + $170,000 = $360,000
[Land + (Build. – Acc. dep.)]

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52. Use the following data to determine the total dollar amount of assets to be classified as investments.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. $0
b. $320,000
c. $180,000
d. $280,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: Stock investments = $180,000

53. Use the following data to determine the total amount of working capital.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. $260,000
b. $240,000
c. $160,000
d. $420,000

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($70,000 + $100,000 + $140,000 + $80,000) – ($130,000 + $20,000) = $240,000
(Cash + Acc. rec. + Inv. + Prep. ins.) - (Acc. pay. + Sal./wag. pay.)

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54. Use the following data to calculate the current ratio.

Carne Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 70,000	Accounts payable	$ 130,000
Accounts receivable		100,000	Salaries and wages payable	20,000
Inventory		140,000	Mortgage payable	180,000
Prepaid insurance		80,000	Total liabilities	$330,000
Stock investments		180,000		
Land		190,000		
Buildings	$230,000		Common stock	$240,000
Less: Accumulated			Retained earnings	500,000
depreciation	(60,000)	170,000	Total stockholders' equity	$740,000
Trademarks		140,000	Total liabilities and	
Total assets		$1,070,000	stockholders' equity	$1,070,000

a. 2.07 : 1
b. 1.67 : 1
c. 3.00 : 1
d. 2.60 : 1

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($70,000 + $100,000 + $140,000 + $80,000) ÷ ($130,000 + $20,000) = 2.60:1
(Cash + Acc. rec. + Inv. + Prep. ins.) ÷ (Acc. pay. + Sal/wag. pay.)

55. N3 Corporation has assets of $4,200,000, common stock of $1,092,000, and retained earnings of $665,000. What are the creditors' claims on their assets?
a. $3,773,000
b. $1,757,000
c. $2,443,000
d. $4,627,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $4,200,000 – $1,092,000 – $665,000 = $2,443,000
(Assets - Com. st. - Ret. earn.)

56. K2 Corporation has assets of $3,600,000, common stock of $936,000, and retained earnings of $570,000. What are the creditors' claims on their assets?
a. $3,234,000
b. $1,506,000
c. $2,094,000
d. $3,966,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $3,600,000 – $936,000 – $570,000 = $2,094,000
(Assets - Com. st. - Ret. earn.)

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57. Use the following data to determine the total dollar amount of assets to be classified as current assets.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,575,000	stockholders' equity	$1,575,000

a. $801,000
b. $336,000
c. $546,000
d. $546,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $126,000 + $120,000 + $210,000 + $90,000 = $546,000
(Cash + Acc, rec. + Inv. + Prep. ins.)

58. Use the following data to determine the total dollar amount of assets to be classified as property, plant, and equipment.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,575,000	stockholders' equity	$1,575,000

a. $1,029,000
b. $774,000
c. $834,000
d. $564,000

Ans: D, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $285,000 + $279,000 = $564,000
[Land + (Build. – Acc. dep.)]

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59. Use the following data to determine the total dollar amount of assets to be classified as investments.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,575,000	stockholders' equity	$1,575,000

a. $0
b. $465,000
c. $255,000
d. $585,000

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: Stock investments = $255,000

60. Use the following data to determine the total amount of working capital.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total liabilities and	
Total assets		$1,575,000	stockholders' equity	$1,575,000

a. $606,000
b. $351,000
c. $381,000
d. $261,000

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($126,000 + $120,000 + $210,000 + $90,000) – ($165,000 + $30,000) = $351,000
(Cash + Acc. rec. + Inv. + Prep. ins.) – (Acc. pay. + Sal./wag. pay.)

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61. Use the following data to calculate the current ratio.

Eddy Auto Supplies
Balance Sheet
December 31, 2017

Cash		$ 126,000	Accounts payable	$ 165,000
Accounts receivable		120,000	Salaries and wages payable	30,000
Inventory		210,000	Mortgage payable	270,000
Prepaid insurance		90,000	Total liabilities	$465,000
Stock investments		255,000		
Land		285,000		
Buildings	$339,000		Common stock	$360,000
Less: Accumulated			Retained earnings	750,000
depreciation	(60,000)	279,000	Total stockholders' equity	$1,110,000
Trademarks		210,000	Total Liabilities and	
Total assets		$1,575,000	stockholders' equity	$1,575,000

a. 2.34 : 1
b. 2.80 : 1
c. 3.31 : 1
d. 1.26 : 1

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($126,000 + $120,000 + $210,000 + $90,000) ÷ ($165,000 + $30,000) = 2.80:1
(Cash + Acc. rec. + Inv. + Prep. ins.) ÷ (Acc. pay. + Sal./wag. pay.)

62. A measure of profitability is the
a. current ratio.
b. debt to assets ratio.
c. earnings per share.
d. working capital.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

63. For 2017 Kuhlman Corporation reported net income of $36,000; net sales $400,000; and average share outstanding 16,000. There were no preferred dividends. What was the 2017 earnings per share?
a. $2.25
b. $0.44
c. $25.00
d. $0.09

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($36,000 – 0) ÷ 16,000 = $2.25
[(Net inc. – Pref. div.) ÷ Ave. sh. out.

64. For 2017 Fielder Corporation reported net income of $32,000; net sales $400,000; and average share outstanding 16,000. There were no preferred dividends. What was the 2017 earnings per share?
a. $0.08
b. $0.50
c. $25.00
d. $2.00

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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Solution: ($32,000 – 0) ÷ 16,000 = $2.00
[(Net inc. – Pref. div.) ÷ Ave. sh. out.

65. Earnings per share is calculated by dividing
    a. gross profit by average common shares outstanding.
    b. (net income less preferred dividends) by average common shares outstanding.
    c. net income by average common shares outstanding.
    d. net sales by average common shares outstanding.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

66. Earnings per share is a
    a. profitability ratio.
    b. liquidity ratio.
    c. solvency ratio.
    d. trending ratio.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

67. Which of the following statements is true?
    a. Earnings per share is an internal measure and is not used by stockholders.
    b. The denominator used in computing earnings per share represents the shares of common stock outstanding on the last day of the accounting period.
    c. Net income is not adjusted when computing earnings per share.
    d. By comparing earnings per share of a single corporation over time, a stockholder can evaluate the corporation's relative earnings performance.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

68. Earnings available to common stockholders is equal to
    a. total revenues
    b. net income + preferred dividends.
    c. preferred dividends – net income.
    d. net income – preferred dividends.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

69. The following information is available for Bradshaw Corporation and Newell Corporation:

	Bradshaw Corporation		Newell Corporation	
(in millions)	2017	2016	2017	2016
Preferred dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, the earnings per share calculations (rounded to two decimals) suggest
    a. lower performance in 2016 than in 2017 for Bradshaw Corporation.
    b. higher performance in 2017 than in 2016 for Bradshaw Corporation.
    c. fewer earnings available to Bradshaw's common stockholders in 2017 than in 2016.
    d. an increase in the average number of common shares outstanding between 2016 and 2017 for Bradshaw Corporation.

