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

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

1) The income statement is the major device for measuring the profitability of a firm over a period of time.
   - ◎ true
   - ◎ false

2) The income statement shows the amount of profits earned based on any one given day.
   - ◎ true
   - ◎ false

3) Sales minus cost of goods sold is equal to earnings before taxes.
   - ◎ true
   - ◎ false

4) Sales minus cost of goods sold is equal to gross profit.
   - ◎ true
   - ◎ false

5) It is not possible for a company with a high gross profit margin to have a low operating profit.
   - ◎ true
   - ◎ false

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6) Gross profit margin is a measurement of how much gross profit a company generated from the amount of sales it earned.
   - ◎ true
   - ◎ false

7) Operating profit is essentially a measure of how efficient management is in generating revenues and controlling expenses.
   - ◎ true
   - ◎ false

8) Another way of writing *net income after tax* is *earnings after taxes (EAT)*.
   - ◎ true
   - ◎ false

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9) Dividing earnings after taxes (which includes all profits distributed to both preferred stockholders and common stockholders) by common shares outstanding produces earnings per share.
   - ◎ true
   - ◎ false

10) The price-earnings (P/E) ratio is strongly related to the past performance of the firm.
   - ◎ true
   - ◎ false

11) When firms are publicly traded the stock price and earnings per share can be observed, and the P/E ratio is calculated from those two values. However, for private companies without observable stock prices, an assumed P/E ratio is used in valuing a business.
   - ◎ true
   - ◎ false

12) Accounting income is based on verifiably completed transactions.
   - ◎ true
   - ◎ false

13) When a firm has a sharp drop off in earnings, its P/E ratio may be artificially high.
   - ◎ true
   - ◎ false

14) The P/E ratio provides no indication of investors' expectations about the future of a company.
   - ◎ true
   - ◎ false

15) The real value of a firm is the same from an economic and accounting perspective.
   - ◎ true
   - ◎ false

16) A balance sheet represents the assets, liabilities, and owner's equity of a company at a given point in time.
   - ◎ true
   - ◎ false

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17) A balance sheet represents what the firm owns, owes, and ownership of a company at a given date.
- ◎ true
- ◎ false

18) Liquidity means that the items that can convert to cash show up as cash on the balance sheet.
- ◎ true
- ◎ false

19) The investments account includes marketable securities.
- ◎ true
- ◎ false

20) The long-term investments account represents a commitment of funds of at least one year or more.
- ◎ true
- ◎ false

21) Asset accounts are listed in order of their liquidity.
- ◎ true
- ◎ false

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22) Accumulated depreciation shows up in the income statement, while depreciation expense shows up on the balance sheet.
- ◎ true
- ◎ false

23) Accumulated depreciation should always be equal to the depreciation expense charged in the income statement.
- ◎ true
- ◎ false

24) Total assets of a firm are paid for with liabilities and stockholders' equity.
- ◎ true
- ◎ false

25) Marketable securities are short term investments and are valued on the balance sheet at their original purchase price.
- ◎ true
- ◎ false

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26) Book value per share of stock and market value per share of stock are usually the same dollar amount.
- ◎ true
- ◎ false

27) Book value per share of stock is of greater concern to the financial manager than market value per share of stock.
- ◎ true
- ◎ false

28) Book value of a company is equal to net worth of a company, which is not always equal to the market value of the company.
- ◎ true
- ◎ false

29) Equity is a measure of the monetary contributions that have been made directly or indirectly on behalf of the owners of the company.
- ◎ true
- ◎ false

30) Stockholders equity is equal to liabilities plus assets.
- ◎ true
- ◎ false

31) Stockholders equity is equal to assets minus liabilities.
- ◎ true
- ◎ false

32) Retained earnings shown on the balance sheet represents profits generated from prior year's earnings less any prior dividends.
- ◎ true
- ◎ false

33) Balance sheet items should be adjusted for inflation when valuing a company.
- ◎ true
- ◎ false

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34) Balance sheet items consider inflation and market value when assigning the amount to assets, liabilities, and equity accounts.
- ◎ true
- ◎ false

