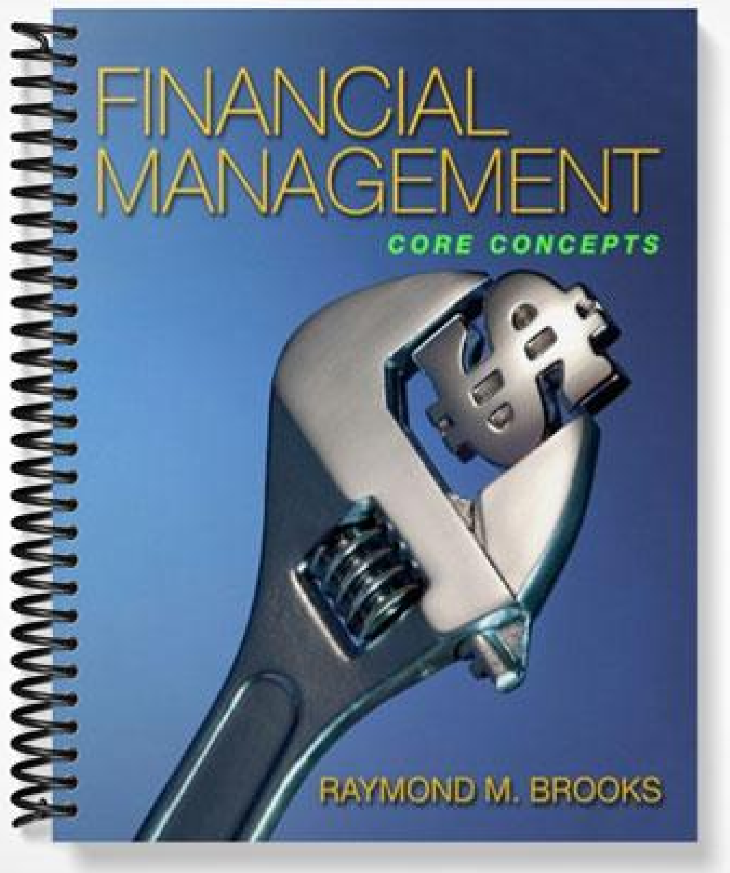
TEST BANK



***Financial Management: Core Concepts* (Brooks)**
Chapter 2   Financial Statements

2.1   Financial Statements

1) The purpose of studying financial statements is ________.
A) to mechanically build portfolio analysis.
B) to understand those portions of the statements that have relevance for financial decision making.
C) to primarily investigate all portions of the statements that have relevance for dividend policy.
D) to mechanically learn how to read and understand footnotes.
Answer: B
Comment: Accounting and finance view the numbers in DIFFERENT WAYS.
Diff: 1
Topic: 2.1 Financial Statements
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

2) Which of the statements below is FALSE?
A) The purpose of studying financial statements is to understand those portions of the statements that have relevance for financial decision making.
B) We need to understand how to interpret and use the information presented in financial statements to form a picture of the financial profile of the firm.
C) Accounting, it has been said, looks back to where a company has been — somewhat like looking through a rear view mirror.
D) Accounting and finance view the numbers in the same way.
Answer: D
Comment: Accounting and finance view the numbers in DIFFERENT WAYS.
Diff: 2
Topic: 2.1 Financial Statements

3) Understanding the sources and uses of cash in the recent past will enable a manager to ________ the cash flow for a potential project of the firm.
A) determine with perfect precision
B) forecast with perfect precision
C) predict more accurately
D) know today
Answer: C
Diff: 2
Topic: 2.1 Financial Statements
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

4) The fundamental starting point of all the accounting statements is the ________.
A) accounting identity.
B) computing identity.
C) investing identity.
D) financing identity.
Answer: A
Diff: 1
Topic: 2.1 Financial Statements

5) Which of the statements below is TRUE?
A) Accounting Identity is: Assets ≡ Liabilities - Owners' Equity.
B) Accounting Identity is: Assets ≡ Liabilities + Owners' Equity.
C) Accounting Identity is: Assets ≡ Owners' Equity - Liabilities.
D) Accounting Identity is: Liabilities ≡ Assets + Owners' Equity.
Answer: B
Diff: 2
Topic: 2.1 Financial Statements

6) There are four primary financial statements that are used to measure the performance of a firm. Which of the choices below are included among these four?
A) the balance statement and income statement.
B) the income sheet and statement of retained earnings.
C) the statement of cash flow and statement of balance.
D) the balance sheet and statement of cash flow
Answer: D
Comment: There are four primary financial statements that are used to measure the performance of a firm: the ***income statement***, the ***balance sheet***, the ***statement of retained earnings***, and the ***statement of cash flow*** (also know as ***sources and uses of cash***). Together, these four financial statements contain much of the essential historical information about the performance and management choices of a firm.
Diff: 2
Topic: 2.1 Financial Statements