Ans: D, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC:

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Problem Solving, IMA: Reporting

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70. The following information is available for Bradshaw Corporation and Newell Corporation:

(in millions)	Bradshaw Corporation		Newell Corporation	
	2017	2016	2017	2016
Preferred dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, which of the following is suggested by the earnings per share calculations (rounded to two decimals) and the information given?

a. There is lower performance in 2016 than in 2017 for Newell Corporation.
b. There is higher performance in 2016 than in 2017 for Newell Corporation.
c. There are fewer earnings available to Newell's common stockholders in 2017 than in 2016.
d. There is a decrease in preferred shares of stock in 2017 as compared with 2016 for Bradshaw.

Ans: A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

71. The following information is available for Bradshaw Corporation and Newell Corporation:

(in millions)	Bradshaw Corporation		Newell Corporation	
	2017	2016	2017	2016
Preferred dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on this information, what is the amount of Bradshaw's earnings per share (rounded to two decimals) for 2017?

a. $2.76
b. $2.50
c. $1.25
d. $1.32

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: ($500 – $25) ÷ [(200 + 180) ÷ 2] = $2.50
(Net inc. – Pref. div) ÷ [End. ch. Out. + beg. .sh. out.) ÷ 2]

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72. The following information is available for Bradshaw Corporation and Newell Corporation:

(in millions)	Bradshaw Corporation		Newell Corporation	
	2017	2016	2017	2016
Preferred dividends	25	10	0	30
Net income	500	480	490	520
Shares outstanding at the end of the year	200	180	150	200
Shares outstanding at the beginning of the year	180	150	200	220

Based on the information for both Bradshaw and Newell over the two-year period, the earnings per share calculations (rounded to two decimals) indicate that
a. Bradshaw is seeing a greater performance improvement than Newell.
b. the earnings available to common stockholders is decreasing for Newell and increasing for Bradshaw.
c. the earnings per share calculations for both companies assume that changes in shares between 2016 and 2017 occur in the middle of the year.
d. Newell is more financially stable than Bradshaw.

Ans: C, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

73. The relationship between current assets and current liabilities is important in evaluating a company's
a. profitability.
b. liquidity.
c. market value.
d. solvency.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

74. Which of the following is a measure of liquidity?
a. Working capital
b. Profit margin
c. Earnings per share
d. Debt to assets ratio

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

75. Current assets divided by current liabilities is known as the
a. working capital.
b. current ratio.
c. profit margin.
d. capital structure.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

76. The most important information needed to determine if companies can pay their current obligations is the
a. net income for this year.
b. projected net income for next year.
c. relationship between current assets and current liabilities.
d. relationship between short-term and long-term liabilities.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA:

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Business Economics

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77. A short-term creditor is primarily interested in the _____ of the borrower.
    a. liquidity
    b. profitability
    c. consistency
    d. solvency

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

78. The current ratio is
    a. current assets plus current liabilities.
    b. current assets minus current liabilities.
    c. current assets divided by current liabilities.
    d. current assets times current liabilities.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

79. Working capital is calculated by taking
    a. current assets plus current liabilities.
    b. current assets minus current liabilities.
    c. current assets divided by current liabilities.
    d. current assets times current liabilities.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

80. Working capital is a measure of
    a. consistency.
    b. liquidity.
    c. profitability.
    d. solvency.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

81. Long-term creditors are usually most interested in evaluating
    a. liquidity and profitability.
    b. consistency and profitability.
    c. liquidity and solvency.
    d. consistency and solvency.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

82.A liquidity ratio measures the
    a. income or operating success of a company over a period of time.
    b. ability of a company to survive over a long period of time.
    c. short-term ability of a company to pay its maturing obligations and to meet unexpected needs for cash.
    d. percentage of total financing provided by creditors.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

83. Working capital is
    a. calculated by dividing current assets by current liabilities.
    b. used to evaluate a company's liquidity and short-term debt paying ability.
    c. used to evaluate a company's solvency and long-term debt paying ability.
    d. calculated by subtracting current assets from current liabilities.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA:

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Business Economics

84. The ability of a business to pay obligations that are expected to become due within the next year or operating cycle is
    a. leverage.
    b. liquidity.
    c. profitability.
    d. wealth.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

85. Based on the following data, what is the amount of current assets?

Accounts payable	$62,000
Accounts receivable	100,000
Cash	70,000
Intangible assets	100,000
Inventory	138,000
Long-term investments	160,000
Long-term liabilities	200,000
Short-term investments	80,000
Notes payable	56,000
Property, plant, and equipment	1,340,000
Prepaid insurance	2,000

    a. $232,000
    b. $390,000
    c. $252,000
    d. $250,000

Ans: B, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $100,000 + $70,000 + $138,000 + $80,000 + $2,000 = $390,000
(Acc. rec.+ Cash + Inven. +Sh.- term inv. + Prep. ins.)

86. Based on the following data, what is the amount of working capital?

Accounts payable	$64,000
Accounts receivable	114,000
Cash	70,000
Intangible assets	100,000
Inventory	138,000
Long-term investments	160,000
Long-term liabilities	200,000
Short-term investments	80,000
Notes payable (short-term)	56,000
Property, plant, and equipment	1,340,000
Prepaid insurance	2,000

    a. $284,000
    b. $332,000
    c. $370,000
    d. $326,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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Solution: ($114,000 + $70,000 + $138,000 + $80,000 + $2,000) – ($64,000 + $56,000) = $284,000
(Acc. rec. + Cash. + Inv.+ Sh.- term inv. + Prep. ins.) – (Acc. Pay. + Not. + Pay.)

87. Using the following balance sheet and income statement data, what is the total amount of working capital?

Current assets	$ 32,000	Net income	$ 42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

a. $ 8,000
b. $ 32,000
c. $ 10,000
d. $ 16,000

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $32,000 – $16,000 = $16,000
(Cur. assets – Cur. liab.)

88. Using the following balance sheet and income statement data, what is the current ratio?

Current assets	$ 32,000	Net income	$ 42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

a. 2.0 : 1
b. 2.6 : 1
c. 0.5 : 1
d. 2.9 : 1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $32,000 ÷ $16,000 = 2.0:1
(Cur. assets – Cur. liab.)

89. Using the following balance sheet and income statement data, what is the earnings per share?

Current assets	$ 32,000	Net income	$ 42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

a. $5.20
b. $8.00
c. $2.80
d. $0.36

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $42,000 ÷ 15,000 = $2.80
(Net + inc. ÷ Ave. sh. out.)

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90. Using the following balance sheet and income statement data, what is the debt to assets ratio?

Current assets	$ 32,000	Net income	$ 42,000
Current liabilities	16,000	Stockholders' equity	78,000
Average assets	160,000	Total liabilities	42,000
Total assets	120,000		

Average common shares outstanding was 15,000.

a. 26 percent
b. 13 percent
c. 65 percent
d. 35 percent

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $42,000 ÷ $120,000 = 35%
(Tol. Liab. ÷ Tot. assets)

91. Using the following balance sheet and income statement data, what is the total amount of working capital?

Current assets	$ 21,000	Net income	$ 45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

a. $7,000
b. $5,000
c. $9,000
d. $2,000

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $21,000 – $12,000 = $9,000
(Cur. assets – Cur. liab.)