35) Standard accounting practice allows for research and development (R&D) costs to be deducted on the income statement as they are incurred resulting in R&D investments to never be shown on firm's balance sheets.
- ◎ true
- ◎ false

36) Cash and cash equivalents are considered anything that can convert to cash within one year.
- ◎ true
- ◎ false

37) The statement of cash flows has three parts: operating, investing, and financing under both the indirect and direct method.
- ◎ true
- ◎ false

38) The statement of cash flows helps measure how the changes in a balance sheet accounts were financed between two time periods, the beginning and the ending balance.
- ◎ true
- ◎ false

39) Cash flow from operations is equal to earnings before taxes minus depreciation.
- ◎ true
- ◎ false

40) The indirect method of preparing the Cash Flow Statement basically adjusts the net income to reflect what the financials would have looked like if cash basis was used instead of accrual basis.
- ◎ true
- ◎ false

41) When management suspects that its stock is overvalued, a special financing activity may take the form of a leveraged buyout.
- ◎ true
- ◎ false

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42) Assume that two companies both have a net income of $100,000. The firm with the highest depreciation expense will have the highest cash flow, assuming all other adjustments are equal.
- ◎ true
- ◎ false

43) An increase in assets represents a positive source of funds.
- ◎ true
- ◎ false

44) An increase in a liability account represents a source of positive funds on the cash flow statement.
- ◎ true
- ◎ false

45) The purchase of a new factory building would reduce the cash flows from investing activities on the statement of cash flows.
- ◎ true
- ◎ false

46) Paying cash dividends to common shareholders will not affect the cash flow statement.
- ◎ true
- ◎ false

47) The sale of a firm's securities is a source of positive funds, whereas the purchase of securities is a use of funds.
- ◎ true
- ◎ false

48) Depreciation is an accrual accounting entry that does not affect the cash account so it needs to be adjusted for when using the indirect method of the cash flow statement.
- ◎ true
- ◎ false

49) Free cash flow is equal to cash flow from operating activities plus depreciation.
- ◎ true
- ◎ false

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50) Free cash flow is equal to cash flow from operating activities minus necessary capital expenditures and normal dividend payments.
- ◎ true
- ◎ false

51) Beginning in 2018, one of the major changes regarding the corporate tax rate was its reduction from 35% to a flat rate of 21%.
- ◎ true
- ◎ false

52) The corporate tax rate change of 2018 means that corporations are no longer responsible to pay state and foreign taxes.
- ◎ true
- ◎ false

53) For corporations with low taxable income (less than $50,000), the effective tax rate can be as much as 40%.
- ◎ true
- ◎ false

54) The corporate tax rate reduction to a flat rate of 21% in 2018 was done to make the U.S. corporate tax rate more competitive with rates imposed by other countries and to encourage economic activity in the U.S.
- ◎ true
- ◎ false

55) Interest expense is deductible before taxes and therefore has an after-tax cost equal to the interest paid times (1 - tax rate).
- ◎ true
- ◎ false

56) Federal corporate tax rates have changed several times since 1980.
- ◎ true
- ◎ false

57) A $125,000 credit sale could be a part of a firm's cash flow from operations if money is received within the firm's same fiscal year.
- ◎ true
- ◎ false

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58) Preferred stock dividends are tax deductible.
- ◎ true
- ◎ false

59) Book value per share is the most important measure of value of a firm for a stockholder.
- ◎ true
- ◎ false

60) An increase in accounts receivable results in a cash inflow on the statement of cash flows.
- ◎ true
- ◎ false

61) A decrease in bonds payable results in a cash outflow on the statement of cash flows.
- ◎ true
- ◎ false

62) An increase in accrued expenses results in a cash outflow on the statement of cash flows.
- ◎ true
- ◎ false

63) A cash flow statement is considered correct if the change in cash flow plus the beginning balance ties to the ending cash balance.
- ◎ true
- ◎ false

