

TEST BANK

Eighth Canadian Edition

Fundamentals of
Corporate Finance

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Student: _____

1. Patents on new anti-cholesterol drug are considered intangible fixed assets.
True False
2. The financial statement summarizing the value of a firm's equity on a particular date is the statement of comprehensive income.
True False
3. According to generally accepted accounting principles (GAAP), assets are generally shown on financial statements at the higher of current market value or historical cost.
True False
4. Noncash items refer to expenses charged against revenues that do not directly affect cash flow.
True False
5. If a firm's cash flow to stockholders is negative, then total dividends must have exceeded the value of net new equity sold by the firm during the year.
True False
6. Conceptually, capital cost allowance (CCA) is equivalent to depreciation
True False
7. A firm's marginal tax rate may differ from its average tax rate. However, it is the average tax rate that is relevant for financial decision-making purposes.
True False
8. The financial statement summarizing a firm's performance over a period of time is the statement of cash flows
True False
9. The difference between a firm's current assets and its current liabilities is called net working capital
True False
10. Net income divided by the total number of outstanding shares is referred to as the profit margin.
True False
11. The financial statement showing a firm's accounting value on a particular date is the:
 - A. Statement of comprehensive income.
 - B. Statement of financial position.
 - C. Statement of cash flows.
 - D. Tax reconciliation statement.
 - E. Shareholders' equity sheet.
12. A current asset is:
 - A. An item currently owned by the firm.
 - B. An item that the firm expects to own within the next year.
 - C. An item currently owned by the firm that will convert to cash within the next 12 months.
 - D. The amount of cash on hand the firm currently shows on its statement of financial position.
 - E. The market value of all the items currently owned by the firm.

13. _____ normally must be paid by a firm within 12 months.
- A. Long-term bank loans
 - B. Current liabilities
 - C. Bonds
 - D. Marketable securities
 - E. Accounts receivable
14. The long-term debts of a firm are:
- A. Liabilities that come due within the next 12 months.
 - B. Liabilities that do not come due for at least 12 months.
 - C. Liabilities owed to the firm's suppliers.
 - D. Liabilities owed to the firm's shareholders.
 - E. Liabilities the firm expects to incur within the next 12 months.
15. Net working capital is defined as:
- A. Total liabilities minus shareholders' equity.
 - B. Current liabilities minus shareholders' equity.
 - C. Fixed assets minus shareholders' equity.
 - D. Total assets minus total liabilities.
 - E. Current assets minus current liabilities.
16. _____ refers to the difference between a firm's current assets and its current liabilities.
- A. Operating cash flow
 - B. Capital spending.
 - C. Net working capital.
 - D. Cash flow from assets.
 - E. Cash flow to creditors.
17. A(n) _____ asset is one which can be quickly converted into cash without significant loss in value.
- A. Current.
 - B. Fixed.
 - C. Intangible.
 - D. Liquid.
 - E. Long-term.
18. Financial leverage refers to:
- A. The proportion of debt used in a firm's capital structure.
 - B. The ratio of retained earnings to shareholders' equity.
 - C. The ratio of paid-in surplus to shareholders' equity.
 - D. The ratio of cost-of-goods-sold to total sales.
 - E. The amount of receivables present in the firm's asset structure.
19. The common set of standards and procedures by which audited financial statements are prepared is known as:
- A. The matching principle.
 - B. The cash flow identity.
 - C. Generally Accepted Accounting Principles (GAAP).
 - D. The Freedom of Information Act (FOIA).
 - E. The 1993 Omnibus Budget Reconciliation Act.
20. The financial statement summarizing a firm's performance over a period of time is the:
- A. Statement of comprehensive income.
 - B. Statement of financial position.
 - C. Statement of cash flows.
 - D. Tax reconciliation statement.
 - E. Shareholders' equity sheet.

