TEST BANK


Sixth Canadian Edition
CORPORATE
FINANCE
ROSS
WESTERFIELD
JAFFE
ROBERTS

Chapter 02 Accounting Statements and Cash Flow

1. The balance sheet is based on which following equality:
A. Fixed Assets (Stockholder's equity + Current Assets
B. Assets (Liabilities + Stockholder's equity
C. Assets (Current Long Term Debt + Retained earnings
D. Fixed Asset (Liabilities + Stockholder's equity

2. Assets are listed on the balance sheet in order of:
A. decreasing liquidity.
B. decreasing size.
C. increasing size.
D. relative life.

3. Of the following assets, which is the generally the least liquid?
A. Marketable securities.
B. Cash.
C. Inventory.
D. Accounts receivable.

4. Accounting liquidity is defined as:
A. the amount of cash the firm has
B. the turnover ratio
C. the ability of the assets to generate income
D. the ease and quickness with which assets can be converted to cash

5. Fixed assets can be either tangible or intangible. Intangible assets are:
A. property, plant and equipment
B. can be converted to cash in the normal course of business
C. can be very valuable, although they have no physical presence, such as trademarks or patents
D. are highly liquid

6. Intangible fixed assets would include:
A. building.
B. machinery.
C. trademarks.
D. equipment.

7. The primary distinction between tangible and intangible assets is that:
A. intangible assets have a physical existence while tangible assets do not.
B. intangible assets do not have a physical existence while tangible assets do.
C. since tangible assets do not have a physical existence they do not show up on the balance sheet.
D. since intangible assets do not have a physical existence they do not show up on the balance sheet.

8. The carrying value or book value of the assets:
A. in Canada is determined under GAAP and is based on the cost f the asset
B. represents the true market value according to GAAP
C. are always the best measure of the company's value to an investor
D. are always higher than the replacement cost of the assets.

9. The earnings before interest and taxes, EBIT, on the income statement provides results on
A. the post financing effect on the earnings capability of the firm
B. the operating income for the period
C. the gross margin of the firm
D. the extraordinary items of the firm for the period

10. Balance sheet assets are:
A. all relatively illiquid.
B. listed at current market value.
C. listed at market value as of the most recent fiscal year.
D. listed at cost.

11. Under GAAP the value of all the firm's assets are reported at:
A. Carrying value or market value.
B. Book value or liquidation value.
C. Market value or Carrying value.
D. Book value or Carrying value.

12. Which of the following statements concerning the income statement is not true?
A. It measures performance over a specific period of time.
B. It determines after-tax income of the firm.
C. It includes deferred taxes.
D. It does not include depreciation.
E. It treats interest as an expense.

13. Noncash items refer to:
A. the credit sales of a firm.
B. the accounts payable of a firm.
C. the costs incurred for the purchase of intangible fixed assets.
D. expenses charged against revenues that do not directly affect cash flow.
E. all accounts on the balance sheet other than cash on hand.

14. According to GAAP, revenue is recognized as income when:
A. a contract is signed to perform a service or deliver a good.
B. the transaction is complete and the goods or services delivered.
C. payment is received.
D. income taxes are paid.

15. The TimeNow Corporation had 2010 fixed assets of $1345, current assets of 260, current liabilities of 180 and shareholder's equity of 775. What was the net working capital for TimeNow in 2010?
A. 260
B. 180
C. 80
D. 390

16. The TimeNow Corporation had 2010 fixed assets of $1345, current assets of 260, current liabilities of 180 and shareholder's equity of 775. The 2009 fixed assets were 1300, current assets of 220, long-term liabilities of 390 and shareholder's equity of 750. What was the change in net working capital for TimeNow in 2010?
A. 80
B. 20
C. 60
D. 160

17. Which of the following is not included in the computation of operating cash flow?
A. Earnings before interest and taxes.
B. Interest paid.
C. Depreciation.
D. Current taxes.