7) It is important to remember that the fundamental ________ of accounting is the debit and credit recording activity where debits always equal credits.
A) effect
B) end product
C) outcome
D) identity
Answer: D
Diff: 2
Topic: 2.1 Financial Statements
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

8) It is important to remember that the fundamental identity of accounting is the debit and credit recording activity where debits ________ equal credits.
A) never
B) seldom
C) sometimes
D) always
Answer: D
Diff: 1
Topic: 2.1 Financial Statements

9) Which of the statements below is FALSE?
A) The income statement summaries and categorizes a company's revenues and expenses for that period.
B) Typically, income statements are prepared quarterly and annually for distribution outside the company, but usually monthly for internal managers.
C) The income statement begins with revenue and subtracts various operating expenses until arriving at Earnings Before Interest and Taxes (EBIT).
D) The balance sheet reports the performance of the firm over the past period. It summaries and categorizes a company's revenues and expenses for that period.
Answer: D
Comment: The income statement reports the performance of the firm over the past period. It summaries and categorizes a company’s revenues and expenses for that period.
Diff: 2
Topic: 2.1 Financial Statements

10) Which of the below statements is FALSE?
A) Typically, income statements are prepared quarterly and annually for distribution outside the company, but usually semi-annually for internal managers.
B) Typically, income statements are prepared quarterly and annually for distribution outside the company.
C) The income statement begins with revenue and subtracts various operating expenses until arriving at Earnings Before Interest and Taxes (EBIT).
D) The income statement reports the performance of the firm over the past period. It summaries and categorizes a company's revenues and expenses for that period.
Answer: A
Comment: Typically, income statements are prepared quarterly and annually for distribution outside the company, but usually MONTHLY for internal managers.
Diff: 2
Topic: 2.1 Financial Statements

11) The income statement begins with revenue and subtracts various operating expenses until arriving at ________.
A) earning after taxes.
B) net income.
C) taxable income.
D) EBIT.
Answer: D
Comment: The income statement begins with revenue and subtracts various operating expenses until arriving at Earnings Before Interest and Taxes (EBIT). Next, interest expense is subtracted to find the taxable income for the period. Then the appropriate taxes are calculated and subtracted. We finally arrive at the net income, the so-called bottom line of the income statement.
Diff: 2
Topic: 2.1 Financial Statements
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

12) The income statement begins with revenue and subtracts various operating expenses until arriving at Earnings Before Interest and Taxes. Next, interest expense is subtracted to find the ________ for the period.
A) EBIT
B) after-tax income
C) net income
D) taxable income
Answer: D
Comment: The income statement begins with revenue and subtracts various operating expenses until arriving at Earnings Before Interest and Taxes (EBIT). Next, interest expense is subtracted to find the taxable income for the period. Then the appropriate taxes are calculated and subtracted. We finally arrive at the net income, the so-called bottom line of the income statement.
Diff: 2
Topic: 2.1 Financial Statements

13) The income statement begins with revenue and subtracts various operating expenses until arriving at Earnings Before Interest and Taxes. Next, interest expense is subtracted to find the taxable income for the period. Then the appropriate taxes are calculated and subtracted. We finally arrive at the ________ , the so-called bottom line of the income statement.
A) after-tax income
B) before-tax income
C) net income
D) EBIT
Answer: C
Comment: The income statement begins with revenue and subtracts various operating expenses until arriving at Earnings Before Interest and Taxes (EBIT). Next, interest expense is subtracted to find the taxable income for the period. Then the appropriate taxes are calculated and subtracted. We finally arrive at the net income, the so-called bottom line of the income statement.
Diff: 1
Topic: 2.1 Financial Statements

14) Net income is ________.
A) not cash flow.
B) the cash flow from the operations of the company during the period.
C) the increase or decrease in cash flow for the period.
D) earnings before interest and taxes.
Answer: A
Comment: Net income is not cash flow. Net income is the ACCOUNTING PROFIT from the operations of the company during the period. Cash flow is the increase or decrease in CASH for the period.
Diff: 3
Topic: 2.1 Financial Statements

15) Net income is ________.
A) the accounting profit from the operations of the company during the period.
B) cash flow.
C) the accounting profit from the non-operating assets of the company during the period.
D) always the dividends paid shareholders.
Answer: A
Comment: Net income is not cash flow. Net income is the accounting profits from the OPERATIONS of the company during the period. Cash flow is the increase or decrease in cash for the period.
Diff: 2
Topic: 2.1 Financial Statements

16) Cash flow is ________.
A) the increase but not decrease in cash for the period.
B) the decrease but not increase in cash for the period.
C) the increase or decrease in cash for the period.
D) the net income for the period.
Answer: C
Comment: Net income is the accounting profits from the operations of the company during the period and thus would not typically be the cash flow (except by coincidence). Cash flow can be positive or negative and thus is the increase or decrease in cash for the period.
Diff: 1
Topic: 2.1 Financial Statements

