# *CFIN 6th edition Besley Test Bank*

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# TRUE/FALSE

1 : The information contained in the annual report is used by investors to form expectations about future earnings and dividends.
A : true
B : false

Correct Answer : A

2 : Noncash assets are expected to produce cash over time but the amount of cash they eventually produce could be higher or lower than the values at which the assets are carried on the books.
A : true
B : false

Correct Answer : A

3 : The book values of shares of stock are always equal to their market values.
A : true
B : false

Correct Answer : B

4 : The balance sheet is a financial statement that measures the flow of funds into and out of various accounts over time, whereas the income statement measures the financial position of the firm at a specific point in time.
A : true
B : false

Correct Answer : B

5 : The values or accounting numbers that are reported on the balance sheet are the same as the market values of the assets.
A : true
B : false

Correct Answer : B

6 : Retained earnings is the amount of cash that has been generated by the firm through its operations but has not been paid out to stockholders as dividends. Retained earnings are kept in cash or near cash accounts, and thus these cash accounts, when added together, will always be equal to the total retained earnings of the firm.
A : true
B : false

Correct Answer : B

7 : A firms net income reported on its income statement must equal the operating cash flows on the statement of cash flows.
A : true
B : false

Correct Answer : B

8 : A firms net income is the most appropriate measure to determine whether the management is maximizing the firms stock price.
A : true
B : false

Correct Answer : B

9 : Ratio analysis involves a comparison of the relationships between financial statement accounts to analyze the financial position and strength of a firm.
A : true
B : false

Correct Answer : A

10 : A decline in the inventory turnover ratio suggests that the firms liquidity position is improving.
A : true
B : false

Correct Answer : B

11 : The degree to which the managers of a firm attempt to magnify the returns to owners capital through the use of financial leverage is captured in debt management ratios.
A : true
B : false

Correct Answer : A

12 : Determining whether a firms financial position is improving or deteriorating requires analysis of more than one set of financial statements. Trend analysis is one method of measuring a firms performance over time.
A : true
B : false

Correct Answer : A

13 : A simple approach to trend analysis is to construct graphs.
A : true
B : false

Correct Answer : A

14 : Different accounting practices will not have an impact on the comparative ratio analyses of different firms.
A : true
B : false

Correct Answer : B

15 : The balance sheet includes historical values that can impact the validity of a firms financial ratios.

A : true
B : false

Correct Answer : A

16 : The Securities and Exchange Commission (SEC) was created to develop and approve a set of common international accounting rules.
A : true
B : false

Correct Answer : B

17 : In 2010, the Securities and Exchange Commission (SEC) announced its support for Generally Accepted Accounting Principles (GAAP).
A : true
B : false

Correct Answer : B

18 : When generating financial statements, the Securities and Exchange Commission (SEC) allows publicly traded foreign companies to use the International Financial Reporting Standards (IFRS) rather than the Generally Accepted Accounting Principles (GAAP) if IFRS is the accounting system used in their home country.
A : true
B : false

Correct Answer : A

# MULTIPLE CHOICE

19 : Which of the following financial statements is included in the annual reports of a company?
A : Statement of changes in long-term financing
B : Fund flow statement
C : Statement of principles
D : Proxy statement
E : Statement of cash flows

Correct Answer : E

20 : Which of the following statements is true about the annual report of a company?
A : The annual report contains four basic financial statements: the income statement; balance sheet; statement of cash flows; and statement of changes in long-term financing.
B : The annual report does not provide any information about a firms future prospects.
C : The key importance of annual report information is that it is used by investors when they form their expectations about the firms future earnings and dividends.
D : The annual report provides no relevant information for use by financial analysts or by the investing public.
E : The annual report is a report issued by each of the shareholders to the corporation and it contains information about the performance of the shares of the firm held by the shareholders.