18. _____ refers to the firm's dividend payments less any net new equity raised.
A. Operating cash flow
B. Capital spending
C. Net working capital
D. Cash flow from creditors
E. Cash flow to stockholders

19. Net capital spending is equal to:
A. net additions to Net Working Capital.
B. the net change in fixed assets.
C. net income plus depreciation.
D. total cash flow to stockholders less interest and dividends paid.

20. What is the effect on net working capital if the corporation decides to increase their investment in inventory and pay for it with cash?
A. increase in NWC.
B. decrease in NWC.
C. depends on the amount of the investment.
D. no effect.
E. depends on the amount of cash.

21. Which of the following is not a use of Net Working Capital?
A. Retirement of long-term debt.
B. Dividends.
C. Sale of equity.
D. Acquisition of fixed assets.

22. Cash flow to shareholder is defined as:
A. total cash flow from the firm plus cash flow to the bondholders.
B. repurchases of equity less cash dividends paid plus new equity sold.
C. cash flow from operations less cash flow to creditors.
D. cash dividends plus repurchases of equity minus new equity sold.

23. For any individual period the firm cashflows are a circular flow of funds, this means
A. the cashflows are always invested in fixed assets
B. that cashflows are always in a spiral away from the firm
C. that firm cashflows must be borrowed externally to be reinvested in the economy
D. that all cashflows generated by the firm must equal the cashflows paid to the creditors and shareholders.

24. Earnings per share is equal to:
A. net income divided by the total number of shares outstanding.
B. net income divided by the par value of the common stock.
C. gross income multiplied by the par value of the common stock.
D. operating income divided by the par value of the common stock.
E. net income divided by total shareholders' equity.

25. Dividends per share is equal to dividends paid:
A. divided by the par value of common stock.
B. divided by the total number of shares outstanding.
C. divided by total shareholders' equity.
D. multiplied by the par value of the common stock.
E. multiplied by the total number of shares outstanding.

26. Calculate net income based on the following information.
Sales = $250.00
Cost of goods sold = $160.00
Depreciation = $35.00
Interest paid = $20.00
Tax rate = 34%
A. $23.10
B. $11.90
C. $35.00
D. $46.20
E. $36.30

27. The cashflow of the firm is defined as the cashflow of the assets. This cashflow must be equal to:
A. cashflow to equity minus cashflow to debtholders.
B. cashflow to debtholders minus cashflow to equity.
C. cashflow to governments plus cashflow to equity.
D. cashflow to equity plus cashflow to debtholders.

28. When making financial decisions related to assets, you should:
A. always consider market values.
B. place more emphasis on book values than on market values.
C. rely primarily on the value of assets as shown on the balance sheet.
D. only consider market values if they are less than book values.

29. From the following income statement information, calculate Johnson's after tax cash flow from operations.
Net sales = $2,500
Cost of goods sold = $1050
Operating expenses = $490
Depreciation = $300
Tax rate = 34%
A. $660.00
B. $990.00
C. $1257.00
D. $735.60
E. $1059.00

30. Over the year, the Rigem Co. had cash flow from operations of $938, and had net capital spending of $225. In addition, the firm's Net Working Capital increased by $73. What was Rigem's total cash flow?
A. $1,236
B. $748
C. $640
D. $786

31. The primary source of the firm's cashflow is usually:
A. net income.
B. tax credits.
C. earnings before interest and depreciation minus taxes.
D. capital spending after taxes.
E. working capital requirements.

32. Dorr Corp. had an ROA of 8%. Dorr's profit margin was 4% on sales of $250. What were total assets?
A. $125.
B. $500.
C. $30.
D. $220.80.