64) In response to the U.S. corporate tax rate reduction to 21%, other countries also felt the need to cut their corporate tax rates, such as Belgium's rate cut from 34% to 25% and France's rate cut from 44.4% to 32%.
- ◎ true
- ◎ false

65) Although depreciation does not provide cash to the firm directly, the fact that it is tax-deductible can provide cash inflow to the company.
- ◎ true
- ◎ false

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

66) Allen Lumber Company had earnings after taxes of $610,000 in the year 2020 with 360,000 shares outstanding on December 31, 2020. On January 1, 2021, the firm issued 32,000 new shares. The company took the proceeds from these new shares as well as other operating improvements and earned $793,000 earnings after taxes in 2021. Earnings per share for the year 2021 were

Note: Round your answer to 2 decimal places.

A) $2.02
B) $1.69
C) $2.20
D) $1.70

67) Candy Company had sales of $230,000 and cost of goods sold of $121,900. What is the gross profit margin (ratio of gross profit to sales)?

A) 37%
B) 47%
C) 55%
D) 68%

68) Density Farms Incorporated had sales of $510,000, cost of goods sold of $180,000, selling and administrative expense of $79,000, and operating profit of $96,000. What was the value of depreciation expense?

A) $153,000
B) $55,000
C) $155,000
D) $164,000

69) Elgin Battery Manufacturers had sales of $900,000 in 2021 and their cost of goods sold is 576,000. Selling and administrative expenses were 99,000. Depreciation expense was $18,000 and interest expense for the year was $12,000. The firm's tax rate is 28 percent. What is the dollar amount of taxes paid in 2021?

A) $196,290
B) $54,600
C) $222,800
D) $57,960

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70) A firm has $5,300,000 in its common stock account and $53,000,000 in its paid in capital account. The firm issued 530,000 shares of common stock. What was the issue price (market value) if only one stock issuance has occurred?

A) $100 per share
B) $110 per share
C) $10 per share
D) $9 per share

71) A firm with earnings per share of $4 and a price-earnings (P/E) ratio of 18 will have a stock market price of

A) $72.
B) $22.
C) $2.
D) $4.

72) Given the following, what is free cash flow?

Cash flow from operating activities	$ 175,000
Cash flow from investing activities	$ 135,000
Cash flow from financing activities	$ 40,500
Building purchases	$ 43,000
Dividends Paid	$ 33,000

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A) $99,000.
B) $218,000.
C) $208,000.
D) $165,000.

73) Assuming a tax rate of 21%, depreciation expenses of $600,000 will

A) reduce income by $18,000.
B) reduce taxes by $126,000.
C) reduce taxes by $180,000.
D) have no effect on income or taxes, since depreciation is not a cash expense.

74) Assuming a tax rate of 21%, the after-tax cost of interest expense of $1,160,000 is

A) $1,160,000
B) $91,640
C) $916,400
D) $464,000

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75) Assuming a tax rate of 31%, the after-tax cost of a $191,000 dividend payment is
A) $191,000
B) $59,210
C) $121,000
D) $211,000

76) Gerry Company has a gross profit of $820,000 and depreciation expense of $200,000. Selling and administrative expense is $115,000. Given that the tax rate is 43 percent, compute the cash flow from operations for Gerry Company
A) $620,000
B) $114,957
C) $487,850
D) $490,350

77) Gross profit is equal to
A) sales minus cost of goods sold.
B) sales minus selling and administrative expenses.
C) sales minus cost of goods sold and selling and administrative expenses.
D) sales minus cost of goods sold and depreciation expense.

78) Which of the following is not subtracted in arriving at operating income?
A) Interest expense
B) Cost of goods sold
C) Depreciation
D) Selling and administrative expense

79) Increasing interest expense will have what effect on Earnings Before Interest and Taxes (EBIT)?
A) Increase it.
B) Decrease it.
C) It will have no effect.
D) There is not enough information to tell.