Correct Answer : C

21 : Which of the following provides information about a firms performance during the past year and also provides information regarding new developments that will affect the future performance of the firm?
A : Articles of incorporation
B : The annual report
C : Proxy statements
D : A DuPont chart
E : A memorandum of understanding

Correct Answer : B

22 : Which of the following financial statements shows a firms financing activities (how funds were generated) and investment activities (how funds were used) over a particular period of time?
A : Balance sheet
B : Income statement
C : Statement of retained earnings
D : Statement of cash flows
E : Proxy statement

Correct Answer : D

23 : Which of the following financial statements is prepared to show the changes in the common equity accounts between balance sheet dates?
A : Pro forma statement
B : Income statement
C : Statement of retained earnings
D : Statement of cash flows
E : Proxy statement

Correct Answer : C

24 : Which of the following financial statements includes information about a firms assets, equity, and liabilities at a specific point in time?
A : Income statement
B : Cash flow statement
C : Balance sheet
D : Statement of retained earnings
E : Statement of changes in long-term financing

Correct Answer : C

25 : Which of the following actions can be considered a source of cash when constructing a statement of cash flows?
A : Decrease in equity
B : Decrease in accounts payable
C : Increase in inventory
D : Increase in long-term bonds
E : Increase in fixed assets

Correct Answer : D

26 : Which of the following is an example of a current asset?
A : Inventory
B : Retained earnings
C : Accounts payable
D : Plant and equipment
E : Common stock

Correct Answer : A

27 : Which of the following accounts contains the actual money that can be spent by a firm?
A : Accounts Receivable
B : Notes Payable
C : Net Worth
D : Inventories
E : Cash and Equivalents

Correct Answer : E

28 : In which order will assets be listed in a balance sheet?
A : In ascending order of the value of the asset
B : In alphabetical order
C : In ascending order of the date of purchase of asset
D : In order of liquidity
E : In order of importance for the company

Correct Answer : D

29 : _____ is an example of a long-term investment of a firm.
A : Retained earnings
B : Equipment
C : Accounts receivable
D : Common stock
E : Long-term bonds

Correct Answer : B

30 : Which of the following mathematical expressions is used to compute the book value per share?
A : Book value per share = Common equity ÷ Total number of shares outstanding
B : Book value per share = Total shares issued × Per share par value
C : Book value per share = Current assets Current liabilities
D : Book value per share = Total assets ÷ Total number of shares outstanding
E : Book value per share = Earnings available to common stockholders ÷ Total number of shares outstanding

Correct Answer : A

31 : The book value of the common stock of Zircon Global Ltd. is $34 million. If Zircon has four million shares of common stock outstanding, what is its book value per share?
A : $136.00 per share
B : $8.50 per share
C : $4.00 per share
D : $0.60 per share

E : $30.00 per share

Correct Answer : B

32 : The book value per share of Topaz General Ltd. is $10 per share and the company has a total of 4 million shares. Calculate the total book value of common equity of the company.
A : $4 million
B : $10 million
C : $400 million
D : $40 million
E : $100 million

Correct Answer : D

33 : Which of the following statements is true about net worth?
A : A firms net worth should be higher than the stockholders equity.
B : A firms net worth should be equal to 50 percent of the value of the total assets of the firm.
C : A firms net worth is equal to total assets minus total liabilities.
D : A firms net worth is the amount that the firms assets can generate on their liquidation.
E : A firms net worth is the amount to be paid by the shareholders to the firm on liquidation of the firm.

Correct Answer : C

34 : Amber Devices Ltd. has total assets worth $900 million and total liabilities worth $475 million at the end of December 31. What is the amount of money received by the stockholders, if Amber liquidates all of its assets for $850 and pays off all of its outstanding debt at book value?
A : $850 million
B : $475 million
C : $1,325 million
D : $425 million
E : $375 million

Correct Answer : E

35 : The funds provided by common stockholders that consist of common stock, paid-in capital, and retained earnings are referred to as the firms:
A : net worth.
B : net cash flows.
C : cash equivalents.
D : accruals.
E : market value.