17) One of the key components to making financial decisions is to ________.
A) understand the timing and amount of dividends.
B) understand the timing and amount of cash flow.
C) understand the timing of EBIT.
D) understand the amount of net income.
Answer: B
Comment: One of the key components to making financial decisions is to understand the timing and amount of cash flow. Dividends, EBIT, and net income are not synonomous with the firm's cash flow for any particular period.
Diff: 2
Topic: 2.1 Financial Statements

18) Which of the statements below is FALSE?
A) The textbook uses the framework of the income statement to find the operating income of the company (an accounting measure) and then makes adjustments to find the true cash flow from operations.
B) In accrual-based accounting, revenue is recorded at the time of sale if the revenue has been received in cash.
C) Three fundamental issues separate net income and cash flow: accrual-based accounting, non-cash expense items, and interest expense.
D) Generally Accepted Accounting Principles (GAAP) in the United States allow the use of accrual accounting to record revenue.
Answer: B
Comment: In accrual based accounting, revenue is recorded at the time of sale WHETHER OR NOT the revenue has been received in cash.
Diff: 2
Topic: 2.1 Financial Statements

19) Three fundamental issues separate net income and cash flow. Which of the answers below is NOT one of these three fundamental issues?
A) accrual accounting
B) non-cash accounting
C) non-cash expense items
D) interest expense
Answer: B
Diff: 2
Topic: 2.1 Financial Statements

20) Which of the following statements is true?
A) The finance manager uses the framework of the income statement to find the operating income of the company (an accounting measure), which is also the true cash flow from operations.
B) In accrual-based accounting, revenue is recorded at the time of sale if the revenue has been received in cash.
C) Three fundamental issues separate net income and cash flow: accrual accounting, noncash expense items, and interest expense.
D) Generally accepting accounting principles (GAAP) in the United States do not allow the use of accrual accounting to record revenue.
Answer: C
Diff: 2
Topic: 2.1 Financial Statements
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

21) In finance, we separate operating decisions from financing decisions and thus exclude ________ as a part of operating income from the income statement.
A) cash flow
B) dividends
C) interest expense
D) earnings
Answer: C
Diff: 2
Topic: 2.1 Financial Statements

22) Which of the following statements is FALSE?
A) The income statement is put together at a specific point in time (end of a business quarter, or business year) and so the sale could be in one period and the cash received in another period.
B) The income statement contains the set of expenses associated with the products or services sold during the current operating period, with those expenses not associated with current cash flow labeled as non-cash expense items.
C) Depreciation is a current expense of a cash outflow in the current period.
D) Companies depreciate fixed assets (such as office furniture, equipment, machinery, and buildings) over an assigned time period, but the initial cash outlay for the fixed asset typically occurs at the time the asset is acquired by the firm.
Answer: C
Comment: Depreciation is a current expense of a cash outflow in A PREVIOUS period.
Diff: 2
Topic: 2.1 Financial Statements

23) To find operating cash flow for the business for the year, add depreciation expense to EBIT and then ________.
A) subtract the interest expenses.
B) add the taxes.
C) subtract the taxes.
D) add interest expenses.
Answer: C
Diff: 2
Topic: 2.1 Financial Statements

24) Which of the statements below is FALSE?
A) The cash account is much like your individual checkbook, because it tells you how much money you currently have for paying bills or spending on new items.
B) Current assets are accounts that will normally be turned into cash over the course of the operating or business cycle of the firm, and current liabilities are the accounts that will come due for payment over the operating or business cycle.
C) The long-term capital asset accounts of the balance sheet represent the capital investment of the company and reflect assets that the company owns and that provide the basis for producing goods and services for sale.
D) The Plant, Property and Equipment account is straightforward in its description, yet it cannot tell you the accumulated depreciation.
Answer: D
Comment: The Plant, Property and Equipment account is straightforward in its description, yet it really contains two pieces: the original value (purchase price) of the equipment and the accumulated depreciation.
Diff: 3
Topic: 2.1 Financial Statements

25) Which of the statements below is FALSE?
A) The cash account is much like your individual checkbook, because it tells you how much money you currently have for paying bills or spending on new items.
B) Long-term assets are accounts that will normally be turned into cash over the course of the operating or business cycle of the firm, and current liabilities are the accounts that will come due for payment over the operating or business cycle.
C) The long-term capital asset accounts of the balance sheet represent the capital investment of the company and reflect assets that the company owns and that provide the basis for producing goods and services for sale.
D) The Plant, Property and Equipment account is straightforward in its description, yet it really contains two pieces: the original value (purchase price) of the equipment and the accumulated depreciation.
Answer: B
Comment: CURRENT ASSETS are accounts that will normally be turned into cash over the course of the operating or business cycle of the firm, and current liabilities are the accounts that will come due for payment over the operating or business cycle.
Diff: 2
Topic: 2.1 Financial Statements