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80) Allen Lumber Company had earnings after taxes of $750,000 in the year 2020 with 300,000 shares outstanding on December 31, 2020. On January 1, 2021, the firm issued 50,000 new shares. The company took the proceeds from these new shares as well as other operating improvements and earned $937,500 earnings after taxes in 2021. Earnings per share for the year 2021 were
A) $2.14.
B) $2.68.
C) $3.13.
D) None of the options.

81) Consider the following information for Ball Corporation.

Selling and administrative expense	$ 40,000
Depreciation expense	70,000
Sales	350,000
Interest expense	30,000
Cost of goods sold	110,000
Taxes	17,500

What is the operating profit for Ball Corporation?
A) $71,450
B) $90,000
C) $130,000
D) None of the options

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82) Candy Company had sales of $320,000 and cost of goods sold of $112,000. What is the gross profit margin (ratio of gross profit to sales)?
A) 55%
B) 65%
C) 35%
D) 73.3%

83) Density Farms Incorporated had sales of $750,000, cost of goods sold of $200,000, selling and administrative expense of $70,000, and operating profit of $150,000. What was the value of depreciation expense?
A) $150,000
B) $230,000
C) $330,000
D) $0

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84) Elgin Battery Manufacturers had sales of $1,000,000 in 2021 and their cost of goods sold is $700,000. Selling and administrative expenses were $100,000. Depreciation expense was $80,000 and interest expense for the year was $10,000. The firm's tax rate is 30 percent. What is the dollar amount of taxes paid in 2021?

A) $36,000
B) $117,800
C) $33,000
D) $300,000

85) A firm has $1,500,000 in its common stock account and $1,000,000 in its capital paid in excess of par account. The firm issued 100,000 shares of common stock. What was the issue price (market value) if only one stock issuance has occurred?

A) $35 per share
B) $25 per share
C) $15 per share
D) Not enough information to determine

86) A firm has $4,000 in its common stock account and $10,000 in its paid-in capital account. The firm issued 1,000 shares of common stock. What is the par value of the common stock?

A) $40 per share
B) $10 per share
C) $4 per share
D) $14 per share

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87) A firm has $6,000 in its common stock account and $10,000 in its paid-in capital account. The firm issued 1,000 shares of common stock. What is the par value of the common stock?

A) $60 per share
B) $10 per share
C) $6 per share
D) $16 per share

88) A firm with earnings per share of $3 and a price-earnings (P/E) ratio of 24 will have a stock market price of

A) $72.00.
B) $15.00.
C) $6.67.
D) $3.00.

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89) A firm with earnings per share of $4 and a price-earnings (P/E) ratio of 23 will have a stock market price of
A) $27.00.
B) $19.00.
C) $92.00
D) $4.00.

90) Earnings per share is
A) operating profit divided by number of shares outstanding.
B) net income divided by number of shares outstanding.
C) net income divided by stockholders' equity.
D) net income minus preferred dividends divided by number of shares outstanding.

91) Price-earnings (P/E) ratio is influenced by all of the following BUT
A) the business risk the firm takes on.
B) earnings per share.
C) quality of management.
D) All of the options are true.

92) Which of the following statements regarding price-earnings (P/E) ratio is not true?
A) It is a simple tool for assessing the value of a firm relative to its current earnings.
B) Since companies have various levels of earnings per share, P/E ratios allow a comparison of relative market value
C) P/E ratios are limited by the fact that stock prices are influenced by their current earnings and other factors.
D) All of the options are true.

93) Reinvested funds into retained earnings theoretically belong to
A) bond holders.
B) common stockholders.
C) employees.
D) All of the options

94) When a firm's earnings are falling more rapidly than its stock price, its P/E ratio will
A) remain the same.
B) go up.
C) go down.
D) either go up or down.

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95) Which of the following factors do not influence the firm's P/E ratio?
A) Past earnings
B) Shares outstanding
C) Volatility in business performance
D) All of the options influence the firm's P/E ratio.

96) Which of the following would not be classified as a current asset?
A) Marketable securities
B) Plant property and equipment
C) Prepaid expenses
D) Inventory

97) An item which may be converted to cash within one year or one operating cycle of the firm is classified as a
A) current liability.
B) long-term asset.
C) current asset.
D) long-term liability.