21. Earnings per share are equal to:
- A. Net income divided by the total number of shares outstanding.
 - B. Net income divided by the par value of common stock.
 - C. Gross income multiplied by the par value of common stock.
 - D. Operating income divided by the par value of common stock.
 - E. Net income divided by total stockholders' equity.
22. Dividends per share are equal to:
- A. Dividends paid divided by the par value of common stock.
 - B. Dividends paid divided by the total number of shares outstanding.
 - C. Dividends paid divided by total stockholders' equity.
 - D. Dividends paid multiplied by the par value of common stock.
 - E. Dividends paid multiplied by the total number of shares outstanding.
23. Non-cash items are:
- A. The credit sales of a firm.
 - B. The accounts payable of a firm.
 - C. Expenses 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 statement of financial position other than cash on hand.
24. _____ refers to the cash flow that results from the firm's ongoing, normal business activities.
- A. Operating cash flow.
 - B. Capital spending.
 - C. Net working capital.
 - D. Cash flow from assets.
 - E. Cash flow to creditors.
25. _____ refers to the net spending of the firm on fixed asset purchases.
- A. Operating cash flow.
 - B. Capital spending.
 - C. Net working capital.
 - D. Cash flow from assets.
 - E. Cash flow to creditors.
26. _____ refers to the net total cash flow of the firm accruing to its creditors and stockholders.
- A. Operating cash flow.
 - B. Capital spending.
 - C. Net working capital.
 - D. Cash flow from assets.
 - E. Cash flow to creditors.
27. Cash flow from assets is also known as the firm's _____.
- A. Capital structure.
 - B. Equity structure.
 - C. Hidden cash flow.
 - D. Free cash flow.
 - E. Historical cash flow.
28. _____ refers to the firm's interest payments less any net new borrowing.
- A. Operating cash flow.
 - B. Capital spending.
 - C. Net working capital.
 - D. Cash flow from assets.
 - E. Cash flow to creditors.

29. _____ 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 assets.
 - E. Cash flow to stockholders.
30. Your _____ tax rate is the amount of tax payable on the next dollar you earn.
- A. Deductible.
 - B. Residual.
 - C. Total.
 - D. Average.
 - E. Marginal.
31. Your _____ tax rate measures the total taxes you pay divided by your taxable income.
- A. Deductible.
 - B. Residual.
 - C. Total.
 - D. Average.
 - E. Marginal.
32. The _____ tax rate is the rate that applies if one more dollar of income is earned and the _____ tax rate is the total tax bill divided by taxable income.
- A. Marginal; flat
 - B. Marginal; average
 - C. Flat; marginal
 - D. Flat; average
 - E. Average; marginal
33. A current asset:
- A. Has a life of less than one year.
 - B. Includes accounts payable.
 - C. Is an illiquid asset.
 - D. Is included in the statement of comprehensive income.
 - E. Is part of shareholders' equity.
34. Current assets minus current liabilities are referred to as:
- A. Tangible assets.
 - B. Net working capital.
 - C. Net income.
 - D. Net assets.
 - E. Net book value.
35. The statement of financial position:
- A. Reflects the income and expenses incurred year-to-date.
 - B. Reflects the income and expenses for the current month only.
 - C. Reflects the financial status of the firm as of a particular date.
 - D. Reflects the cash flows of a firm over a period of time.
 - E. Reflects the current market value of the firm.
36. Which of the following statements is true?
- A. Liabilities equal assets plus shareholders' equity.
 - B. Shareholders' equity equals assets plus liabilities.
 - C. Shareholders' equity equals liabilities minus assets.
 - D. Assets equal liabilities plus shareholders' equity.
 - E. Assets equal liabilities minus shareholders' equity.