26) Debts to be paid more than one year from now are claims against the firm's assets: in other words, they are long-term liabilities. These claims are from ________ who have provided capital to the firm but whose entire repayment is not due during the coming year or operating cycle.
A) banks and bondholders
B) banks and stockholders
C) stockholders and bondholders
D) all long-term lenders
Answer: A
Diff: 1
Topic: 2.1 Financial Statements

27) Which of the statements below is TRUE?
A) The ownership accounts or owners' equity section of the balance sheet reflects the owners' stake in the firm.
B) The ownership accounts or owners' equity section of the balance sheet is made up of common stock but not retained earnings.
C) The retained earnings amount on the balance sheet really reflect retained earnings and other stockholder equity, but not treasury stock.
D) The Statement of Retained Earnings is used to show the distribution of the interest paid for the past period.
Answer: A
Comment: The ownership accounts or owners' equity section of the balance sheet is made up of common stock AND RETAINED EARNINGS.
The retained earnings amount is the balance sheet really reflects retained earnings, other stockholder equity, AND TREASURY STOCK.
The Statement of Retained Earnings is really the fourth financial statement and is used to show the distribution of the NET INCOME for the past period.
Diff: 2
Topic: 2.1 Financial Statements

28) The basic accounting identity that assets equal liabilities plus owners' equity usually, but not always, holds.
Answer: FALSE
Diff: 1
Topic: 2.1 Financial Statements

29) Equity on the balance sheet refers to what the owners receive after liabilities have been satisfied.
Answer: TRUE
Diff: 1
Topic: 2.1 Financial Statements

30) In double-entry bookkeeping, every time an economic transaction is recorded, equal debit and credit amounts must be recorded.
Answer: TRUE
Comment: .
Diff: 1
Topic: 2.1 Financial Statements

31) Debts to be paid more than one year from now are considered short-term liabilities.
Answer: FALSE
Comment: Debts to be paid more than one year from now are considered long-term liabilities.
Diff: 1
Topic: 2.1 Financial Statements

32) EBIT (earnings before interest and taxes) is obtained by adding together revenue and operating expenses.
Answer: FALSE
Comment: EBIT is obtained by subtracting various operating expenses from revenue.
Diff: 1
Topic: 2.1 Financial Statements

33) Net income is not cash flow.
Answer: TRUE
Diff: 1
Topic: 2.1 Financial Statements

34) Explain the three main areas of the balance sheet.
Answer: The three main areas of the balance sheet are assets, liabilities, and owners' equity. *Assests* include items of economic value owned by the company--they can be physical (like buildings), financial (like accounts receivable), or intellectual (like patents). Assets also include cash itself. *Liabilities* are the amounts of mone that the company owes to others, such as payroll to employees, taxes to government, borrowed money to banks, and bills for materials or services to creditors. *Owners' equity* is what is left over from the assets after all liabilities have been settled.
Diff: 3
Topic: 2.1 Financial Statements

35) From the finance perspective, there are five principal line accounts of particular interest on the balance sheet: the cash account, the working capital accounts, long-term capital assets accounts, long-term debt accounts, and ownership accounts. Briefly explain each.
Answer: The *cash account* indicates how much money the company currently has on hand for paying bills and spending on new items. The *working capital accounts* are the current assests and current liabilities of the company; current assets are those accounts that will be turned into cash over the course of the operating cycle, and current liabilities are accounts that will come due for payment over the course of the operating cycle. Current assets minus current liabilities gives us the net working capital of the company. *Long-term capital assets accounts* indicate the capital investment of the company in items like land, buildings, and machinery. *Long-term debt accounts* are those debts to be paid in more than one year. *Ownership accounts* show the amount of capital contributed by owners (common stock) and retained earnings (earnings of the company that are reinvested in the core business or used to pay off debt).
Diff: 3
Topic: 2.1 Financial Statements

36) Why is an understanding of cash flow so important in the study of finance?
Answer: A firm may show robust accounting profits, yet still get into serious financial trouble or even go bankrupt. It is only cash flows that allow accurate and insightful financial analysis, which is the foundations of a firm's long-run planning and value maximization.
Diff: 3
Topic: 2.1 Financial Statements

2.2 Cash Flow Identity

1) Which of the statements below is FALSE?
A) The cash that the firm generates from its operating decisions (use of its assets) is used to either pay creditors or the owners of the company.
B) Cash flow from assets examines the success or failure of the operating decisions.
C) Cash flow to owners examines cash paid to owners plus any new borrowing from owners.
D) Cash flow to creditors examines a portion of how the firm is financing the operations.
Answer: C
Comment: Cash flow to owners COMPLETES the overview of financing and examines any additional contributions by the owners and the return of capital to the owners.
Diff: 2
Topic: 2.2 Cash Flow Identity

2) Which one of the answers below is NOT one of the three components of the "Cash Flow from Assets"?
A) Operating Cash Flow
B) Net Capital Spending
C) Noncash expenses
D) Change in Net Working Capital
Answer: C
Diff: 2
Topic: 2.2 Cash Flow Identity