98) Asset accounts on the balance sheet are listed in order of
A) liquidity.
B) profitability.
C) dollar amount.
D) importance.

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99) Which of the following is not a primary source of raising money or capital for the firm?
A) Assets
B) Common stock
C) Preferred stock
D) Bonds

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100) How many of the following balance sheet items are classified as a current asset or current liability?

- ☐ Retained earnings
- ☐ Accounts payable
- ☐ Plant and equipment
- ☐ Inventory
- ☐ Common stock
- ☐ Bonds payable
- ☐ Accrued wages payable
- ☐ Accounts receivable
- ☐ Preferred stock

A) Three of these items.
B) Four of these items.
C) Five of these items.
D) Six of these items.

101) How many of the following items are found on the balance sheet, rather than the income statement?

- ☐ Accounts receivable
- ☐ Retained earnings
- ☐ Income tax expense
- ☐ Accrued payable
- ☐ Cash
- ☐ Selling and administrative expenses
- ☐ Plant and equipment
- ☐ Operating expense
- ☐ Marketable securities
- ☐ Interest expense

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A) Three of these items are found on the balance sheet.
B) Four of these items are found on the balance sheet.
C) Five of these items are found on the balance sheet.
D) Six of these items are found on the balance sheet.

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102) How many of the following items are found on the income statement, rather than the balance sheet?

- ☐ Sales
- ☐ Notes payable (due in six months)
- ☐ Bonds payable (mature in 10 years)
- ☐ Common stock
- ☐ Depreciation expense
- ☐ Inventories
- ☐ Capital in excess of par value
- ☐ Net income (earnings after taxes)
- ☐ Income tax payable

A) Two of these items are found on the income statement.
B) Three of these items are found on the income statement.
C) Four of these items are found on the income statement.
D) Five of these items are found on the income statement.

103) Which account represents the cumulative earnings of the firm since the firm started, minus dividends paid?

A) Paid-in capital
B) Common stock
C) Retained earnings
D) Accumulated depreciation

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104) The major limitation of financial statements are

A) their complexity.
B) their lack of comparability.
C) their use of historical cost accounting.
D) their lack of detail.

105) Book value is equal to stockholders' equity

A) plus dividends.
B) minus preferred stock.
C) plus preferred stock.
D) minus liabilities.

106) Book value is the same as

A) retained earnings.
B) fixed assets minus long-term debt.
C) net worth.
D) current assets minus current debt.

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107) Total stockholders' equity consists of
A) preferred stock and common stock.
B) common stock and retained earnings.
C) common stock, preferred stock, and capital paid in excess of par.
D) preferred stock, common stock, capital paid in excess of par, and retained earnings.

108) The book value of a firm
A) is usually the same as the firm's market value.
B) is based on current asset costs.
C) is based on current assets less current liabilities.
D) None of the options

109) The book value per share is based off of _____ data, while the market value per share is based off of _____ data.
A) short term; long term
B) future; historical
C) historical; future
D) long term; short term

110) The primary disadvantage of accrual accounting is that
A) it does not match revenues and expenses in the period in which they are incurred.
B) it does not appropriately measure accounting profit.
C) it does not recognize accounts receivable.
D) it does not adequately show the actual cash flows of the firm.

111) The statement of cash flows does not include which of the following sections?
A) Cash flows from operating activities
B) Cash flows from sales activities
C) Cash flows from investing activities
D) Cash flows from financing activities

112) Which of the following is an outflow of cash?
A) Profitable operations
B) The sale of equipment
C) The sale of the company's common stock
D) The payment of cash dividends

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113) Which of the following is an inflow of cash?
A) Funds spent in normal business operations
B) The purchase of a new factory
C) The sale of the firm's bonds
D) The retirement of the firm's bonds

114) A statement of cash flows allows a financial analyst to determine
A) whether a cash dividend is affordable.
B) how increases in assets have been financed.
C) whether long-term assets are being financed with long-term or short-term financing.
D) All of the options