92. Using the following balance sheet and income statement data, what is the current ratio?

Current assets	$ 21,000	Net income	$ 45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

a. 0.78 : 1
b. 3.33 : 1
c. 0.57 : 1
d. 1.75: 1

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $21,000 ÷ $12,000 = 1.75:1
(Cur. assets ÷ Cur. liab.)

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93. Using the following balance sheet and income statement data, what is the earnings per share?

Current assets	$ 21,000	Net income	$ 45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

a. $3.00
b. $4.20
c. $0.33
d. $0.50

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $45,000 ÷ $15,000 = $3.00
(Net inc ÷ Ave. sh. out).

94. Using the following balance sheet and income statement data, what is the debt to assets ratio?

Current assets	$ 21,000	Net income	$ 45,000
Current liabilities	12,000	Stockholders' equity	63,000
Average assets	132,000	Total liabilities	27,000
Total assets	90,000		

Average common shares outstanding was 15,000.

a. 20.5 percent
b. 30 percent
c. 33.3 percent
d. 40.9 percent

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $27,000 ÷ $90,000 = 30%
(Tot. liab. ÷ Tot. assets)

95. The debt to assets ratio is computed by dividing
a. long-term liabilities by total assets.
b. long-term liabilities by average assets.
c. total liabilities by total assets.
d. total liabilities by average assets.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

96. A useful measure of solvency is the
a. current ratio.
b. earnings per share.
c. return on assets ratio.
d. debt to assets ratio.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

97. Which of the following is **not** considered a measure of liquidity?
a. Current ratio
b. Working capital
c. Debt to assets ratio
d. Each of these answer choices are liquidity measures.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

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98. Which measure would a long-term creditor be least interested in reviewing?
    a. Free cash flow
    b. Debt to assets ratio
    c. Current ratio
    d. Solvency measure

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

99. Bathlinks Corporation has a debt to assets ratio of 73%. This tells the user of Bathlinks's financial statements that
    a. Bathlinks is getting a 27% return on its assets.
    b. there is a risk that Bathlinks cannot pay its debts as they come due.
    c. 73% of the assets are financed by the stockholders.
    d. based on this measure, the user should not invest in Bathlinks.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

100. Ace Company is a retail store. Due to competition, it is having trouble selling its products. Thus, inventory has been building up. Ace's current ratio has not changed for the past three years, in spite of the inventory build up. Which of the following statements is true?
    a. As long as the current ratio remains constant, there is no need for concern.
    b. The composition of current assets and current liabilities does not matter.
    c. The management of Ace should consider the effect of slow moving inventory on its liquidity.
    d. Since inventory is a current asset, any increases should automatically cause the current ratio to rise.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

101. How can a company improve its current ratio?
    a. Work with a creditor to reclassify some current debt into long-term debt
    b. Use cash to reduce current liabilities
    c. Nothing can ethically be done to improve the current ratio
    d. Use excess cash to buy new equipment

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

102. Kingery Corporation has current assets of $1,800,000 and current liabilities of $750,000. If they pay $350,000 of their accounts payable what will their new current ratio be?
    a. 3.6:1
    b. 2.4:1
    c. 4.5:1
    d. 2.0:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($1,800,000 – $350,000) ÷ ($750,000 – $350,000) = 3.6:1
[(Cur. assets – A/P Paid) ÷ (Cur. liab. – A/P Paid)

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103. Kingery Corporation has current assets of $1,800,000 and current liabilities of $750,000. If they issue $150,000 of new stock what will their new current ratio be? (rounded)
    a. 2.6:1
    b. 2.1:1
    c. 2.2:1
    d. 2.4:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($1,800,000 + $150,000) ÷ $750,000 = 2.6:1
(Cur. assets + New stock) ÷ Cur. liab.

104. Mitchell Corporation has current assets of $1,600,000 million and current liabilities of $750,000. If they pay $350,000 of their accounts payable what will their new current ratio be?
    a. 3.1:1
    b. 4.0:1
    c. 1.5:1
    d. 2.1:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($1,600,000 – $350,000) ÷ ($750,000 – $350,000) = 3.1:1
[(Cur. assets – A/P paid) ÷ (Cur. liab.- A/P paid)

105. Mitchell Corporation has current assets of $1,600,000 and current liabilities of $750,000. If they issue $200,000 of new stock what will their new current ratio be?
    a. 2.4:1
    b. 1.9:1
    c. 1.7:1
    d. 2.13:1

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: ($1,600,000 + $200,000) ÷ $750,000 = 2.4:1
(Cur. assets + New stock) ÷ Cur. liab.

106. The debt to assets ratio is a
    a. liquidity ratio.
    b. profitability ratio.
    c. solvency ratio.
    d. None of the answer choices is correct.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

107. Free cash flow provides an indication of a company's ability to
    a. generate cash to invest in new capital expenditures.
    b. generate net income.
    c. generate cash to pay dividends.
    d. generate cash to invest in new capital expenditures and to pay dividends.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

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108. Free cash flow represents
   a. cash provided by operations less adjustments for capital expenditures and dividends.
   b. a measurement of a company's cash generating ability.
   c. a measure of solvency.
   d. All of these answer choices are correct.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: None, IMA: Business Economics

109. Free cash flow is net cash provided by operating activities
   a. less capital expenditures.
   b. less cash dividends.
   c. less capital expenditures and cash dividends.
   d. less capital expenditures and salaries expense.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

110. In 2017 Grider Corporation had cash receipts of $56,000 and cash disbursements of $32,000. Grider's ending cash balance at December 31, 2017 was $78,000. What was Grider's beginning cash balance?
   a. $54,000
   b. $70,000
   c. $110,000
   d. $102,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $78,000 – $56,000 + $32,000 = $54,000
(End. cash - cash rec. + cash disb.)

111. In 2017 Grider Corporation had cash receipts of $35,000 and cash disbursements of $20,000. Grider's ending cash balance at December 31, 2017 was $65,000. What was Grider's beginning cash balance?
   a. $50,000
   b. $60,000
   c. $85,000
   d. $80,000

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $65,000 – $35,000 + $20,000 = $50,000
(End. cash – cash rec. + cash disb.)

112. Suppose that Morgan Corporation produced and sold 4,800 laptop computers during 2017. It reported $130,000 cash provided by operating activities. In order to maintain production at 4,800 laptops, Morgan invested in $8,600 in equipment. Morgan paid $1,400 in dividends. What is Morgan's free cash flow?
   a. $120,000
   b. $140,000
   c. $137,000
   d. $130,000

Ans: A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

Solution: $130,000 – $8,600 – $1,400 = $120,000
(Cash fr. oper. act – equip. inv. – div.)

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113. The following information is available for Cooke Corporation:

	(in million)
Cash receipts from operating activities	$780
Cash payments from operating activities	$240
Net cash used by investing	$210
Net cash provided by financing	$750
Net increase in cash and equivalents	?
Cash and equivalents at start of year	$550
Cash and equivalents at year-end	?

What is the net increase in cash and equivalents?
a. $1,500
b. $1,080
c. $530
d. $2,050

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $780 – $240– $210+ $750 = $1,080
(Cash rec. – Cash pay. – inv. act. + fin. act.)