3) Which of the following identities is TRUE?
A) Operating Cash Flow = EBIT + Depreciation - Taxes
B) Net Capital Spending = Ending Net Fixed Assets - Depreciation
C) Change in Net Working Capital (NWC) = Current Assets - Current Liabilities
D) Cash Flow from Assets = Operating Cash Flow + Net Capital Spending
Answer: A
Comment: Net Capital Spending = Ending Net Fixed Assets - Beginning Net Fixed Assets + Depreciation
Change in Net Working Capital (NWC) = Ending NWC - Beginning NWC
Cash Flow from Assets = Operating Cash Flow - Net Capital Spending - Change in NWC
Diff: 2
Topic: 2.2 Cash Flow Identity
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

4) Which of the following identities is TRUE?
A) Operating Cash Flow = EBIT - Depreciation + Taxes
B) Net Capital Spending = Ending Net Fixed Assets - Depreciation
C) Net Working Capital (NWC) = Current Assets - Current Liabilities
D) Cash Flow from Assets = Operating Cash Flow - Net Capital Spending
Answer: C
Comment: Operating Cash Flow = EBIT + Depreciation - Taxes
Net Capital Spending = Ending Net Fixed Assets - Beginning Net Fixed Assets + Depreciation
Cash Flow from Assets = Operating Cash Flow - Net Capital Spending - Change in NWC
Diff: 2
Topic: 2.2 Cash Flow Identity

5) Which of the following identities is FALSE?
A) Cash Flow to Creditors = Interest Expense - Net New Borrowing from Creditors
B) Net New Borrowing = Ending Long-term Liabilities - Beginning Long-Term Liabilities
C) Cash Flow to Owners = Dividends + Net New Borrowing from Owners
D) Net New Borrowing from Owners = Change in Equity
Answer: C
Comment: Cash Flow to Owners = Dividends - Net New Borrowing from Owners
Diff: 2
Topic: 2.2 Cash Flow Identity

6) Which of the following identities is FALSE?
A) Change in Equity = Paid-in-Surplus - Net New Borrowing from Creditors
B) Net New Borrowing = Ending Long-term Liabilities - Beginning Long-Term Liabilities
C) Cash Flow to Owners = Dividends - Net New Borrowing from Owners
D) Net New Borrowing from Owners = Change in Equity
Answer: A
Comment: Change in Equity = Ending Common Stock and Paid-in-Surplus - Beginning Common Stock and Paid-in-Surplus
Diff: 1
Topic: 2.2 Cash Flow Identity

7) Cash and Equivalents are $1,561, Short-Term Investments are $1,052, Accounts Receivables are $3,616, Accounts Payable is $5,173, Short-Term Debt is $288, Inventories are $1,816, Other Current Liabilities are $1,401, and Other Current Assets are $707. What are the Total Current Assets?
A) $8,752
B) $6,936
C) $6,862
D) $5,136
Answer: A
Comment: Total Current Assets = Cash and Equivalents + Short-Term Investments + Accounts Receivables + Inventories + Other Current Assets = $1,561 + $1,052 + $3,616 + $1,816 + $707 = **$8,752**.
Diff: 2
Topic: 2.2 Cash Flow Identity

8) Cash and Equivalents are $1,561; Short-Term Investments are $1,052; Accounts Receivables are $3,616; Accounts Payable are $5,173; Short-Term Debt is $288; Inventories are $1,816; Other Current Liabilities are $1,401; and Other Current Assets are $707. What is the amount of Total Current Liabilities?
A) $8,752
B) $6,974
C) $6,862
D) $6,574
Answer: C
Comment: Total Current Liabilities = Accounts Payable + Short-Term Debt + Other Current Liabilities = $5,173 + $288 + $1,401 = **$6,862**.
Diff: 2
Topic: 2.2 Cash Flow Identity
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

9) Net Working Capital for 2007 is $3,597 and Net Working Capital for 2008 is $1,890. What is the change in Net Working Capital?
A) $1,707
B) -$1,707
C) -$1,727
D) -$2,527
Answer: B
Comment: Change in Net Working Capital is $1,890 - $3,597 = **-$1,707**
Diff: 2
Topic: 2.2 Cash Flow Identity

10) Which of the statements below is FALSE?
A) Understanding the underpinnings of the accounting identity and the relationship across the primary financial statements provides a springboard for projecting cash flow for future periods for both the company in general and for individual projects within a company.
B) The right hand side of the balance sheet represents all the claims to the assets of the company, with these claims representing two types of lenders: creditors and owners.
C) Change in net working capital looks at both long-term assets and long-term liabilities.
D) Cash flow from assets examines the success or failure of the operating decisions, while cash flow to creditors examines a portion of how the firm is financing the operations.
Answer: C
Comment: Change in net working capital looks at both current assets and current liabilities.
Diff: 2
Topic: 2.2 Cash Flow Identity