115) Which of the following would represent a use of funds and, indirectly, a reduction in cash balances?
A) An increase in inventories
B) A decrease in marketable securities
C) An increase in accounts payable
D) The sale of new bonds by the firm

116) Which of the following would represent a positive source of funds and, indirectly, an increase in cash balances?
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A) A reduction in accounts receivable
B) The repurchase of shares of the firm's stock
C) A decrease in net income
D) A reduction in notes payable

117) A firm's purchase of plant and equipment would be considered a
A) use of cash for financing activities.
B) use of cash for operating activities.
C) source of cash for operating activities.
D) use of cash for investment activities.

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118) How many of the following items decrease cash flow in the statement of cash flows?
- ☐ Increase in accounts receivable
- ☐ Increase in notes payable
- ☐ Depreciation expense
- ☐ Increase in investments
- ☐ Decrease in accounts payable
- ☐ Decrease in prepaid expenses
- ☐ Dividend payment
- ☐ Increase in accrued expenses

A) Two of these items decrease cash flow
B) Three of these items decrease cash flow
C) Four of these items decrease cash flow
D) Five of these items decrease cash flow

119) Depreciation is a source of cash inflow because
A) it is a non-cash expense, so it needs to be added back to net income when using the indirect method.
B) it supplies cash for future asset purchases.
C) it is a tax-deductible cash expense.
D) it is a taxable expense.

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120) Preferred stock dividends _____ earnings available to common stockholders.
A) increase
B) decrease
C) do not effect
D) There is not enough information to determine.

121) Free cash flow is used to help determine:
1. the amount of cash that is generated from the business operations, including normal sales and normal costs, payments made to owners, and purchases of property.
2. the amount of cash that is available for extra activities that the firm may want to get involved in.
3. the amount of cash that is considered taxable for federal income taxes.

A) Option 1 only
B) Option 2 only
C) Options 1 and 3
D) Options 1 and 2

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122) Given the following, what is free cash flow?

Cash flow from operating activities	$ 200,000
Cash flow from investing activities	$ 140,000
Cash flow from financing activities	$ 56,000
Building purchases	$ 50,000
Dividends Paid	$ 20,000

A) $396,000
B) $270,000
C) $326,000
D) $130,000

123) Assuming a tax rate of 21%, depreciation expenses of $500,000 will
A) reduce income by $15,000.
B) reduce taxes by $105,000.
C) reduce taxes by $150,000.
D) have no effect on income or taxes, since depreciation is not a cash expense.

124) Assuming a tax rate of 21%, the after-tax cost of interest expense of $1,000,000 is
A) $1,000,000
B) $79,000
C) $790,000
D) $400,000

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125) Assuming a tax rate of 21%, the after-tax cost of a $100,000 dividend payment is
A) $100,000
B) $70,000
C) $30,000
D) None of the options

126) Farah Snack Company has earnings after taxes of $150,000. Interest expense for the year was $20,000; preferred dividends paid were $20,000; and common dividends paid were $30,000. Taxes were $22,500. The firm has 100,000 shares of common stock outstanding. Earnings per share on the common stock was
A) $1.30.
B) $1.10.
C) $0.75.
D) $0.80.

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127) Gerry Company has a gross profit of $1,200,000 and depreciation expense of $400,000. Selling and administrative expense is $250,000. Given that the tax rate is 21 percent, compute the cash flow from operations for Gerry Company.

A) $834,500
B) $550,000
C) $330,000
D) None of the options

128) Hoover Incorporated has current assets of $350,000 and fixed plant assets of $650,000. Current liabilities are $100,000 and long-term liabilities are $250,000. There is $120,000 in preferred stock outstanding and the firm has issued 10,000 shares of common stock. What is the firm's total equity?

A) $1,000,000.
B) $530,000
C) $350,000
D) $650,000

129) Hoover Incorporated has current assets of $350,000 and fixed plant assets of $650,000. Current liabilities are $100,000 and long-term liabilities are $250,000. There is $120,000 in preferred stock outstanding and the firm has issued 10,000 shares of common stock. Compute book value (net worth) per share

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A) $84.00.
B) $53.00.
C) $75.00.
D) $65.00.