37. Which one of the following is an example of an intangible asset?
- A. Accounts receivable.
 - B. Inventory.
 - C. Accounts payable.
 - D. Furniture.
 - E. Patent.
38. The ease and speed with which an asset can be converted into cash is called:
- A. Liquidity.
 - B. Marketability.
 - C. Convertibility.
 - D. Transferability.
 - E. Liability.
39. The cost of an asset less the depreciation to date is referred to as the net _____ value.
- A. Liquid.
 - B. Book.
 - C. Market.
 - D. Cash.
 - E. Financial.
40. Which one of the following is a non-cash item?
- A. Down payment on a building.
 - B. Rent expense.
 - C. Depreciation of equipment.
 - D. Payroll tax expense.
 - E. Company provided health insurance.
41. The cash generated from a firm's normal business activities is called:
- A. Financing cash flow.
 - B. Net income.
 - C. Gross profit.
 - D. Operating cash flow.
 - E. Free cash flow.
42. The use of debt in a firm's capital structure is called:
- A. Liquidity.
 - B. Equity financing.
 - C. Free cash flow.
 - D. Net working capital.
 - E. Financial leverage.
43. Value derived by subtracting current liabilities from current assets is called:
- A. Operating cash flow.
 - B. Net capital spending.
 - C. Net working capital.
 - D. The liquid asset value.
 - E. Cash flow from assets.
44. A liquid asset is defined as an asset which:
- A. Has a physical presence and can be touched.
 - B. Can be quickly converted into cash without significant loss in value.
 - C. A firm expects to own for a period of ten years or more.
 - D. Has no physical presence, such as a patent.
 - E. A firm purchased with cash within the last year.

45. Operating cash flow is defined as the cash flow:
- A. Which is distributed to the shareholders in the form of dividends.
 - B. Which a firm uses to increase its current accounts.
 - C. From debt issued by a firm to finance its ongoing operations.
 - D. Used by a firm to acquire new fixed assets.
 - E. That results from a firm's ongoing, daily business activities.
46. Cash flow from assets:
- A. Is defined as the cash available for distribution to creditors and stockholders.
 - B. Is defined as the change in net fixed assets plus depreciation.
 - C. Refers to the change in a firm's cash account over a stated period of time.
 - D. Is defined as the net change in the total assets of a firm over a stated period of time.
 - E. Is another term for the net cash flow from a firm's ongoing, normal business activities.
47. Free cash flow is commonly referred to as a firm's:
- A. Cash flow to stockholders.
 - B. Cash flow from assets.
 - C. Cash flow to creditors.
 - D. Net working capital.
 - E. Liquid capital.
48. Which one of the following is a tangible asset of a restaurant?
- A. Baking oven.
 - B. Goodwill.
 - C. Copyrighted cook book.
 - D. Patent on a mixing machine.
 - E. Old family recipe.
49. Which one of the following is a current asset?
- A. Office desk.
 - B. Account payable.
 - C. Staples held for resale.
 - D. Company-owned truck.
 - E. Welding machine.
50. Liquid assets:
- A. Are defined as current assets minus current liabilities.
 - B. Are defined as inventory and equipment.
 - C. Tend to earn a low rate of return.
 - D. Include any asset which can be sold within one year.
 - E. Is another term for current assets.
51. Which one of the following is a noncash item?
- A. Interest expense.
 - B. Taxes.
 - C. Dividends.
 - D. Depreciation.
 - E. Payroll expense.
52. The marginal tax rate can be explained as the amount of tax due:
- A. Per dollar of taxable income earned.
 - B. On an additional dollar of taxable income.
 - C. Per share of stock outstanding.
 - D. In excess of the tax liability for the prior tax year.
 - E. As a percentage of the firm's sales for any given tax year.