11) The cash flow identity states that the cash flow from the left hand side of the balance sheet is equal to the cash flow on the right hand side of the income statement.
Answer: FALSE
Comment: The cash flow identity states that the cash flow from the left hand side of the balance sheet is equal to the cash flow on the right hand side of the BALANCE SHEET.
Diff: 1
Topic: 2.2 Cash Flow Identity

12) Cash flow from assets examines the success or failure of the operating decisions, while cash flow to creditors examines a portion of how the firm is financing the operations.
Answer: TRUE
Diff: 1
Topic: 2.2 Cash Flow Identity

13) The change in net working capital subtracts beginning net working capital from ending net working capital.
Answer: TRUE
Diff: 1
Topic: 2.2 Cash Flow Identity

14) Cash flow from assets equals cash flow to creditors plus cash flow to stockholders.
Answer: TRUE
Diff: 1
Topic: 2.2 Cash Flow Identity

15) Consider the information below from a firm's balance sheet for 2007 and 2008.

Current Assets	2008	2007	Change
Cash and Equivalents	$1,561	$1,800	-$ 239
Short-Term Investments	$1,052	$3,010	-$1,958
Accounts Receivable	$3,616	$3,129	$ 487
Inventories	$1,816	$1,543	$ 273
Other Current Assets	$ 707	$ 601	$ 106
Total Current Assets	$8,752	$10,083	-$1,331
Current Liabilities			
Accounts Payable	$5,173	$5,111	$ 62
Short-Term Debt	$ 288	$ 277	$ 11
Other Current Liabilities	$1,401	$1,098	$ 303
Total Current Liabilities	$6,862	$6,486	$ 376

What is the Net Working Capital for 2008? What is it for 2007? What is the Change in Net Working Capital (NWC)? Assuming the Operating Cash Flows (OCF) are $7,155 and the Net Capital Spending (NCS) is $2,372, what is the Cash Flow from Assets?
Answer: Net Working Capital for 2008 is $8,752 - $6,862 = **$1,890**
Net Working Capital for 2007 is $10,083 - $6,486 = **$3,597**
Decrease in Net Working Capital (NWC) = $1,890 - $3,597= **-$1,707**
Assuming that Operating Cash Flows (OCF) are $7,155, Net Capital Spending (NCS) is $2,372, and Decrease in Net Working Capital is -$1,707, we get:
Cash Flow from Assets = OCF - NCS – Decrease in NWC = $7,155 - $2,372 - (-$1,707) = **$6,490**.
Diff: 3
Topic: 2.2 Cash Flow Identity

2.3 Financial Performance Reporting

1) Which of the sections below is NOT contained in the annual report?
A) Prediction of competitors' returns
B) Company highlights
C) President's letter to the shareholders
D) Description of the company's activities (usually with pictures and graphs)
Answer: A
Comment: The prediction of the competitors' returns is not covered in an annual report.
Diff: 2
Topic: 2.3 Financial Performance Reporting

2) Which of the sections below is NOT contained in the annual report?
A) Notes to financial statements
B) Management's analysis of the company's performance
C) Prediction of gross national product
D) Auditor's Report
Answer: C
Comment: The prediction of the gross national product is not covered in an annual report.
Diff: 2
Topic: 2.3 Financial Performance Reporting
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

3) Which of the statements below is FALSE?
A) The report filed annually with the SEC is known as the 10-K Report.
B) The 10-K Report contains the annual report, as well as additional information about company history, organizational structure, subsidiaries, and equity holdings.
C) Officers of a company or others who have a fiduciary responsibility to the owners can not trade on their acquired private information about the company prior to the information being made public.
D) The 10-K must be filed within one week after the end of the company's fiscal year.
Answer: D
Comment: The 10-K must be filed within 60 days after the end of the company’s fiscal year.
Diff: 2
Topic: 2.3 Financial Performance Reporting

4) Which of the statements below is FALSE?
A) Officers of a company or others who have a fiduciary responsibility to the owners can trade on their acquired private information about the company prior to the information being made public.
B) One potential problem in the world of finance can arise when some owners or potential owners have access to more information about a company than do others.
C) Regulation Fair Disclosure (or Reg FD) requires companies to release all material information to all investors at the same time.
D) The 10-K must be filed within sixty days after the end of the company's fiscal year.
Answer: A
Comment: Officers of a company or others who have a fiduciary responsibility to the owners CAN NOT trade on their acquired private information about the company prior to the information being made public.
Diff: 2
Topic: 2.3 Financial Performance Reporting

5) Notes to the financial statements help explain many of the details necessary to gain a more complete picture of the firm's performance. Some of the items often disclosed in the financial notes includes which of the following?
A) How a specific item was computed.
B) Additional information on a company's financial condition.
C) Methods used to prepare the financial statements.
D) All of these items are often included.
Answer: D
Diff: 2
Topic: 2.3 Financial Performance Reporting