130) The best indication of the operational efficiency of management is

A) net income.
B) earnings per share.
C) earnings before interest and taxes (EBIT).
D) gross profit.

131) Which of the following would indicate an accurate statement of cash flows?

A) Net cash flow is equal to marketable securities balance.
B) Net cash flows from financing activities are equal to the change in stockholder's equity.
C) Net cash flow is equal to the ending cash balance.
D) Net cash flow is equal to the change in the cash balance.

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132) An increase of $100,000 in inventory would result in a(n)
A) Decrease of net cash flow.
B) Increase in net cash flow.
C) Decrease in marketable securities.
D) Increase in bonds payable.

133) Compute the cash flows from operations using the indirect method if Star Corporation had $250,000 in net income, $30,000 in depreciation expense, a decrease of $20,000 in accounts receivable and an increase in bonds payable of $50,000.
A) $370,000
B) $300,000
C) $250,000
D) $310,000

134) One of the *primary* factors evaluated when a company is pursuing a leveraged buyout is
A) net cash flow.
B) free cash flow.
C) cash flow from financing activities.
D) cash flow from investing activities.

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Answer Key

Test name: Chapter 02

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

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38) TRUE
39) FALSE
40) TRUE
41) FALSE
42) TRUE
43) FALSE
44) TRUE
45) TRUE
46) FALSE
47) TRUE
48) TRUE
49) FALSE
50) TRUE
51) TRUE
52) FALSE
53) FALSE
54) TRUE
55) TRUE
56) TRUE
57) TRUE
58) FALSE
59) FALSE
60) FALSE
61) TRUE
62) FALSE
63) TRUE
64) TRUE
65) TRUE
66) A
<p style="margin-bottom 20px;">
Year 2020 Earnings per share $= \left(\frac{\text{Earnings after taxes}}{\text{Shares outstanding}}\right) = \left(\frac{\$610{,}000}{360{,}000}\right) = \$\ 1.69$

Year 2021 Earnings after taxes = $610,000 × 1.30 = $793,000
Shares outstanding = 360,000 + 32,000 = 392,000
Earnings per share = $793,000 ÷ 392,000 = $2.02

67) B

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Sales	$ 230,000
Cost of goods sold	121,900
Gross Profit	$ 108,100

Gross Profit Margin = Gross Profit ÷ Sales
= $108,100 ÷ $230,000 = 0.47

68) C

Sales	$ 510,000
Cost of goods sold	180,000
Gross Profit	330,000
Selling and administrative expense	79,000
Depreciation (plug figure)	155,000
Operating profit	$ 96,000

69) B

Sales	$ 900,000
Cost of goods sold (64%)	576,000
Gross Profit	324,000
Selling and administrative expense (11%)	99,000
Depreciation	18,000
Operating profit	$ 207,000
Interest	12,000
Earnings before tax	195,000
Taxes (28%)	$ 54,600

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70) B

$$\text{Par value} = \frac{\text{(Common stock+paid in capital)}}{\text{number of shares outstanding}} = \frac{\$58,300,000}{530,000} = \$110$$ </p>

71) A
Stock price = EPS × P/E ratio = $4 × 18 = $72

72) A

Feedback: Cash flow from operating activities	$ 175,000
- Capital Expenditures	43,000
- Common stock dividends	33,000
Free Cash flow	$ 99,000

73) B

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Tax savings from depreciation = Depreciation × tax rate = $600,000 × 0.21 = $126,000

74) C
After tax cost of interest = Interest × (1 − tax rate) = $1,160,000 × 0.79 = $916,400

75) A
Dividends are not tax deductible.