Correct Answer : A

36 : Which of the following mathematical expressions computes the net worth of a firm?
A : Net worth = Current assets minus current liabilities
B : Net worth = Total assets minus current liabilities
C : Net worth = Total liabilities minus current assets
D : Net worth = Total assets minus total liabilities
E : Net worth = Total liabilities minus current liabilities

Correct Answer : D

37 : Which of the following is considered as a liability in the balance sheet of a firm?
A : Accounts receivable
B : Corporate bonds
C : Retained earnings
D : Common stock
E : Plant and equipment

Correct Answer : B

38 : Ruby Enterprises Ltd. has long-term bonds worth $20 million, retained earnings of $45 million, accounts payable of $10 million, notes payable of $12 million, and inventory worth $18 million. What is the value of total liabilities of Ruby Enterprises?
A : $42 million
B : $105 million
C : $87 million
D : $60 million
E : $85 million

Correct Answer : A

39 : Which of the following is an example of a firms long-term debt?
A : Common stock
B : Retained earnings
C : Accounts payable
D : Corporate bonds
E : Accounts receivable

Correct Answer : D

40 : Which of the following is true about the book value and market value of a firms debt?
A : The book value of a firms debt generally is higher than the market value of the firms debt.
B : The book value of a firms debt generally is either equal to or very close to the market value of the firms debt.
C : The book value of a firms debt generally is either equal to or very close to the market value of firms assets.
D : The market value of a firms debt generally is higher than the book value of firms assets.
E : The market value of a firms debt must equal the market value of a firms assets.

Correct Answer : B

41 : Which of the following mathematical expressions is used to compute the net working capital of a firm?
A : Net working capital = Total liabilities ? Retained earnings
B : Net working capital = Total assets ? Current assets
C : Net working capital = Total liabilities ? Current liabilities
D : Net working capital = Current assets ? Current liabilities
E : Net working capital = Total equity ? Retained earnings

Correct Answer : D

42 : Which of the following statements is true about the values recorded in the balance sheet of a firm?

A : The book value of a firms assets will be equal to the market value of the firms assets.
B : The equity section of a firms balance sheet represents the difference between the market value of the firms assets and the book value of the firms liabilities.
C : The equity section of a firms balance sheet represents the difference between the market value of the firms assets and the market value of the firms liabilities.
D : The book value of a firms assets will be higher than the market value of the firms assets.
E : The book value of a firms debt generally is equal to or very close to the market value of the firms liabilities.

Correct Answer : E

43 : Which of the following is true about a common size balance sheet?
A : The assets, liabilities, and equities are reported at their market values.
B : The assets, liabilities, and equities are reported as percentages of common stock.
C : The assets, liabilities, and equities are reported as percentages of total assets.
D : The assets, liabilities, and equities are arranged in the alphabetical order.
E : The assets, liabilities, and equities are reported as percentages of the assets, liabilities, and equities of a competing firm.

Correct Answer : C

44 : The equity section of a firms balance sheet contains _____.
A : retained earnings
B : current assets
C : corporate bonds
D : dividends
E : noncash assets

Correct Answer : A

45 : Retained earnings is the total amount of:
A : income that is distributed as dividends to the shareholders.
B : debt not repaid in the current year.
C : accumulated depreciation charged on the firms assets.
D : income that has been saved and reinvested in assets since the firm started business.
E : profit retained by a firm to pay taxes.

Correct Answer : D

46 : The firms statement of retained earnings reports changes in:
A : the amount of dividends paid in the current year.
B : the common equity accounts between balance sheet dates.
C : the interest on debt account paid in the current year.
D : the amount of net income earned in the current year.
E : the amount of depreciation charged in the current year.

Correct Answer : B

47 : Which of the following mathematical expressions calculates a firms retained earnings at the end of a year?
A : Retained earnings = Beginning balance of retained earnings ? Net income in the current year + Net loss in the previous year
B : Retained earnings = Beginning balance of retained earnings + Net income in the current

year + Dividends paid in the current year
C : Retained earnings = Beginning balance of retained earnings + Net income in the current year ? Dividends paid in the current year
D : Retained earnings = Beginning balance of retained earnings ? Net loss in the previous year ? Dividends paid in the current year
E : Retained earnings = Beginning balance of retained earnings ? Net income in the current year + Dividends paid in the current year

Correct Answer : C

48 : Helium Brands Ltd. has a beginning balance of retained earnings of $185 million. Helium has a net income of $48 million and has paid a dividend of $15 million in the current year. The ending balance of retained earnings is:
A : $248 million.
B : $185 million.
C : $170 million.
D : $137 million.
E : $218 million.