6) Notes to the financial statements help explain many of the details necessary to gain a more complete picture of the firm's ________.
A) capital budget.
B) choice of management.
C) dividend policy.
D) performance.
Answer: D
Diff: 2
Topic: 2.3 Financial Performance Reporting

7) The report filed annually with the SEC is known as the 10-K Report. It contains the annual report as well as additional information about company history, organizational structure, subsidiaries, and equity holdings.
Answer: TRUE
Diff: 1
Topic: 2.3 Financial Performance Reporting

8) The 10-K is a quarterly report that must be filed within 60 days after the end of the company's fiscal year.
Answer: FALSE
Comment: The 10-K is an ANNUAL report that must be filed within 60 days after the end of the company's fiscal year. There are also quarterly reports filed with the SEC called 10-Q reports.
Diff: 1
Topic: 2.3 Financial Performance Reporting

9) Additional information on a company's financial condition found in the annual report includes special issues concerning its debt or contingent accounts but not information on the potential impact of a pending lawsuit.
Answer: FALSE
Comment: Additional information on a company's financial condition found in the annual report includes special issues concerning its debt or contingent accounts, information on the potential impact of a pending lawsuit, and events regarding a loss or impairment.
Diff: 2
Topic: 2.3 Financial Performance Reporting

10) The financial statement notes contain both the history of the company's performance and the fundamental relationship between the ways the information is formatted. This information should be made available to all simultaneously.
Answer: TRUE
Diff: 1
Topic: 2.3 Financial Performance Reporting

11) Describe some of the items often disclosed in the financial notes.
Answer: Some of the items often disclosed in the financial notes are:
(1) How a specific item was computed
(2) Additional information on a company's financial condition such as
    (a) Special issues concerning its debt or contingent accounts
    (b) Information on the potential impact of a pending lawsuit
    (c) Events regarding a loss or impairment
(3) Methods used to prepare the financial statements
(4) Difference between prior estimates and actual results
Diff: 3
Topic: 2.3 Financial Performance Reporting

12) The annual report is a regular activity of public firms and is sent to current owners (shareholders) and the SEC, and is also made available to prospective owners, financial analysts, and others interested in a company's performance. Name four of the major sections contained.
Answer: The annual report usually contains a minimum of nine sections (with more components of the report available on the company's website). The nine components are: (1) Company Highlights, (2) President's Letter to the Shareholders, (3) Description of the Company's activities (usually with pictures and graphs), (4) Management's Analysis of the company's performance, (5) The Primary Financial Statements, (6) Notes to Financial Statements, (7) Auditor's Report, (8) Financial Ratios , and (9) Corporate Information.
Diff: 3
Topic: 2.3 Financial Performance Reporting

2.4 Financial Statements on the Internet

1) The annual report of a company is ________.
A) printed and mailed to owners and the SEC.
B) not available online.
C) not mailed to owners but only to the SEC.
D) always available online in more details.
Answer: A
Comment: The annual report of a company is printed and mailed to owners and the SEC. Much of the same financial statement information is available at various financial Web sites.
Diff: 2
Topic: 2.4 Financial Statements on the Internet

2) The SEC has a site named EDGAR that ________.
A) provides, at a cost, on-line access to a company's financial reports.
B) offers investors free advice on what stocks to pick.
C) provides an on-line tutorial on how to understand the government's role in affecting stock prices.
D) provides an on-line tutorial that will help new viewers find a company and its financial statements.
Answer: D
Diff: 2
Topic: 2.4 Financial Statements on the Internet

3) If you query a company at yahoo.finance.com, you will see a menu that includes a section on financial statements and provides ________.
A) the past six years of each of the primary financial statements.
B) provides, at a cost, on-line access to limited information on a company's financial reports.
C) the past three years of each of the primary financial statements.
D) provides an on-line tutorial on how to understand the government's role in affecting stock prices.
Answer: C
Diff: 2
Topic: 2.4 Financial Statements on the Internet

4) Which of the items below may be included on all income statements at yahoo.finance.com, even though they may not be part of an individual company's income statement for that year?
A) Cost of Revenue and Minority Interest
B) Minority Interest and Effect of Accounting Changes
C) Effect of Accounting Changes and Extraordinary Items
D) all of the above
Answer: D
Comment: In the presentation of the income statement at yahoo.finance.com, you will find cost of revenue, not cost of goods sold, with depreciation expense included in cost of revenue. You can also find other items that may not be part of a company's income statement for the year such as minority interests, effect of accounting changes, and extraordinary items.
Diff: 2
Topic: 2.4 Financial Statements on the Internet