33. Midget Co. has a profit margin on sales of 4% and a ROE of 18%. If Midget's debt-to-equity ratio is .8, what is the total asset turnover ratio?
A. 2.500
B. 5.625
C. 2.000
D. 10.125

34. Donny Dell Inc. had a days in inventory of 5 (based on 365 days). The inventory turnover was:
A. 5
B. 60
C. 73
D. can not be figured without the inventory value

35. Donny Dell Inc. had a days in inventory (based on 365 days) of 5. Cost of goods sold were $4,526. Net working capital was $70 and total current assets were $400. What is Donny Dell's quick ratio?
A. 11.315
B. 1.024
C. 4.829
D. 14.00

36. Donny Dell Inc.'s cost of goods sold were $4,526. They had net working capital of $70 and total current assets were $400. If inventory was 62 what is the current ratio of Donny Dell?
A. 7.3
B. 5.71
C. 1.21
D. 4.71

37. Tan Co. had total operating revenues of $720 over the past year. During that time, average receivables were $90. What was the average collection period (ACP) given a 365-day year?
A. 8.00 days.
B. 4.56 days.
C. 40.97 days.
D. 45.63 days.

38. Mirotronic Co. has an average receivables turnover of 4 times. Sales are $20,000. What is the collection period?
A. 91.25 days
B. 90 days
C. 1.37 days
D. 21.92 days

39. The Cliplink Company has an equity multiplier of 3.36? What are the debt ratio and debt to equity ratios of Cliplink?
A. .70, 2.36
B. 2.36, .70
C. .30, .70
D. can not be calculated without values for debt or equity

40. The Hi-Lite Corp. had a profitable year and their ROE was 14.4%. The company paid out $1.20 of their earnings of $3.00 for the year. What is Hi-Lite's sustainable growth?
A. 17.2%
B. 8.60%
C. 5.76%
D. 43.2%

41. Sin Co. stock sells for $28.00 per share. The total market value of the equity is $40 million. The market-to-book ratio is 7. What is the book value per share?
A. $128.00.
B. $196.00.
C. $1.43.
D. $4.00.

42. Assuming that the current ratio is currently 2, which of the following actions will increase it?
A. Purchasing inventory with cash?
B. Purchasing inventory on short-term credit?
C. Paying off a short-term bank loan with long-term debt.
D. A customer paying an overdue bill.

43. Cos Co.'s after-tax net income was $120. Their interest paid was $50. Assuming the corporate tax is 40%, what is Cos CO.'s interest coverage ratio?
A. 6.7.
B. 2.4.
C. 1.44.
D. 4.0.

44. The Hi-Lite Corp. had a profitable year and their ROE was 14.4%. The company paid out $1.20 of their earnings of $3.00 for the year. The market price of their stock at year end was $28. What was Hi-Lite's price-earnings ratio?
A. 23.33
B. 9.33
C. 4.03
D. 12.10

45. Logit Co. paid dividends of $400. And retained 33.33% of their earnings. The sales for the year were $12,000 and total assets of 10,000. What was the rate of return on assets?
A. 5%
B. 6%
C. 10%
D. 12%

46. The Lo-Gro Co. in 2010 had equity of $15 million, net income of $1,800,000 of which 60% was paid out as dividends. The sustainable growth rate for the Lo-Gro Co. is:
A. 0.48%.
B. 4.80%.
C. 0.72%.
D. 7.20%.

47. The Lo-Gro Co. in 2010 had equity of $15 million, net income of $1,800,000 of which 60% was paid out as dividends. The ROE and retained earnings for the Lo-Gro Co. are:
A. 1.2%; $720,000.
B. 4.8%; $720,000.
C. 12%; $1,080,000.
D. 12%; $720,000.

48. Discuss the difference between book values and market values on the balance sheet and explain which is more important to the financial manager and why.

49. The Simmons Company reported retained earnings in 2009 of $4750. In 2010, Simmons earned $1120 before taxes and paid a dividend of $730. Simmon's tax rate is 34%. What is Simmons' retained earnings.

50. Pion Inc. reported current assets of $80 and fixed assets of $150 as of December 31. The company, as of December 31, also reports current liabilities of $72 and long-term liabilities of $149. Calculate Pion's shareholder's equity.