76) C

Gross Profit	$ 820,000
Selling and administrative expense	115,000
Depreciation expense	200,000
Operating Profit	$ 505,000
Taxes (43%)	217,150
Earnings after taxes	$ 287,850
Plus depreciation expense	200,000
Cash Flow	$ 487,850

77) A
78) A
79) C
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80) B

$$\text{Year 2020 Earnings per share} = \left(\frac{\text{Earnings after taxes}}{\text{Shares outstanding}}\right) = \left(\frac{\$750{,}000}{300{,}000}\right) = \$2.50$$

Year 2021 Earnings after taxes = $750,000 × 1.25 = $937,500
Shares outstanding = 300,000 + 50,000 = 350,000
Earnings per share = $937,500 ÷ 350,000 = $2.68

81) C

Sales	$ 350,000
Cost of goods sold	110,000
Gross Profit	240,000
Selling and administrative expense	40,000
Depreciation expense	70,000
Operating profit	$ 130,000

82) B

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Sales	$ 320,000
Cost of goods sold	112,000
Gross Profit	$ 208,000

Gross Profit Margin = Gross Profit/Sales
= $208,000 ÷ $320,000 = 0.65

83) C

Sales	$ 750,000
Cost of goods sold	200,000
Gross Profit	550,000
Selling and administrative expense	70,000
Depreciation (plug figure)	330,000
Operating profit	$ 150,000

84) C

Sales	$ 1,000,000
Cost of goods sold (70%)	700,000
Gross Profit	300,000
Selling and administrative expense (10%)	100,000
Depreciation	80,000
Operating profit	$ 120,000
Interest	10,000
Earnings before tax	110,000
Taxes (30%)	$ 33,000

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85) B

$$\text{Original price} = \frac{(\text{Common stock} + \text{paid-in-capital})}{\text{number of shares outstanding}}$$

$$= \frac{(\$1{,}500{,}000 + \$1{,}000{,}000)}{100{,}000} = \$25$$

86) C
Par value = Common stock ÷ number of shares outstanding = $4,000 ÷ 1,000 = $4

87) C
Par value = Common stock ÷ number of shares outstanding = $6,000 ÷ 1,000 = $6

88) A
Stock price = EPS × P/E ratio = $3 × 24 = $72

89) C

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Stock price = EPS × P/E ratio = $4 × 23 = $92

90) D
91) D
92) D
93) B
94) B
95) D
96) B
97) C
98) A
99) A
100) B
101) D
102) B
103) C
104) C
105) B
106) C
107) D
108) D
109) C
110) D
111) B
112) D
113) C
114) D
115) A
116) A
117) D
118) C
119) A
120) B
121) D
122) D

Cash flow from operations activities	$ 200,000
– Capital Expenditures	50,000
– Common stock dividends	20,000
Free Cash flow	$ 130,000

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123) B
Tax savings from depreciation = Depreciation × tax rate = $500,000 × 0.21 = $105,000

124) C
After tax cost of interest = Interest × (1 − tax rate) = $1,000,000 × 0.79 = $790,000

125) A
Dividends are not tax deductible.

126) A
Earnings after taxes − Preferred stock dividends = Earnings available to common
$150,000 − $20,000 = $130,000 EAC
Earnings per share = Earnings available to common ÷ number of shares outstanding
$130,000 ÷ 100,000 = $1.30

127) A

Gross Profit	1,200,000
Selling & administrative expense	250,000
Depreciation expense	400,000
Operating Profit	$ 550,000
Taxes (21%)	115,500
Earnings after taxes	$ 434,500
Plus depreciation expense	400,000
Cash Flow	$ 834,500

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128) D
Equity = Assets − Liabilities or 350,000 + 650,000 − 100,000 − 250,000. The preferred stock is ignored.

129) B

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Current assets	$ 350,000
Fixed assets	650,000
Total assets	$ 1,000,000
–Current liabilities	100,000
–Long-term liabilities	250,000
Stockholders' equity	$ 650,000
–Preferred stock obligation	120,000
Net worth assigned to common	$ 530,000
Common shares outstanding	10,000
Book value (net worth) per share	$ 53

130) C

131) D

132) A

133) B

Cash flow from operations = Net income + Depreciation + Decrease in A/R = $250,000 + $30,000 + $20,000 = $300,000.

134) B

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