114. The following information is available for Cooke Corporation:

	(in million)
Cash receipts from operating activities	$780
Cash payments from operating activities	$240
Net cash used by investing	$210
Net cash provided by financing	$750
Net increase in cash and equivalents	?
Cash and equivalents at start of year	$550
Cash and equivalents at year-end	?

What is the cash and equivalents amount at year-end?
a. $1,090
b. $530
c. $1,630
d. $2,530

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $780 – $240 – $210 + $750 + $550 = $1,630
(Cash rec. – Cash pay. – inv. act. + fin. act. + Beg. cash)

115. If Morris Corporation has a negative $131 million free cash flow, which of the following statements is most likely true?
a. Morris' capital expenditures plus its cash dividends are less than its cash provided by operations.
b. This free cash flow indicates that Morris is in good shape to repay its long-term obligations when they come due.
c. This free cash flow indicates that Morris presents good cash generating ability to retire stock.
d. Morris' cash provided by operations is less than its cash dividends plus capital expenditures.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Risk Management, AICPA PC:

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None, IMA: Business Economics

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Answers to Multiple Choice Questions

26. d	48. a	70. a	92. d	114. c
27. c	49. d	71. b	93. a	115. d
28. d	50. a	72. c	94. b	
29. d	51. c	73. b	95. c	
30. a	52. c	74. a	96. d	
31. b	53. b	75. b	97. c	
32. a	54. d	76. c	98. c	
33. d	55. c	77. a	99. b	
34. a	56. c	78. c	100. c	
35. d	57. c	79. b	101. a	
36. b	58. d	80. b	102. a	
37. d	59. c	81. c	103. a	
38. b	60. b	82. c	104. a	
39. c	61. b	83. b	105. a	
40. c	62. c	84. b	106. c	
41 d	63. a	85. b	107. d	
42. d	64. d	86. a	108. d	
43. d	65. b	87. d	109. c	
44. b	66. a	88. a	100. a	
45. b	67. d	89. c	111. a	
46. b	68. d	90. d	112. a	
47. c	69. d	91. c	113. b	

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BRIEF EXERCISES

BE. 116

A list of financial statement items for Maloney Company includes the following:

Accounts receivable	$19,500	Prepaid insurance	$5,400
Cash	$22,400	Supplies	$1,800
Debt investments	$ 6,200		

Prepare the current assets section of the balance sheet listing the items in the proper sequence.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 116 (5 min.)

MALONEY COMPANY
Balance Sheet (PARTIAL)

Assets

Current assets		
Cash	$ 22,400	
Debt investments	6,200	
Accounts receivable	19,500	
Supplies	1,800	
Prepaid insurance	5,400	
Total current assets		$55,300

BE. 117

The following information (in millions of dollars) is available for Kline Sportswear for 2017:

Sales revenue	$6,300	Net income	$588.7
Stock price per share	$18.45	Preferred stock dividend	$0
Average shares outstanding	336.4 million		

Compute the earnings per share for Kline Sportswear.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 117 (5 min.)

$$\text{Earnings per share} = \frac{\$588.7 - 0}{336.4} = \$1.75$$

[(Net inc. – Pref. stock div.) ÷ Aver. sh. out.]

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BE. 118

These selected condensed data are taken from a recent balance sheet of Sanson Company (in millions of dollars).

Cash	$ 7.2
Accounts receivable	14.4
Inventory	18.0
Other current assets	11.1
Total current liabilities	24.8

Additional information: Current liabilities at the beginning of the year were $35.6 million.

What are (a) the working capital, and (b) the current ratio?

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 118 (5 min.)

a. $25.9 ($50.7 – $24.8) (Cash + Acc. rec. + Inv. + oth. C.A.) – Tot. cur. liab.

b. 2.04: 1 ($50.7 ÷ $24.8) (Cash + Acc. rec. + Inv. + oth. C.A.) ÷ Tot. cur. liab.

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EXERCISES

Ex. 119

The following information is available for Mullen Company for the year ended December 31, 2017:

Accounts payable	4,700
Stock investments (long-term)	8,400
Accumulated depreciation, equipment	4,000
Retained earnings	16,000
Common stock	4,800
Intangible assets	2,500
Notes payable (due in 5 years)	6,000
Accounts receivable	1,500
Cash	2,600
Debt investments (short-term)	3,000
Land	10,000
Equipment	7,500

Instructions

Use the above information to prepare a classified balance sheet for the year ended December 31, 2017.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 119 (20 min.)

MULLEN COMPANY
Balance Sheet
December 31, 2017

Assets

Current assets			
Cash		$ 2,600	
Debt investments		3,000	
Accounts receivable		1,500	
Total current assets(Cash + Debt inv. + Acc. rec.)			$7,100
Investments			
Stock investments			8,400
Property, plant, and equipment			
Land		10,000	
Equipment	$7,500		
Less Accumulated depreciation-equipment	4,000	3,500	13,500
Intangible assets			2,500
Total assets …….			$31,500
(Tot. cur. assets + Stock inv. + Land + Equip. – Acc. dep. + Int. assets)			

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Solution 119 (Cont.)

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable		$ 4,700
Long-term liabilities		
Notes payable		6,000
Total liabilities		$10,700
Stockholders' equity		
Common stock	4,800	
Retained earnings	16,000	
Total stockholders' equity		20,800
Total liabilities and stockholders' equity		$31,500

(Acc. pay. + Not. pay. + Com. stock + Ret. earn.)

Ex. 120

The following lettered items represent a classification scheme for a balance sheet, and the numbered items represent data found on balance sheets. In the blank next to each account, write the letter indicating to which category it belongs.

A. Current assets
B. Investments
C. Property, plant, and equipment
D. Intangible assets
E. Current liabilities
F. Long-term liabilities
G. Stockholders' equity
H. Not on the balance sheet

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

Solution 120 (5 min.)

_____ 1. Accumulated depreciation-equip.
_____ 2. Common stock
_____ 3. Interest expense
_____ 4. Salaries and wages payable
_____ 5. Retained earnings
_____ 6. Inventory
_____ 7. Patents
_____ 8. Prepaid insurance
_____ 9. Mortgage payable
_____ 10. Land (held for investment)

1. C 2. G 3. H 4. E 5. G 6. A 7. D 8. A 9. F 10. B

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Ex. 121
These items are taken from the financial statements of Donovan Company. at December 31, 2017.

Buildings	$95,800
Accounts receivable	15,600
Prepaid insurance	4,680
Cash	18,840
Equipment	79,400
Land	61,200
Insurance expense	780
Depreciation expense	7,300
Interest expense	2,600
Common stock	57,000
Retained earnings (January 1, 2017)	40,000
Accumulated depreciation—buildings	45,600
Accounts payable	15,500
Mortgage payable	88,600
Accumulated depreciation—equipment	18,720
Interest payable	3,600
Service revenue	17,180

Instructions
Prepare a classified balance sheet. Assume that $13,600 of the mortgage payable will be paid in 2018.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 121 (20 min.)