51. Grady's Candies paid a total of $32 million in dividends in 2010. In addition, the company issued $22.5 million in new stock in that year. What was Grady's cash flow to stockholder's in 2010?

52. Based on the following information, calculate stockholders equity:
cash = $5.00
accounts payable = $12.00
other current liabilities = $65.00
accounts receivable = $20.00
inventory = $50.00
net fixed assets = $175.00
long-term debt = $40.00

53. The Paymore Co. reported the following long-term liabilities and stockholder's equity for 2010:

long-term debt	$200
preferred stock	$ 80
common stock	$ 30
retained earnings	$375

In 2010, Paymore earned $125 in net income and paid a $40 dividend. What is the 2010 total common shareholder equity figure?

Qwerty, Inc.
2010 Income Statement
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Qwerty, Inc.
2009 and 2010 Balance Sheets
($ in millions)

	2009	2010		2009	2010
Cash	$ 310	$ 405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

54. What is the change in the net working capital from 2009 to 2010?

55. What is the cash flow of the firm for 2010?

Chapter 02 Accounting Statements and Cash Flow Key

1. The balance sheet is based on which following equality:
A. Fixed Assets (Stockholder's equity + Current Assets
B. Assets (Liabilities + Stockholder's equity
C. Assets (Current Long Term Debt + Retained earnings
D. Fixed Asset (Liabilities + Stockholder's equity

Difficulty: Easy
Learning Objective: 02-01
Ross - Chapter 02 #1

2. Assets are listed on the balance sheet in order of:
A. decreasing liquidity.
B. decreasing size.
C. increasing size.
D. relative life.

Difficulty: Easy
Learning Objective: 02-01
Ross - Chapter 02 #2

3. Of the following assets, which is the generally the least liquid?
A. Marketable securities.
B. Cash.
C. Inventory.
D. Accounts receivable.

Difficulty: Easy
Learning Objective: 02-01
Ross - Chapter 02 #3

4. Accounting liquidity is defined as:
A. the amount of cash the firm has
B. the turnover ratio
C. the ability of the assets to generate income
D. the ease and quickness with which assets can be converted to cash

Difficulty: Easy
Learning Objective: 02-01
Ross - Chapter 02 #4

5. Fixed assets can be either tangible or intangible. Intangible assets are:
A. property, plant and equipment
B. can be converted to cash in the normal course of business
C. can be very valuable, although they have no physical presence, such as trademarks or patents
D. are highly liquid

Difficulty: Medium
Learning Objective: 02-01
Ross - Chapter 02 #5

6. Intangible fixed assets would include:
A. building.
B. machinery.
C. trademarks.
D. equipment.

Difficulty: Easy
Learning Objective: 02-01
Ross - Chapter 02 #6

7. The primary distinction between tangible and intangible assets is that:
A. intangible assets have a physical existence while tangible assets do not.
B. intangible assets do not have a physical existence while tangible assets do.
C. since tangible assets do not have a physical existence they do not show up on the balance sheet.
D. since intangible assets do not have a physical existence they do not show up on the balance sheet.

Difficulty: Easy
Learning Objective: 02-01
Ross - Chapter 02 #7

8. The carrying value or book value of the assets:
A. in Canada is determined under GAAP and is based on the cost f the asset
B. represents the true market value according to GAAP
C. are always the best measure of the company's value to an investor
D. are always higher than the replacement cost of the assets.

Difficulty: Medium
Learning Objective: 02-01
Ross - Chapter 02 #8

9. The earnings before interest and taxes, EBIT, on the income statement provides results on
A. the post financing effect on the earnings capability of the firm
B. the operating income for the period
C. the gross margin of the firm
D. the extraordinary items of the firm for the period

Difficulty: Medium
Learning Objective: 02-01
Ross - Chapter 02 #9

10. Balance sheet assets are:
A. all relatively illiquid.
B. listed at current market value.
C. listed at market value as of the most recent fiscal year.
D. listed at cost.