5) Which of the following items may be included on all balance sheets at yahoo! Finance, even though they may not be part of an individual company's balance sheet for that year?
A) Effect of Accounting Changes, Extraordinary Items, and Treasury Stock
B) Deferred Long-Term Asset Charges, Treasury Stock, and Extraordinary Items
C) Goodwill, Deferred Long-Term Asset Charges, and Treasury Stock
D) Cost of Revenue, Goodwill, and Treasury Stock
Answer: C
Comment: In the presentation of the balance sheet at yahoo.finance.com, you will find items that are new to the textbook's balance sheet discussion. Such items include Goodwill, Deferred Long-Term Asset Charges, and Treasury Stock.
Diff: 2
Topic: 2.4 Financial Statements on the Internet
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

6) Which of the following items may be included on all income statements at yahoo.finance.com, even though they may not be part of an individual company's income statement for that year?
A) Cost of Revenue and Extraordinary Items
B) Goodwill and Effect of Accounting Changes
C) Effect of Accounting Changes and Deferred Long-Term Asset Charges
D) Cost of Revenue and Treasury Stock
Answer: A
Comment: In the presentation of the income statement at yahoo.finance.com, you will find Cost of Revenue, not cost of goods sold, with depreciation expense included in Cost of Revenue. You can also find other items that may not be part of a company's income state for the year such as Minority Interests, Effect of Accounting Changes, and Extraordinary Items.
Diff: 2
Topic: 2.4 Financial Statements on the Internet

7) In regards to the Cash Flow Statement, assume we want to break down Yahoo! Finance's cost of revenue into its two major components, cost of goods sold (COGS) and depreciation. To do so, we would need to look at ________ for the depreciation amount.
A) the Statement of Cash Flow
B) both the Income Statement and the Statement of Cash Flow
C) both the Balance Sheet and the Statement of Cash Flow
D) the Income Statement
Answer: A
Diff: 2
Topic: 2.4 Financial Statements on the Internet
Hmwrk Questions: * Taken from "Prepping for Exams" questions at the end of the chapter.

8) Which of the following statements is FALSE?
A) Financial data on the Internet or via company annual reports provide a wealth of knowledge about the operations of the firm.
B) Knowing the relationship of the primary financial statements and how to utilize the data in each are important tools for all financial managers.
C) Although the annual report of a company is printed and mailed to owners and the SEC, much of the financial statement information is available at various financial web sites.
D) EDGAR stands for Electronic Data Gathering Analysis and Retribution.
Answer: D
Comment: EDGAR stands for Electronic Data Gathering Analysis and RETRIEVAL.
Diff: 2
Topic: 2.4 Financial Statements on the Internet

9) The SEC has a site named EDGAR (Electronic Data Gathering Analysis and Retrieval) that provides free access to annual reports.
Answer: TRUE
Diff: 1
Topic: 2.4 Financial Statements on the Internet

10) If you query a company at yahoo.finance.com, you will see a menu that includes a section on financial statements and provides only the past one year of each of the primary financial statements.
Answer: FALSE
Comment: If you query a company at yahoo.finance.com, you will see a menu that includes a section on financial statements and provides the past THREE YEARS of each of the primary financial statements.
Diff: 1
Topic: 2.4 Financial Statements on the Internet

11) Financial data on the Internet or via the company annual reports provide a limited amount of knowledge about the operations of the firm.
Answer: FALSE
Comment: Financial data on the Internet or via the company annual reports provide A WEALTH OF KNOWLEDGE about the operations of the firm.
Diff: 1
Topic: 2.4 Financial Statements on the Internet

12) In the presentation of the income statement at yahoo.finance.com, you will find cost of revenue, not cost of goods sold, with depreciation expense included in cost of revenue.
Answer: TRUE
Diff: 1
Topic: 2.4 Financial Statements on the Internet

13) Report on another on-line site besides yahoo.finance.com and www.sec.gov/edgar.shtml (EDGAR's) where one can get financial information. In your answer give the website, how to access information, and what types of information are available. See if you can find at least one aspect of this site that might make it superior to that found at yahoo.finance.com.
Answer: MSN Money Central at moneycentral.msn.com/investor/home.asp is another site with plenty of financial information. By typing in the company's ticker symbol, you can access information such as company reports, SEC filings, earnings estimates, financial results, insider trading, and ownership. By clicking on the financial results topic, you can get the company's balance sheet, income statement, and cash flow statement for the past five years. The latter makes it superior to the date given at yahoo.finance.com by having two more years of financial information from the three primary financial statements.
Diff: 3
Topic: 2.4 Financial Statements on the Internet

14) Describe some of the differences that the textbook mentions about yahoo.finance.com's presentation of the income statement.
Answer: In the presentation of the income statement at yahoo.finance.com, it mentions cost of revenue, not cost of goods sold. In addition, there is no mention of depreciation expense as it is contained in the cost of revenue section. yahoo.finance.com mentions other additional items such as minority interests, effect of accounting changes, and extraordinary items. Although these line items are included on all income statements at yahoo.finance.com, they may not be part of an individual company's income statement for that year.
Diff: 3
Topic: 2.4 Financial Statements on the Internet