DONOVAN COMPANY
Balance Sheet
December 31, 2017

Assets			
Current assets			
Cash		$18,840	
Accounts receivable		15,600	
Prepaid Insurance		4,680	
Total current assets (Cash + Acc. rec. + Prep. ins.)			$39,120
Property, plant, and equipment			
Land		61,200	
Buildings	$95,800		
Less: Accumulated depreciation—buildings	45,600	50,200	
Equipment	79,400		
Less: Accumulated depreciation—equipment	18,720	60,680	172,080
Total assets			$211,200

(Tot. cur. assets + Land + Build. – Acc. depr. + Equip. – Acc. depr.)

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Solution 121 (Cont.)

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 15,500	
Current portion of mortgage payable	13,600	
Interest payable	3,600	
Total current liabilities		$ 32,700
Long-term liabilities		
Mortgage payable		75,000
Total liabilities		107,700
Stockholders' equity		
Common stock	57,000	
Retained earnings		
($40,000 + $6,500*)	46,500	
Total stockholders' equity		103,500
Total liabilities and		
Stockholders' equity		$211,200

(Tot. cur. liab. + Mort. pay. + Com. stock + Beg. ret. earn. + Net. inc.*)
*Net income = $17,180 – $780 – $7,300 – $2,600 = $6,500

Ex. 122
The following items are taken from the financial statements of Tracy Company for 2017:

Accounts payable	$ 10,000
Accounts receivable	11,000
Accumulated depreciation—equipment	38,000
Advertising expense	21,000
Cash	14,000
Common stock	90,000
Depreciation expense	12,000
Dividends	15,000
Equipment	210,000
Insurance expense	3,000
Notes payable (due 2020)	70,000
Prepaid insurance	6,000
Rent expense	17,000
Retained earnings (beginning)	12,000
Salaries and wages expense	34,000
Salaries and wages payable	3,000
Service revenue	130,000
Supplies	4,000
Supplies expense	6,000

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Ex. 122 (Cont.)

Instructions

(a) Calculate the net income.

(b) Calculate the retained earnings balance that would appear on a balance sheet at December 31, 2017

(c) Prepare a classified balance sheet for Tracy Company at December 31, 2017 assuming the note payable is a long-term liability.

(d) Compute the current ratio, debt to assets ratio, and earnings per share value. The average number of shares outstanding for 2017 was 10,000.

Ans: N/A, LO: 1, 2, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 122 (20 min.)

(a) Net income = $37,000: ($130,000 – $21,000 – $12,000 – $3,000 – $17,000 – $34,000 – $6,000)
(Ser. rev. – Adv. exp. – Dep. exp. – Ins. exp. –Rent exp. – Sal./wag. exp. – Sup. exp.)

(b)

Retained earnings, January 1	$12,000
Add: Net income	37,000
	49,000
Less: Dividends	15,000
Retained earnings, December 31	$34,000

(Beg. ret. earn. + Net inc. – Div.)

(c)

TRACY COMPANY
Balance Sheet
December 31, 2017

Assets		
Current assets		
Cash	$ 14,000	
Accounts receivable	11,000	
Supplies	4,000	
Prepaid insurance	6,000	
Total current assets (Cash + Acc. rec. + Sup. + Prep. ins.)		$35,000
Property, plant, and equipment		
Equipment	210,000	
Less: Accumulated depreciation—equipment	38,000	172,000
Total assets		$207,000
(Tot. cur. assets + Equip. – Acc. dep.)		

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Solution 122 (Cont.)

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 10,000	
Salaries and wages payable	3,000	
Total current liabilities		$13,000
Long-term liabilities		
Notes payable		70,000
Total liabilities		83,000
Stockholders' equity		
Common stock	90,000	
Retained earnings	34,000	124,000
Total liabilities and stockholders' equity		$207,000
(Tot. cur. liab. + Not. pay. + Com. stock + End. ret. earn.)		

(d) Current ratio: $35,000 ÷ $13,000 = 2.7:1 (Cur. assets ÷ Cur. liab.)
Debt to assets ratio: $83,000 ÷ $207,000 = 40.1% (Tot. liab. ÷ Tot. assets)
Earnings per share: $37,000 ÷ 10,000 = $3.70 (Net inc. ÷ Ave. sh. out.)

Ex. 123

The following items are taken from the financial statements of Grove Company for 2017:

Accounts payable	$18,500
Accounts receivable	8,000
Accumulated depreciation-equipment	4,800
Bonds payable	18,000
Cash	24,000
Common stock	25,000
Cost of goods sold	27,000
Depreciation expense	4,800
Dividends	5,300
Equipment	44,000
Interest expense	2,500
Patents	7,500
Retained earnings, January 1	16,000
Salaries and wages expense	5,200
Sales revenue	50,500
Supplies	4,500

Instructions

(a) Prepare an income statement and a classified balance sheet for Grove Company.

(b) Compute the following ratios and values:
1. Current ratio
2. Debt to assets ratio
3. Working capital
4. Earnings per share (Grove's average number of shares outstanding during the year was 5,000.)

Ans: N/A, LO: 1, 2 Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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Solution 123 (25 min.)

(a)

GROVE COMPANY
Income Statement
For the Year Ended December 31, 2017

Sales revenue		$50,500
Cost of goods sold		27,000
Gross profit		23,500
Operating expenses		
Depreciation expense	$4,800	
Salaries and wages expense	5,200	10,000
Income from operations		13,500
Other expenses and losses		
Interest expense		2,500
Net income		$ 11,000

(Sal. rev. – Cost of goods sold – Dep. exp. – Sal./wag. exp. – Int. exp.)

GROVE COMPANY
Balance Sheet
December 31, 2017

Assets

Current assets		
Cash	$24,000	
Accounts receivable	8,000	
Supplies	4,500	
Total current assets (Cash + Acc. rec. + Sup.)		$36,500
Property, plant, and equipment		
Equipment	44,000	
Less: Accumulated depreciation—equipment	4,800	39,200
Intangible assets		
Patents		7,500
Total assets		$83,200

(Tot. cur. assets + Equip. – Acc. dep. + Pat.)

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable		$18,500
Long-term liabilities		
Bonds payable		18,000
Total liabilities		36,500
Stockholders' equity		
Common stock	$25,000	
Retained earnings	21,700*	46,700
Total liabilities and stockholders' equity		$83,200

[Acc. pay. + Bonds Pay. + Com. stock + (Beg. ret. earn. + Net inc. – Div.)]

*Retained earnings = $21,700 ($16,000 + $11,000 – $5,300)

(b) 1. Current ratio: $36,500 ÷ $18,500 = 1.97:1 (Cur. assets ÷ Cur. liab.)
2. Debt to assets ratio: $36,500 ÷ $83,200 = 43.9% (Tot. liab. ÷ Tot assets)
3. Working capital $36,500 – $18,500 = $18,000 (Cur. assets – Cur. liab.)
4. Earnings per share ($11,000 ÷ 5,000) = $2.20 (Net inc. ÷ Ave. sh. out.)

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Ex. 124

These financial statement items are for Snyder Corporation at year-end, July 31, 2017.