Correct Answer : E

49 : The statement of retained earnings for Redwood Systems Ltd. shows a retained earnings balance of $300 million on December 31. During the year, Redwood generated net income of $60 million and paid dividends of $20 million to its stockholders. What was the beginning balance of retained earnings at the start of this year?
A : $300 million
B : $260 million
C : $380 million
D : $340 million
E : $220 million

Correct Answer : B

50 : A firms net income as reported on its income statement is also known as the firms _____.
A : operating cash flow
B : net cash flow
C : noncash income
D : accounting profit
E : net sales

Correct Answer : D

51 : Which of the following mathematical expressions calculates the net cash flow if depreciation is the only noncash item in a firms income statement?
A : Net cash flow = Net income + Depreciation
B : Net cash flow = Accounting profit Depreciation
C : Net cash flow = Accounting profit Operating cash flow
D : Net cash flow = Fixed assets + Depreciation
E : Net cash flow = Operating cash flow Depreciation

Correct Answer : A

52 : Which of the following financial statements summarizes the revenue generated and the

expenses incurred by a firm during the accounting period?
A : Balance sheet
B : Statement of cash flows
C : Statement of retained earnings
D : Income statement
E : Proxy statement

Correct Answer : D

53 : Which of the following items appears at the top of an income statement when determining the net income of a firm?
A : Earnings before tax
B : Operating costs
C : Net sales
D : Gross profit
E : Retained earnings

Correct Answer : C

54 : Which of the following is considered by analysts when comparing the operations of two firms that are financed differently?
A : Total assets
B : Earnings before interest and taxes
C : Net sales
D : Gross profit
E : Retained earnings

Correct Answer : B

55 : Violet Solutions Ltd. has net sales of $850 million, variable operating costs of $475 million, and fixed operating costs including depreciation of $100 million. What is the net operating income of Violet Solutions?
A : $1,425 million
B : $1,325 million
C : $750 million
D : $375 million
E : $275 million

Correct Answer : E

56 : Which of the following is the most appropriate measure to examine whether management of a firm is pursuing the goal of maximizing the firms stock price?
A : Retained earnings
B : Net income
C : Cash flows
D : Earnings per share
E : Accounting profits

Correct Answer : C

57 : Which of the following is an example of a noncash item reported in the income statement of a firm?
A : Taxes

B : Dividends
C : Interest
D : Depreciation
E : Net sales

Correct Answer : D

58 : Sapphire Industries Ltd. has a net income of $60 million and the total depreciation on its assets is $20 million. The net cash flow of Sapphire Industries is:
A : $80 million.
B : $60 million.
C : $20 million.
D : $40 million.
E : $100 million.

Correct Answer : A

59 : Determine the increase or decrease in cash for Rinky Supply Company for last year, given the following information. (Assume no other changes occurred during the past year.)Dividend payment $25Increase in accounts receivables $50Increase in notes payable $30Decrease in accounts payable $20Increase in accrued wages and taxes $15Increase in inventories $35Addition to retained earnings $5
A : $50
B : +$40
C : $80
D : +$20
E : $30

Correct Answer : C

60 : Which of the following is considered a use of cash in a cash flow statement?
A : Increase in accrued wages
B : Increase in common stock
C : Decrease in accounts receivable
D : Decrease in inventory
E : Increase in fixed assets

Correct Answer : E

61 : Which of the following changes is considered a source of cash when preparing a statement of cash flow?
A : An increase in property, plant, and equipment
B : A decrease in accounts payable
C : A decrease in inventories
D : An increase in accounts receivable
E : A decrease in accrued wages

Correct Answer : C

62 : Which of the following is considered a part of cash flow from a financing activity in a statement of cash flows?
A : Increase in corporate bonds
B : Decrease in accrued wages

C : Increase in inventories
D : Decrease in accounts payable
E : Increase in fixed assets

Correct Answer : A

63 : _____ is an example of cash flow from an investing activity in a cash flow statement.
A : Payment of dividends
B : Repurchase of stock
C : Purchase of equipment
D : Purchase of inventory
E : Repayment of debt