Difficulty: Easy
Learning Objective: 02-01
Ross - Chapter 02 #10

11. Under GAAP the value of all the firm's assets are reported at:
A. Carrying value or market value.
B. Book value or liquidation value.
C. Market value or Carrying value.
D. Book value or Carrying value.

Difficulty: Easy
Learning Objective: 02-02
Ross - Chapter 02 #11

12. Which of the following statements concerning the income statement is not true?
A. It measures performance over a specific period of time.
B. It determines after-tax income of the firm.
C. It includes deferred taxes.
D. It does not include depreciation.
E. It treats interest as an expense.

Difficulty: Easy
Learning Objective: 02-02
Ross - Chapter 02 #12

13. Noncash items refer to:
A. the credit sales of a firm.
B. the accounts payable of a firm.
C. the costs incurred for the purchase of intangible fixed assets.
D. expenses charged against revenues that do not directly affect cash flow.
E. all accounts on the balance sheet other than cash on hand.

Difficulty: Easy
Learning Objective: 02-02
Ross - Chapter 02 #13

14. According to GAAP, revenue is recognized as income when:
A. a contract is signed to perform a service or deliver a good.
B. the transaction is complete and the goods or services delivered.
C. payment is received.
D. income taxes are paid.

Difficulty: Easy
Learning Objective: 02-02
Ross - Chapter 02 #14

15. The TimeNow Corporation had 2010 fixed assets of $1345, current assets of 260, current liabilities of 180 and shareholder's equity of 775. What was the net working capital for TimeNow in 2010?
A. 260
B. 180
C. 80
D. 390

Difficulty: Medium
Learning Objective: 02-03
Ross - Chapter 02 #15

16. The TimeNow Corporation had 2010 fixed assets of $1345, current assets of 260, current liabilities of 180 and shareholder's equity of 775. The 2009 fixed assets were 1300, current assets of 220, long-term liabilities of 390 and shareholder's equity of 750. What was the change in net working capital for TimeNow in 2010?
A. 80
B. 20
C. 60
D. 160

Difficulty: Medium
Learning Objective: 02-03
Ross - Chapter 02 #16

17. Which of the following is not included in the computation of operating cash flow?
A. Earnings before interest and taxes.
B. Interest paid.
C. Depreciation.
D. Current taxes.

Difficulty: Easy
Learning Objective: 02-04
Ross - Chapter 02 #17

18. _____ refers to the firm's dividend payments less any net new equity raised.
A. Operating cash flow
B. Capital spending
C. Net working capital
D. Cash flow from creditors
E. Cash flow to stockholders

Difficulty: Easy
Learning Objective: 02-04
Ross - Chapter 02 #18

19. Net capital spending is equal to:
A. net additions to Net Working Capital.
B. the net change in fixed assets.
C. net income plus depreciation.
D. total cash flow to stockholders less interest and dividends paid.

Difficulty: Easy
Learning Objective: 02-03
Ross - Chapter 02 #19

20. What is the effect on net working capital if the corporation decides to increase their investment in inventory and pay for it with cash?
A. increase in NWC.
B. decrease in NWC.
C. depends on the amount of the investment.
D. no effect.
E. depends on the amount of cash.

Difficulty: Easy
Learning Objective: 02-03
Ross - Chapter 02 #20

21. Which of the following is not a use of Net Working Capital?
A. Retirement of long-term debt.
B. Dividends.
C. Sale of equity.
D. Acquisition of fixed assets.

Difficulty: Easy
Learning Objective: 02-03
Ross - Chapter 02 #21

22. Cash flow to shareholder is defined as:
A. total cash flow from the firm plus cash flow to the bondholders.
B. repurchases of equity less cash dividends paid plus new equity sold.
C. cash flow from operations less cash flow to creditors.
D. cash dividends plus repurchases of equity minus new equity sold.