Salaries and wages payable	$ 2,580
Salaries and wages expense	50,700
Utilities expense	22,600
Equipment	21,000
Accounts payable	4,100
Service revenue	62,100
Rent revenue	8,500
Notes payable (due 2019)	1,800
Common stock	16,000
Cash	20,200
Accounts receivable	12,780
Accumulated depreciation—equipment	6,000
Dividends	5,000
Depreciation expense	4,000
Retained earnings (beginning of the year)	35,200

Instructions

(a) Prepare an income statement and a retained earnings statement for the year ended July 31, 2017. Snyder Corporation did not issue any new stock during the year.

(b) Prepare a classified balance sheet at July 31, 2017.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 124 (25 min.)

(a)

SNYDER CORPORATION
Income Statement
For the Year Ended July 31, 2017

Revenues		
Service revenue	$62,100	
Rent revenue	8,500	
Total revenues		$70,600
Expenses		
Salaries and wages expense	50,700	
Utilities expense	22,600	
Depreciation expense	4,000	
Total expense		77,300
Net loss		$(6,700)

(Ser. rev. + Rent rev. − Sal./wag. exp. − Util. exp. − Dep. exp.)

SNYDER CORPORATION
Retained Earnings Statement
For the Year Ended July 31, 2017

Retained earnings, August 1, 2016		$35,200
Less: Net loss	$6,700	
Dividends	5,000	11,700
Retained earnings, July 31, 2017		$23,500

(Beg. ret. earn. − Net loss − Div.)

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Solution 124 (25 min.)

(b)

SNYDER CORPORATION
Balance Sheet
July 31, 2017

Assets		
Current assets		
Cash	$20,200	
Accounts receivable	12,780	
Total current assets		$32,980
Property, plant, and equipment		
Equipment	21,000	
Less: Accumulated depreciation—equipment	6,000	15,000
Total assets		$47,980
(Cash + Acc. rec. + Equip. − Acc. depr.)		
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 4,100	
Salaries and wages payable	2,580	
Total current liabilities		$6,680
Notes payable (due 2019)		1,800
Total liabilities		8,480
Stockholders' equity		
Common stock	16,000	
Retained earnings	23,500	
Total stockholders' equity		39,500
Total liabilities and stockholders' equity		$47,980
(Acc. pay. + Sal./wag. pay. + Not. pay. + Com. stock + End. ret. earn.)		

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Ex. 125

These items are taken from the financial statements of Drew Corporation for 2017.

Retained earnings (beginning of year)	$33,000
Utilities expense	2,000
Equipment	56,000
Accounts payable	15,300
Cash	15,900
Salaries and wages payable	3,000
Common stock	13,000
Dividends	14,000
Service revenue	78,000
Prepaid insurance	3,500
Maintenance and repairs expense	1,800
Depreciation expense	3,300
Accounts receivable	14,200
Insurance expense	2,200
Salaries and wages expense	47,000
Accumulated depreciation—equipment	17,600

Instructions

Prepare an income statement and a retained earnings statement for the year ended December 31, 2017 and a classified balance sheet as of December 31, 2017.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 125 (25 min.)

DREW CORPORATION
Income Statement
For the Year Ended December 31, 2017

Revenues		
Service revenue		$78,000
Expense		
Salaries and wages expense	$47,000	
Depreciation expense	3,300	
Insurance expense	2,200	
Utilities expense	2,000	
Maintenance and repairs expense	1,800	
Total expenses		56,300
Net income		$21,700

(Ser. rev. – Sal./wag. exp. – Dep. exp. – Ins. exp. –Util. exp. – Main./rep. exp.)

DREW CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2017

Retained earnings, January 1, 2017	$33,000
Add: Net income	21,700
	54,700
Less: Dividends	14,000
Retained earnings, December 31, 2017	$40,700

(Beg. ret. earn. + Net inc. – Div.)

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Solution 125 (Cont.)

DREW CORPORATION
Balance Sheet
December 31, 2017

Assets		
Current assets		
Cash		$15,900
Accounts receivable		14,200
Prepaid insurance		3,500
Total current assets		$33,600
(Cash + Acc. rec. + Prep. ins.)		
Property, plant, and equipment		
Equipment	$56,000	
Less: Accumulated depreciation—equipment	17,600	38,400
Total assets		$72,000
(Tot. cur. assets + Equip. − Acc. dep.)		
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$15,300	
Salaries and wages payable	3,000	
Total current liabilities		$18,300
Stockholders' equity		
Common stock	13,000	
Retained earnings	40,700	
Total stockholders' equity		53,700
Total liabilities and stockholders' equity		$72,000
(Acc. pay. + Sal./wag. pay. + Com. stock + End. ret. earn.)		

Ex. 126

The Dobson Company gathered the following condensed data for the year ended December 31, 2017:

Cost of goods sold	$ 720,000
Net sales	1,249,000
Administrative expenses	289,000
Interest expense	68,000
Dividends paid	38,000
Selling expenses	45,000

Instructions

Prepare an income statement for the year ended December 31, 2017.

Ans: N/A, LO: 1, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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Solution 126 (10 min.)

DOBSON COMPANY
Income Statement
For the Year Ended December 31, 2017

Revenues		
Net sales		$1,249,000
Expenses		
Cost of goods sold	$720,000	
Administrative expenses	289,000	
Selling expenses	45,000	
Interest expense	68,000	
Total expenses		1,122,000
Net income		$ 127,000

(Net sal. – Cost of goods sold – Admin. exp. – Sell. exp. – Int. exp.)

Ex. 127

The following data are taken from the financial statements of Rosen, Inc. as of the end of the year 2017. The data are in alphabetical order.

Accounts payable	$ 28,000	Net income	$ 48,000
Accounts receivable	66,000	Other current liabilities	17,000
Cash	24,000	Salaries and wages payable	5,000
Gross profit	160,000	Total assets	250,000
Income before income taxes	54,000	Total liabilities	175,000

Additional information: The average common shares outstanding during the year was 40,000.

Instructions

Compute the following:

(a) Current ratio.
(b) Working capital.
(c) Earnings per share.
(d) Debts to assets ratio.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 127 (5 min.)

(a) Current ratio = Current assets* ÷ Current liabilities** = $90,000 ÷ $50,000 = 1.8 : 1

(b) Working capital = Current assets* – Current liabilities** = $90,000 – $50,000 = $40,000

(c) Earnings per share = (Net income – Preferred dividends) ÷ Average common shares outstanding = $48,000 ÷ 40,000 = $1.20

(d) Debt to assets ratio = Total debt ÷ Total assets = $175,000 ÷ $250,000 = 70%

*(Acc. rec. + Cash) **(Acc. pay. + Oth. cur. liab. + Sal./wag. pay.)

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Ex. 128

Use the following data to calculate the liquidity and profitability ratios listed below.

Average common shares outstanding	10,000	Current liabilities	$100,000
Capital expenditures	$20,000	Net income	21,000
Cash provided by operating activities	32,000	Net sales	150,000
Dividends paid	5,000	Total liabilities	126,000
Current assets	190,000	Total assets	210,000

Instructions

Compute the following:

(a) Current ratio.
(b) Working capital.
(c) Earnings per share.
(d) Debt to assets ratio.
(e) Free cash flow.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 128 (15 min.)