Correct Answer : C

64 : Which of the following ratios shows the relationship between a firms current assets and its current liabilities?
A : Asset management ratios
B : Liquidity ratios
C : Debt management ratios
D : Profitability ratios
E : Market value ratios

Correct Answer : B

65 : A firms current ratio has steadily increased over the past 5 years, from 1.9 to 3.8. What would a financial analyst probably conclude from this information?
A : The firms fixed assets turnover has improved.
B : The firms liquidity position has improved.
C : The firms stock price has increased.
D : The firms financial leverage has improved.
E : The firms market value has decreased.

Correct Answer : B

66 : Which of the following transactions will not affect the quick ratio of a company?
A : Inventory sold on credit
B : Cash purchase of equipment
C : Payment for accounts payable
D : Accounts receivable collected
E : Bank loan repaid

Correct Answer : D

67 : Other things held constant, which of the following will not affect the current ratio, assuming an initial current ratio greater than 1.0?
A : Fixed assets are sold for cash.
B : Long-term debt is issued to pay off current liabilities.
C : Accounts receivable are collected.
D : Cash is used to pay off accounts payable.
E : A bank loan is obtained, and the proceeds are credited to the firms checking account.

Correct Answer : C

68 : If a company has a quick ratio of 1.0 and a current ratio of 2.0, then:
A : the value of current assets is equal to the value of inventory.
B : the value of current assets is equal to the value of current liabilities.
C : the value of current liabilities is more than the value of current assets.
D : the value of current liabilities is equal to the value of inventory.
E : the value of inventory is more than the value of current assets.

Correct Answer : D

69 : Bicksler Corporation has a current ratio of 2.0 on July 21 of the current year. On July 22, Bicksler purchased (and received) raw materials on credit from its supplier. Assuming all other things are equal, how will this transaction affect the current ratio of Bicksler?
A : The value of the current ratio will increase.
B : The value of the current ratio will decrease.
C : The value of the current ratio will equal the value of the quick ratio after the purchase.
D : The value of the quick ratio will be greater than the value of the current ratio after the purchase.
E : The value of the current ratio will not change.

Correct Answer : B

70 : A firm obtains the funds needed to pay its current bills primarily from its:
A : current liabilities.
B : long-term assets.
C : long-term liabilities.
D : equity.
E : liquid assets.

Correct Answer : E

71 : Which of the following ratios is calculated to help determine the liquidity of a firm?
A : Inventory turnover ratio
B : Quick ratio
C : Total assets turnover ratio
D : Debt ratio
E : Net profit ratio

Correct Answer : B

72 : The balance sheet of Crimpson Solutions Ltd. has cash of $125 million, accounts receivable of $245 million, inventory of $160 million, and equipment worth $450 million. The company also has accounts payable of $120 million, notes payable of $280 million, and corporate bonds of $365 million. Crimpsons current ratio is:
A : 2.5 times.
B : 1.56 times.
C : 1.325 times.
D : 0.565 times.
E : 1.855 times.

Correct Answer : C

73 : Which of the following ratios measures how effectively a firm is managing its assets?

A : Quick ratio
B : Times interest earned ratio
C : Profit margin ratio
D : Inventory turnover ratio
E : Price earnings ratio

Correct Answer : D

74 : If an analysts goal is to determine how effectively a firm is managing its assets, which of the following sets of ratios would he or she examine?
A : Profit margin, current ratio, and fixed charge coverage ratio
B : Quick ratio, debt ratio, and times interest earned
C : Inventory turnover ratio, days sales outstanding, and fixed asset turnover ratio
D : Total assets turnover ratio, price earnings ratio, and return on total assets
E : Time interest earned, profit margin, and fixed asset turnover ratio

Correct Answer : C

75 : The days sales outstanding (DSO) ratio of a firm identifies:
A : the average length of time a firm must wait after making a credit sale before receiving cash.
B : how effectively the firm uses its plant and equipment to help generate sales.
C : the extent to which a firms net operating income can safely decline.
D : the profit (earnings) per dollar of sales.
E : how much investors are willing to pay for the firms stock for each dollar of reported profits.