Difficulty: Medium
Learning Objective: 02-04
Ross - Chapter 02 #22

23. For any individual period the firm cashflows are a circular flow of funds, this means
A. the cashflows are always invested in fixed assets
B. that cashflows are always in a spiral away from the firm
C. that firm cashflows must be borrowed externally to be reinvested in the economy
D. that all cashflows generated by the firm must equal the cashflows paid to the creditors and shareholders.

Difficulty: Medium
Learning Objective: 02-04
Ross - Chapter 02 #23

24. Earnings per share is equal to:
A. net income divided by the total number of shares outstanding.
B. net income divided by the par value of the common stock.
C. gross income multiplied by the par value of the common stock.
D. operating income divided by the par value of the common stock.
E. net income divided by total shareholders' equity.

Difficulty: Medium
Learning Objective: 02-04
Ross - Chapter 02 #24

25. Dividends per share is equal to dividends paid:
A. divided by the par value of common stock.
B. divided by the total number of shares outstanding.
C. divided by total shareholders' equity.
D. multiplied by the par value of the common stock.
E. multiplied by the total number of shares outstanding.

Difficulty: Medium
Learning Objective: 02-04
Ross - Chapter 02 #25

26. Calculate net income based on the following information.
Sales = $250.00
Cost of goods sold = $160.00
Depreciation = $35.00
Interest paid = $20.00
Tax rate = 34%
A. $23.10
B. $11.90
C. $35.00
D. $46.20
E. $36.30

Difficulty: Medium
Learning Objective: 02-04
Ross - Chapter 02 #26

27. The cashflow of the firm is defined as the cashflow of the assets. This cashflow must be equal to:
A. cashflow to equity minus cashflow to debtholders.
B. cashflow to debtholders minus cashflow to equity.
C. cashflow to governments plus cashflow to equity.
D. cashflow to equity plus cashflow to debtholders.

Difficulty: Easy
Learning Objective: 02-04
Ross - Chapter 02 #27

28. When making financial decisions related to assets, you should:
A. always consider market values.
B. place more emphasis on book values than on market values.
C. rely primarily on the value of assets as shown on the balance sheet.
D. only consider market values if they are less than book values.

Difficulty: Easy
Learning Objective: 02-04
Ross - Chapter 02 #28

29. From the following income statement information, calculate Johnson's after tax cash flow from operations.
Net sales = $2,500
Cost of goods sold = $1050
Operating expenses = $490
Depreciation = $300
Tax rate = 34%
A. $660.00
B. $990.00
C. $1257.00
D. $735.60
E. $1059.00

Difficulty: Medium
Learning Objective: 02-04
Ross - Chapter 02 #29

30. Over the year, the Rigem Co. had cash flow from operations of $938, and had net capital spending of $225. In addition, the firm's Net Working Capital increased by $73. What was Rigem's total cash flow?
A. $1,236
B. $748
C. $640
D. $786

Difficulty: Medium
Learning Objective: 02-04
Ross - Chapter 02 #30

31. The primary source of the firm's cashflow is usually:
A. net income.
B. tax credits.
C. earnings before interest and depreciation minus taxes.
D. capital spending after taxes.
E. working capital requirements.

Difficulty: Easy
Learning Objective: 02-04
Ross - Chapter 02 #31

32. Dorr Corp. had an ROA of 8%. Dorr's profit margin was 4% on sales of $250. What were total assets?
A. $125.
B. $500.
C. $30.
D. $220.80.