(a) Current ratio = Current assets ÷ Current liabilities = $190,000 ÷ $100,000 = 1.9 : 1

(b) Working capital = Current assets – Current liabilities = $190,000 – $100,000 = $90,000

(c) Earnings per share ratio = (Net income – Preferred stock dividends) ÷ Average common share outstanding = $21,000 ÷ 10,000 = $2.10

(d) Debt to assets ratio = Total debt ÷ Total assets = $126,000 ÷ $210,000 = 60%

(e) Free cash flow = Cash provided by operating activities – Capital expenditures – Dividends paid = $32,000 – $20,000 – $5,000 = $7,000.

Ex. 129

The following data are taken from the financial statements of Edington Company. The data are in alphabetical order.

Accounts payable	$ 28,000	Net sales	500,000
Accounts receivable	65,000	Other current liabilities	20,000
Average common shares out.	20,000	Salaries and wages payable	7,000
Cash	56,000	Stockholders' equity	135,000
Gross profit	190,000	Total assets	300,000
Net income	50,000		

Instructions

Compute the following:

(a) Current ratio.
(b) Working capital.
(c) Earnings per share.
(d) Debt to assets ratio.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

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Solution 129 (10 min.)

(a) Current ratio = Current assets* ÷ Current liabilities**
= $121,000 ÷ $55,000 = 2.2 : 1

(b) Working capital = Current assets* – Current liabilities**
= $121,000 – $55,000 = $66,000

(c) Earnings per share = Net income ÷ Average common shares outstanding
= $50,000 ÷ 20,000 = $2.50

(d) Debt to assets ratio = Total debt ÷ Total assets
= $165,000 ÷ $300,000 = 55%
(Total debt = Total assets – Stockholders' equity = $300,000 – $135,000)

*(Acc. rec. + Cash) **(Acc. pay. + Oth. cur. liab. + Sal./wag. pay.)

Ex. 130

Comparative financial statement data for Arthur Corporation and Lancelot Corporation, two competitors, appear below. All balance sheet data are as of December 31, 2017.

	Arthur Corporation 2017	Lancelot Corporation 2017
Net sales	$1,850,000	$620,000
Cost of goods sold	1,225,000	365,000
Operating expenses	303,000	98,000
Interest expense	9,000	3,800
Income tax expense	85,000	36,800
Current assets	427,200	130,336
Plant assets (net)	532,000	139,728
Current liabilities	66,325	35,348
Long-term liabilities	148,500	29,620
Additional Information:		
Cash from operating activities	$153,000	$44,000
Capital expenditures	$90,000	$20,000
Dividends paid	$36,000	$15,000
Average number of shares outstanding	100,000	50,000

Instructions

(a) Comment on the relative profitability of the companies by computing the net income and earnings per share for each company for 2017.

(b) Comment on the relative solvency of the companies by computing the debt to assets ratio and the free cash flow for each company for 2017.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

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Solution 130 (15 min.)

(a) Arthur Company appears to be more profitable.
Its net income for 2017 is $228,000 ($1,850,000 – $1,225,000 – $303,000 – $9,000 – $85,000). Its earnings per share is $2.28 ($228,000 ÷ 100,000 shares outstanding). Lancelot's net income for 2017 is $116,400 ($620,000 – $365,000 – $98,000 – $3,800 – $36,800). Its earnings per share is $2.33 ($116,400 ÷ 50,000 shares outstanding).

(b) Arthur appears to be slightly more solvent. Arthur's 2017 debt to assets ratio of 22.4% ($214,825 ÷ $959,200)[a] is lower than Lancelot's ratio of 24.1% ($64,968 ÷ $270,064)[b]. The lower the percentage of debt to assets, the lower the risk that a company may be unable to pay its debts as they income due.

Another measure of solvency, free cash flow, also indicates that Arthur is more solvent. Arthur had $27,000 ($153,000 – $90,000 – $36,000) of free cash flow while Lancelot had only $9,000 ($44,000 – $20,000 – $15,000).

[a]$214,825 ($66,325 + $148,500) is Arthur's 2017 total liabilities
$959,200 ($427,200 + $532,000) is Arthur's 2017 total assets.

[b]$64,968 ($35,348 + $29,620) is Lancelot's 2017 total liabilities
$270,064 ($130,336 + $139,728) is Lancelot's 2017 total assets.

Ex. 131

For each of the ratios listed below, indicate by the appropriate code letter, whether it is a liquidity ratio, a profitability ratio, or a solvency ratio.

Code:
L = Liquidity ratio
P = Profitability ratio
S = Solvency ratio

____ 1. Price-earnings ratio

____ 2. Free cash flow

____ 3. Debt to assets ratio

____ 4. Earnings per share

____ 5. Current ratio

Ans: N/A, LO: 2, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 131 (5 min.)

P 1. Price-earnings ratio
S 2. Free cash flow
S 3. Debt to assets ratio
P 4. Earnings per share
L 5. Current ratio

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Ex. 132

The following information is available from the annual reports of Marin Company and Nance Company.

	(amounts in millions) Marin	Nance
Sales	$26,510	$34,512
Gross profit	6,610	8,887
Net income	565	1,221
Current assets	13,712	28,447
Beginning total assets	17,102	33,130
Ending total assets	22,088	36,167
Current liabilities	7,966	13,950
Total liabilities	16,136	29,222
Average common shares outstanding	250	480
Preferred stock dividends paid	-0-	-0-

Instructions

(a) For each company, compute the following ratios:
1. Current ratio
2. Debt to assets ratio
3. Earnings per share

(b) Based on your calculations, discuss the relative liquidity, solvency, and profitability of the two companies.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 12, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 132 (12 min.)

(a)	Marin	Nance
1. Current ratio (Cur. assets/Cur. liab.)	1.72:1 ($13,712 ÷ $7,966)	2.04:1 ($28,447 ÷ $13,950)
2. Debt to assets ratio (Tot. liab. ÷ Tot. assets)	73% ($16,136 ÷ 22,088)	81% ($29,222 ÷ $36,167)
3. Earnings per share (Net. inc. ÷ Ave. sh. out.)	$2.26 ($565 ÷ 250)	$2.54 ($1,221 ÷ 480)

(b) Based on the current ratio, Nance is more liquid than Marin since its current ratio (2.04:1) is 19% higher than Marin's ratio (1.72:1). However, Marin would be considered more solvent than Nance since its debt to assets ratio (73%) is 10% lower than Nance's debt ratio (81%). A lower debt to assets ratio indicates a company is more solvent and better able to survive over a long period of time.

Nance is more profitable than Marin since its earnings per share and is higher than Marin's respective vaules. Nance's earnings per share ($2.54) is 12.4% higher than Marin's value.

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Ex. 133
You are provide with the following information for Trent Company, effective as of its April 30, 2017, year-end.