Correct Answer : A

76 : A low inventory turnover ratio might indicate that:
A : the firm is using the last-in first-out (LIFO) method of inventory valuation during inflationary periods.
B : the cost of inventory of the firm is lower than that of the similar firms.
C : the firm is holding excess stocks of inventory.
D : the inventory of the firm is sold and restocked very often.
E : the firm purchases all its inventory on credit.

Correct Answer : C

77 : A firm has total assets of $500 million, including its accounts receivable, which is worth $120 million. The annual sales of the firm is $650 million. The days sales outstanding (DSO) ratio of the firm is:
A : 48.2 days.
B : 52.7 days.
C : 39.6 days.
D : 82.1 days.
E : 66.5 days.

Correct Answer : E

78 : An inventory turnover ratio of 8.5 times indicates that:
A : the inventory of the firm turns over every 8.5 days.
B : the value of the inventory of the firm is 8.5 percent of the total assets of the firm.
C : the value of sales of the firm is 8.5 times the cost of goods sold.
D : the firm will restock its inventory every 42.35 days.

E : the firm pays for its inventory once in 42.35 days.

Correct Answer : D

79 : Which of the following is the formula to calculate a firms inventory turnover ratio?
A : Inventory Turnover = Sales ÷ Inventory
B : Inventory Turnover = Cost of goods sold ÷ Inventory
C : Inventory Turnover = Inventory ÷ Current assets
D : Inventory Turnover = Inventory ÷ Accounts receivables
E : Inventory Turnover = (Sales Cost of goods sold) ÷ Inventory

Correct Answer : B

80 : The net fixed assets of Auburn Media Ltd. is $850 million. The sales of the firm is $1,420 million. The firms fixed assets turnover ratio is:
A : 1.35 times.
B : 2.42 times.
C : 1.67 times.
D : 2.8 times.
E : 3.45 times.

Correct Answer : C

81 : A firms total equity is $10 million and total liabilities is $5 million. During the year, its sales equaled to $75 million. Based on the given information, the total assets turnover ratio of the firm is:
A : 10.5 times.
B : 13 times.
C : 15 times.
D : 7.5 times.
E : 5 times.

Correct Answer : E

82 : Which of the following statements is true regarding debt ratios?
A : Firms with relatively low debt ratios have higher expected returns when business is good.
B : Firms with relatively low debt ratios are exposed to more risk compared to firms with relatively high debt ratios.
C : Firms with relatively high debt ratios have higher expected returns when business is bad.
D : Firms with relatively high debt ratios have higher expected returns when business is good.
E : Firms with relatively low debt ratios have higher expected returns when business is poor.

Correct Answer : D

83 : The extent to which the operating income can decline before a firm is unable to meet its annual interest costs can be found in:
A : the price-earnings ratio.
B : the debt ratio.
C : the times interest earned ratio.
D : the return on equity.
E : the profit margin.

Correct Answer : C

84 : A firm has total interest charges of $10,000 per year, sales of $1 million, a tax rate of 40 percent, and a net profit margin of 6 percent. The firms times interest earned ratio is:
A : 16 times.
B : 10 times.
C : 7 times.
D : 11 times.
E : 20 times.

Correct Answer : D

85 : Alumbat Corporation has $800,000 in debt outstanding, and pays an interest rate of 10 percent annually on its bank loan. Alumbats annual sales are $3,200,000, its average tax rate is 40 percent, and its net profit margin on sales is 6 percent. If the company does not maintain a TIE ratio of at least 4 times, its bank will refuse to renew its loan, and bankruptcy will result. Alumbats current times interest earned ratio is:
A : 2.4 times.
B : 3.4 times.
C : 3.6 times.
D : 4.0 times.
E : 5.0 times.