Difficulty: Hard
Learning Objective: 02-02A
Ross - Chapter 02 #32

33. Midget Co. has a profit margin on sales of 4% and a ROE of 18%. If Midget's debt-to-equity ratio is .8, what is the total asset turnover ratio?
A. 2.500
B. 5.625
C. 2.000
D. 10.125

Difficulty: Hard
Learning Objective: 02-02A
Ross - Chapter 02 #33

34. Donny Dell Inc. had a days in inventory of 5 (based on 365 days). The inventory turnover was:
A. 5
B. 60
<u>C.</u> 73
D. can not be figured without the inventory value

Difficulty: Easy
Learning Objective: 02-02A
Ross - Chapter 02 #34

35. Donny Dell Inc. had a days in inventory (based on 365 days) of 5. Cost of goods sold were $4,526. Net working capital was $70 and total current assets were $400. What is Donny Dell's quick ratio?
A. 11.315
<u>B.</u> 1.024
C. 4.829
D. 14.00

Difficulty: Hard
Learning Objective: 02-02A
Ross - Chapter 02 #35

36. Donny Dell Inc.'s cost of goods sold were $4,526. They had net working capital of $70 and total current assets were $400. If inventory was 62 what is the current ratio of Donny Dell?
A. 7.3
B. 5.71
<u>C.</u> 1.21
D. 4.71

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #36

37. Tan Co. had total operating revenues of $720 over the past year. During that time, average receivables were $90. What was the average collection period (ACP) given a 365-day year?
A. 8.00 days.
B. 4.56 days.
C. 40.97 days.
D. 45.63 days.

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #37

38. Mirotronic Co. has an average receivables turnover of 4 times. Sales are $20,000. What is the collection period?
A. 91.25 days
B. 90 days
C. 1.37 days
D. 21.92 days

Difficulty: Easy
Learning Objective: 02-02A
Ross - Chapter 02 #38

39. The Cliplink Company has an equity multiplier of 3.36? What are the debt ratio and debt to equity ratios of Cliplink?
A. .70, 2.36
B. 2.36, .70
C. .30, .70
D. can not be calculated without values for debt or equity

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #39

40. The Hi-Lite Corp. had a profitable year and their ROE was 14.4%. The company paid out $1.20 of their earnings of $3.00 for the year. What is Hi-Lite's sustainable growth?
A. 17.2%
B. 8.60%
C. 5.76%
D. 43.2%

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #40

41. Sin Co. stock sells for $28.00 per share. The total market value of the equity is $40 million. The market-to-book ratio is 7. What is the book value per share?
A. $128.00.
B. $196.00.
C. $1.43.
D. $4.00.

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #41

42. Assuming that the current ratio is currently 2, which of the following actions will increase it?
A. Purchasing inventory with cash?
B. Purchasing inventory on short-term credit?
C. Paying off a short-term bank loan with long-term debt.
D. A customer paying an overdue bill.

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #42

43. Cos Co.'s after-tax net income was $120. Their interest paid was $50. Assuming the corporate tax is 40%, what is Cos CO.'s interest coverage ratio?
A. 6.7.
B. 2.4.
C. 1.44.
D. 4.0.

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #43

44. The Hi-Lite Corp. had a profitable year and their ROE was 14.4%. The company paid out $1.20 of their earnings of $3.00 for the year. The market price of their stock at year end was $28. What was Hi-Lite's price-earnings ratio?
A. 23.33
B. 9.33
C. 4.03
D. 12.10

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #44

45. Logit Co. paid dividends of $400. And retained 33.33% of their earnings. The sales for the year were $12,000 and total assets of 10,000. What was the rate of return on assets?
A. 5%
B. 6%
C. 10%
D. 12%

Difficulty: Hard
Learning Objective: 02-02A
Ross - Chapter 02 #45

46. The Lo-Gro Co. in 2010 had equity of $15 million, net income of $1,800,000 of which 60% was paid out as dividends. The sustainable growth rate for the Lo-Gro Co. is:
A. 0.48%.
B. 4.80%.
C. 0.72%.
D. 7.20%.

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #46

47. The Lo-Gro Co. in 2010 had equity of $15 million, net income of $1,800,000 of which 60% was paid out as dividends. The ROE and retained earnings for the Lo-Gro Co. are:
A. 1.2%; $720,000.
B. 4.8%; $720,000.
C. 12%; $1,080,000.
D. 12%; $720,000.