Accounts payable	$ 834
Accounts receivable	810
Buildings, net of accumulated depreciation	3,537
Cash	770
Common stock	900
Cost of goods sold	2,500
Current portion of long-term debt	450
Depreciation expense	335
Dividends paid during the year	475
Equipment, net of accumulated depreciation	1,220
Income tax expense	265
Income taxes payable	265
Interest expense	400
Inventory	967
Land	1,600
Long-term debt	3,500
Prepaid expenses	12
Retained earnings, beginning	1,600
Service revenue	9,600
Selling expenses	310
Debt investments	1,200
Salaries and wages expense	700
Salaries and wages payable	222

Instructions
Prepare an income statement for Trent Company for the year ended April 30, 2017.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 133 (15 min.)

TRENT COMPANY
Income Statement
For the Year Ended April 30, 2017

Service revenue		$9,600
Expense		
Cost of goods sold	$2,500	
Salaries and wages expense	700	
Interest expense	400	
Depreciation expense	335	
Selling expenses	310	
Income tax expense	265	
Total expenses		4,510
Net income		$5,090

(Ser. rev. – Cost of goods sold – Sal./wag. exp. – Int. exp. – Dep. exp. – Sell. exp. – Inc. tax exp.)

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Ex. 134

The chief financial officer (CFO) of SuperClean Corporation requested that the accounting department prepare a preliminary balance sheet on December 30, 2017, so that the CFO could get an idea of how the company stood. He knows that certain debt agreements with its creditors require the company to maintain a current ratio of at least 2:1. The preliminary balance sheet is as follows.

SUPERCLEAN CORPORATION
Balance Sheet
December 30, 2017

Current assets			Current liabilities		
Cash	$25,000		Accounts payable	$ 20,000	
Accounts receivable	20,000		Salaries and wages payable	20,000	$ 40,000
Prepaid insurance	15,000	$ 60,000	Long-term liabilities		
			Notes payable		90,000
			Total liabilities		130,000
Property, plant, and equipment (net)		210,000	Stockholders' equity		
Total assets		$270,000	Common stock	100,000	
			Retained earnings	40,000	140,000
			Total liabilities and stockholders equity		$270,000

Instructions

(a) Calculate the current ratio and working capital based on the preliminary balance sheet.
(b) Based in the results in (a), the CFO requested that $20,000 of cash be used to pay off the balance of the accounts payable account on December 31, 2017. Calculate the new current ratio and working capital after the company takes these actions.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Problem Solving, IMA: Business Economics

Solution 134 (10 min.)

(a) Current ratio = $\frac{\$60,000}{\$40,000}$ = 1.50:1 (Cash + Acc. rec. + Prep. ins. ÷ Cur. liab.)

Working capital = $60,000 – $40,000 = $20,000 (Cash + Acc. rec. +Prep. ins. – Cur. liab.)

(b) Current ratio = $\frac{\$40,000^*}{\$20,000^{**}}$ = 2.0:1

Working capital = $40,000 – $20,000 = $20,000

*$60,000 – $20,000 **$40,000 – $20,000

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COMPLETION STATEMENTS

135. The earnings per share value is calculated by dividing net income – preferred stock dividends by _____ _____ _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

136. Assets that are expected to be converted to cash or used in the business within a relatively short period of time are called _____.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Reporting

137. The _____ is current assets divided by current liabilities.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

138. A measurement to provide additional insight regarding a company's cash-generating ability is _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Completion Statements

135. average common shares outstanding
136. current assets
137. current ratio
138. free cash flow

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MATCHING

139. Match the items below by entering the appropriate code letter in the space provided.

A. Liquidity ratios
B. Intangible assets
C. Free cash flow
D. Working capital
E. Current ratio
F. Earnings per share
G. Solvency ratios

____ 1. Measures of the ability of the company to survive over a long period of time.

____ 2. Current assets divided by current liabilities.

____ 3. Cash from operating activities less capital expenditures and cash dividends.

____ 4. Noncurrent assets that do not have physical substance.

____ 5. (Net income – preferred stock dividends) divided by average common shares outstanding.

____ 6. Measures of the short-term ability of the enterprise to pay its maturing obligations.

____ 7. The excess of current assets over current liabilities.

Ans: N/A, LO: 1-2, Bloom: K, Difficulty: Easy, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: None, IMA: Business Economics

Answers to Matching

1.	G	2.	E	3.	C	4.	B
5.	F	6.	A	7.	D		

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SHORT-ANSWER ESSAY QUESTIONS

S-A E 140

Identify the two parts of stockholders' equity in a corporation and indicate the purpose of each.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting

Solution 140

The two parts of stockholders' equity and the purpose of each are: (1) **Common stock** is used to record investments of assets in the business by the owners (stockholders). (2) **Retained earnings** is used to record net income retained in the business.

S-A E 141

What do these classes of ratios measure?
(a) Liquidity ratios.
(b) Profitability ratios.
(c) Solvency ratios.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 141

(a) Liquidity ratios measure the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.

(b) Profitability ratios measure the income or operating success of a company for a given period of time.

(c) Solvency ratios measure the company's ability to survive over a long period of time.

S-A E 142

Give the definition of current assets, current liabilities and the current ratio.

Ans: N/A, LO: 1, 2, Bloom: K, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 142

Current assets are cash or other resources that are reasonably expected to be realized in cash or sold or consumed in the business within one year or the operating cycle, whichever is longer. Current liabilities are obligations reasonably expected to be paid from the existing current assets or through the creation of other current liabilities within the next year or operating cycle, whichever is longer. The current ratio is a measure used to evaluate a company’s liquidity and short-term debt paying ability, computed by dividing current assets by current liabilities.

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S-A E 143

Are short-term creditors, long-term creditors, and stockholders primarily interested in the same characteristics of a company? Explain.

Ans: N/A, LO: 2, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Communication, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Reporting, AICPA PC: Communication, IMA: Business Economics

Solution 143

The three parties are not primarily interested in the same characteristics of a company. Short-term creditors are primarily interested in the liquidity of the enterprise. In contrast, long-term creditors and stockholders are primarily interested in the profitability and solvency of the company.

S-A E144 (Ethics)

Many bonus plans are based upon the attainment of some specified short-term goal. For example, sales personnel at Metal Crafters are given a bonus of 5% of the amount by which their sales exceed $100,000. Sometimes the attainment of these goals is achieved by methods detrimental to the long-term needs of the company. Sales representative Sara Crown, for example, finds herself tempted to court certain customers that place large orders, even though she knows they may not be able to pay. She complains that the bonus system itself is unethical.

Required:
Is a bonus system like the one at Metal Crafters unethical? Explain.

Ans: N/A, LO: 2, Bloom: E, Difficulty: Medium, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FC: Decision Modeling, AICPA PC: Communication, IMA: Performance Measurement

Solution144

The bonus system described is not necessarily unethical, but it may be short-sighted. When employees are able to identify and address larger concerns (such as Sara's identification of the problem regarding the ability of a customer to pay) then such issues should probably become part of the system of bonuses. However, it is very difficult to set a bonus plan that allows for all contingencies. Since sales representatives are hired to generate sales, they most often are rewarded based on generating sales. Some of the future events, such as customers defaulting on payments, may not be the fault of the sales representative. For Sara Crown to create sales by soliciting customers with a poor payment record would be unethical on her part. She is required to use integrity, even when the possibility exists of her not using it, and even when she might gain by not using it.

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