Correct Answer : E

86 : Which of the following ratios recognizes that many firms lease rather than buy a long-term asset?
A : Fixed charge coverage ratio
B : Times interest earned ratio
C : Debt ratio
D : Net profit margin
E : Equity multiplier ratio

Correct Answer : A

87 : Which of the following mathematical expressions calculates the debt ratio?
A : Debt ratio = Net operating income ÷ Total debt
B : Debt ratio = Long-term liabilities ÷ Current liabilities
C : Debt ratio = Sales ÷ Total liabilities
D : Debt ratio = Total liabilities ÷ Total assets
E : Debt ratio = Interest charges ÷ Total liabilities

Correct Answer : D

88 : The proportion of a firms funds that is provided by shareholders is equal to:
A : the debt ratio minus the times interest earned.
B : 1 minus the debt ratio.
C : the times interest earned plus 1.
D : the debt ratio minus the dividends paid.
E : the fixed charge coverage ratio minus 1.

Correct Answer : B

89 : Greenwood Builders Ltd. has a debt ratio of 35 percent and it has total assets of $750,000.

What is the value of their total liabilities?
A : $750,000
B : $1,000,000
C : $450,000
D : $262,500
E : $153,200

Correct Answer : D

90 : A firm has a profit margin of 15 percent on sales of $20,000,000. If the firm has a debt of $7,500,000, total assets of $22,500,000, and an interest cost on a total debt of 5 percent, what is the firms return on total assets (ROA)? (Round answer to two decimal places.)
A : 8.47%
B : 10.94%
C : 12.02%
D : 13.33%
E : 15.18%

Correct Answer : D

91 : Selzer Inc. sells all of its merchandise on credit. It has a profit margin of 4 percent, days sales outstanding equal to 60 days, receivables of $150,000, total assets of $3 million, and a debt ratio of 0.64. The firms return on equity (ROE) is:
A : 7.1%.
B : 33.3%.
C : 3.3%.
D : 71.0%.
E : 8.1%.

Correct Answer : C

92 : Suppose a firm has a growth rate equal to 8 percent, return on assets (ROA) of 10 percent, a debt ratio of 20 percent, and a current stock price of $36. The firms return on equity (ROE) is:
A : 14.0%.
B : 12.5%.
C : 15.0%.
D : 2.5%.
E : 13.5%.

Correct Answer : B

93 : Assume that Meyer Corporation is 100 percent equity financed, and has the following information:(1) Earnings before taxes = $1,500;(2) Sales = $5,000;(3) Dividend payout ratio = 60%;(4) Total assets turnover = 2.0;(5) Applicable tax rate = 30%The firms return on equity is:
A : 25%.
B : 30%.
C : 35%.
D : 42%.
E : 50%.

Correct Answer : D

94 : If a firm earns a net profit of $100,000 on sales of $2,000,000, its net profit margin is:

A : 5%.
B : 10%.
C : 15%.
D : 3.5%.
E : 1.5%.

Correct Answer : A

95 : Market value ratios indicate:
A : the effect of liquidity, asset management, and debt management on operating results.
B : how much debt the firm has and whether it can take on more debt.
C : the firms ability to meet its current obligations.
D : how effectively a firm is managing its assets.
E : what investors think of the companys future prospects based on its past performance.

Correct Answer : E

96 : The Charleston Company is a relatively small, privately owned firm. Last year, the company had an after-tax income of $15,000 and 10,000 shares were outstanding. The owners were trying to determine the market value for the stock prior to taking the company public. A similar firm, which is publicly traded, had a price/earnings ratio of 5.0. Using only the information given, the market value of one share of Charlestons stock is estimated as:
A : $10.00.
B : $7.50.
C : $5.00.
D : $2.50.
E : $1.50.

Correct Answer : B

97 : Using the information below for WAM Inc., the market value per share is:Earnings after interest and taxes = $200,000Earnings per share = $2.00Stockholders equity = $2,000,000Market/Book ratio = 0.20
A : $20.00.
B : $8.00.
C : $4.00.
D : $2.00.
E : $1.00.

Correct Answer : C

98 : Which of the following ratios indicate how much investors are willing to pay for a firms stock for each dollar of reported profits?
A : Earnings per share
B : Market-to-book ratio
C : Price/earnings ratio
D : Return on equity
E : Net profit margin

Correct Answer : C

99 : Assuming that other things are constant, the price earnings (P/E) ratio:
A : is higher for firms with high growth prospects and lower for riskier firms.