Difficulty: Medium
Learning Objective: 02-02A
Ross - Chapter 02 #47

48. Discuss the difference between book values and market values on the balance sheet and explain which is more important to the financial manager and why.

The accounts on the balance sheet are generally carried at historical cost, not market values. Although the book value of current assets and current liabilities may closely approximate market values, the same cannot be said for the rest of the balance sheet accounts. Ultimately, the financial manager should focus on the firm's stock price, which is a market value measure. Hence, market values are more meaningful than book values.

Difficulty: Medium
Learning Objective: 02-01
Ross - Chapter 02 #48

49. The Simmons Company reported retained earnings in 2009 of $4750. In 2010, Simmons earned $1120 before taxes and paid a dividend of $730. Simmon's tax rate is 34%. What is Simmons' retained earnings.

$4750 + $1120(1-.34) - $730 = $4759.20

Difficulty: Easy
Learning Objective: 02-01
Ross - Chapter 02 #49

50. Pion Inc. reported current assets of $80 and fixed assets of $150 as of December 31. The company, as of December 31, also reports current liabilities of $72 and long-term liabilities of $149. Calculate Pion's shareholder's equity.

($80 + $150) - ($72 + $149) = $9

Difficulty: Medium
Learning Objective: 02-01
Ross - Chapter 02 #50

51. Grady's Candies paid a total of $32 million in dividends in 2010. In addition, the company issued $22.5 million in new stock in that year. What was Grady's cash flow to stockholder's in 2010?

$32 - ($22.5) = ($9.5)

Difficulty: Easy
Learning Objective: 02-04
Ross - Chapter 02 #51

52. Based on the following information, calculate stockholders equity:
cash = $5.00
accounts payable = $12.00
other current liabilities = $65.00
accounts receivable = $20.00
inventory = $50.00
net fixed assets = $175.00
long-term debt = $40.00

($5 + $20 + $50 + $175) - ($12 + $65 + $40) = $133

Difficulty: Medium
Learning Objective: 02-01
Ross - Chapter 02 #52

53. The Paymore Co. reported the following long-term liabilities and stockholder's equity for 2010:

long-term debt	$200
preferred stock	$ 80
common stock	$ 30
retained earnings	$375

In 2010, Paymore earned $125 in net income and paid a $40 dividend. What is the 2010 total common shareholder equity figure?

$30 + $375 + $125 - $40 = $490

Difficulty: Medium
Learning Objective: 02-01
Ross - Chapter 02 #53

Qwerty, Inc.
2010 Income Statement
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Qwerty, Inc.
2009 and 2010 Balance Sheets
($ in millions)

	2009	2010		2009	2010
Cash	$ 310	$ 405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

Ross - Chapter 02

54. What is the change in the net working capital from 2009 to 2010?

($7,310 - $2,570) - ($6,225 - $2,820) = $1,335

Difficulty: Medium
Learning Objective: 02-03
Ross - Chapter 02 #54

55. What is the cash flow of the firm for 2010?

Change in net working capital = ($75 + $502 + $640 - $405) - ($70 + $563 + $662 - $390) = -$93
Net capital spending = $1,413 - $1,680 + $210 = -$57
Earnings before interest and taxes = $785 - $460 - $210 = $115
Taxable income = $115 - $35 = $80
Taxes = .35($80) = $28
Operating cash flow = $115 + $210 - $28 = $297
Cash flow of the firm = $297 - (-$93) - (-$57) = $447

Difficulty: Hard
Learning Objective: 02-04
Ross - Chapter 02 #55

Chapter 02 Accounting Statements and Cash Flow Summary

Category	*# of Questions*
Difficulty: Easy	23
Difficulty: Hard	5
Difficulty: Medium	27
Learning Objective: 02-01	15
Learning Objective: 02-02	4
Learning Objective: 02-02A	16
Learning Objective: 02-03	6
Learning Objective: 02-04	14
Ross - Chapter 02	56