B : is lower for firms with high growth prospects and higher for riskier firms.
C : is not affected by the growth prospects of a firm.
D : is equal to the market price of the share of a firm.
E : is equal to the earnings per share of a firm.

Correct Answer : A

100 : Daisy Inc.s book value per share is $10, and its market-to-book ratio is 1.5. If its earnings per share is $2.5, calculate its price/earnings (P/E) ratio.
A : 6.0
B : 6.7
C : 4.0
D : 10.0
E : 3.3

Correct Answer : A

101 : An analysis of a firms financial ratios over time used to determine the improvement or deterioration in its financial situation is called _____.
A : sensitivity analysis
B : the DuPont chart
C : ratio analysis
D : comparative (benchmarking) analysis
E : trend analysis

Correct Answer : E

102 : A comparison of a firms ratios with those of other firms in the same industry at the same point in time is called:
A : trend analysis.
B : comparative (benchmarking).
C : DuPont analysis.
D : sensitivity analysis.
E : cash flow analysis.

Correct Answer : B

103 : Emerald Corporations current ratio is 0.5, while Ruby (Emeralds competitor) Companys current ratio is 1.5. Both firms want to window dress their coming end-of-year financial statements. As part of their window dressing strategy, each firm will double its current liabilities by adding short-term debt and placing the funds obtained in the cash account. Which of the statements below best describes the actual results of these transactions?
A : The transactions will have no effect on the current ratios.
B : The current ratios of both firms will be increased.
C : The current ratios of both firms will be decreased.
D : Only Emerald Corporations current ratio will be increased.
E : Only Ruby Companys current ratio will be increased.

Correct Answer : D

104 : Pearl Automotive Ltd. has a current ratio of 2. The company wants to window dress its financial statements. Which of the following transactions will increase the current ratio of Pearl Automotive, assuming all other variables remain constant?

A : Selling of inventory on credit
B : Purchase of inventory on credit
C : Collecting accounts receivable
D : Purchase of fixed assets for cash
E : Repayment of short-term loan

Correct Answer : E

105 : If a firms existing quick ratio is 1.2, and all other variables remain unchanged, the quick ratio can be increased by:
A : repayment of a loan.
B : purchase of fixed assets using a loan.
C : receiving interest income.
D : collecting accounts receivable.
E : purchase of fixed assets for cash.

Correct Answer : C

106 : Techniques employed by firms to make their financial statements look better than they actually are, are called:
A : DuPont techniques.
B : window-dressing techniques.
C : trend analysis techniques.
D : benchmarking.
E : equity multipliers.

Correct Answer : B

107 : A limitation of ratio analysis is that:
A : it is useful only for large, multidivisional firms.
B : inflation, which distorts a firms balance sheet, is considered when calculating ratios.
C : seasonal factors, which distort a firms balance sheet, are taken into account when calculating ratios.
D : firms can employ window-dressing techniques to make their financial statements look better.
E : only statistical procedures are considered while analyzing the net effects of a set of ratios.

Correct Answer : D

108 : Which of the following was originally created to develop and approve a set of common International Financial Reporting Standards (IFRS)?
A : International Accounting Standards Board (IASB)
B : Securities and Exchange Commission (SEC)
C : Generally Accepted Accounting Principles (GAAP)
D : International Federation of Accountants
E : International Accounting Standards Committee

Correct Answer : A

109 : Which of the following accounting principles does the Securities and Exchange Commission (SEC) require U.S. firms to use when filing their financial statements?
A : International Accounting Standards Board (IASB)
B : International Financial Reporting Standards (IFRS)
C : Generally Accepted Accounting Principles (GAAP)

D : National Advisory Accounting Standards (NAAS)
E : Financial Accounting Standards Principles (FASP)

Correct Answer : C

110 : All firms that are publicly traded in the United States will be required to adopt the _____ in the near future.
A : Generally Accepted Accounting Principles (GAAP)
B : Financial Accounting Standards Rules (FASR)
C : Governmental Accounting Standards Principles (GASP)
D : International Financial Reporting Standards (IFRS)
E : National Advisory Accounting Standards (NAAS)

Correct Answer : D