53. The statement of financial position identity states that:
- A. Current assets + Fixed assets = Total assets
 - B. Assets = Liabilities + Shareholders' equity
 - C. Current liabilities + Long-term debt = Total liabilities
 - D. Common stock + Retained earnings = Shareholders' equity
 - E. Cash flow = Market value - Book value
54. Statement of financial position assets _____.
- I. Are always equal to total liabilities minus shareholders' equity.
 - II. Represent items acquired with the use of the firm's assumed liabilities and equity.
 - III. Are listed in order of increasing liquidity.
- A. I only
 - B. II only
 - C. III only
 - D. I and III only
 - E. II and III only
55. Assets are listed on the statement of financial position in:
- A. Order of importance to the firm.
 - B. Order of increasing size.
 - C. Order of decreasing liquidity.
 - D. No particular order.
 - E. Order of preference in bankruptcy.
56. Which of the following is NOT typically characterized as a current asset?
- A. Inventory.
 - B. Cash on hand.
 - C. Patents.
 - D. Accounts receivable.
 - E. Marketable securities.
57. Intangible assets _____.
- A. Are generally considered very liquid.
 - B. Are classified on the statement of financial position just before accounts receivable.
 - C. Include such things as patents.
 - D. Include any item that exists physically.
 - E. Are generally very valuable.
58. A firm with negative net working capital _____.
- A. Is technically bankrupt.
 - B. Has no cash on hand.
 - C. Needs to sell some of its inventory to correct the problem.
 - D. Has more current liabilities than current assets.
 - E. Most likely will not run short of cash over the next six months.
59. Accounts payable are a component of:
- A. Net working capital.
 - B. Current assets.
 - C. Long-term debt.
 - D. Fixed assets.
 - E. Shareholders' equity.
60. Which of the following assets would most likely be considered the least liquid?
- A. A share of common stock in Nortel.
 - B. A bond issued by Corel.
 - C. A share of preferred stock in GM of Canada.
 - D. A Lethbridge, Alberta municipal bond.
 - E. A Canadian Treasury bill.

61. Which of the following financial statement items is generally considered the most liquid?
- A. Inventory.
 - B. Net fixed assets.
 - C. Long-term debt.
 - D. Patents and trademarks.
 - E. Accounts receivable.
62. Which of the following assets is generally considered to be the least liquid?
- A. Plant and equipment.
 - B. Inventory.
 - C. Goodwill.
 - D. Cash.
 - E. Accounts receivable.
63. Which of the following is generally true regarding liquidity as it relates to the firm?
- A. Liquidity is detrimental to a firm because it allows the firm to pay its bills more easily, thereby avoiding financial distress.
 - B. Liquidity is valuable to a firm because liquid assets can be sold quickly without much loss in value.
 - C. Liquidity is valuable to a firm because a firm can borrow money using its liquid assets, such as a warehouse, as collateral.
 - D. Assets are generally listed on a firm's statement of financial position in the order of increasing liquidity.
 - E. Liquid assets generally earn a large return, especially in comparison to illiquid assets.
64. Which of the following are characteristics of a liquid asset?
- I. Can be converted into cash quickly.
 - II. Can be converted into cash with little or no loss in value.
 - III. Generally earn low returns.
- A. I and II only
 - B. II and III only
 - C. III only
 - D. I and III only
 - E. I, II, and III
65. Which of the following statements about liquidity is true?
- A. If a firm has a high degree of liquidity, it also faces a high degree of financial distress.
 - B. At times, too little liquidity can result in lower profits for a firm since there is often a trade-off between liquidity and profitability.
 - C. You can get an accurate picture of the liquidity of a firm by looking at its current assets.
 - D. Accounts receivable are generally considered to be more liquid than inventory.
 - E. An asset is liquid if it can be sold quickly regardless of price.
66. An increase in the financial leverage of a firm as a result of an increase in outstanding debt _____ the potential reward to stockholders while _____ the risk of financial distress or bankruptcy.
- A. Decreases; decreasing
 - B. Increases; decreasing
 - C. Increases; increasing
 - D. Decreases; increasing
 - E. Does not affect; increasing
67. Which of the following would decrease the financial leverage of a firm?
- A. Total assets increase and the debt-to-equity ratio remains constant.
 - B. Total debt increases and total assets remain constant.
 - C. Net new equity is sold and existing bonds are paid off.
 - D. Net new bonds are sold and outstanding common stock is repurchased.
 - E. Net new bonds are sold and short-term notes payable are paid off.

68. Which of the following accurately describes the relation between book and market value?
- A Financial managers should rely on book values, and not market values, when making decisions for the firm, because the firm's tax liability is based on book values.
 - B Financial managers should rely on market values, and not book values, when making decisions for the firm, because the firm's tax liability is based on market values.
 - C Book value is an accounting summary of value and is inferior to market value as a source of current information regarding the true value of the firm.
 - D The market value of current assets is often difficult to determine, and thus of little value to the decision making process of financial managers.
 - E. Market value always exceeds book value.
69. As an investor, how would you determine the total market value of a publicly traded corporation such as Research In Motion?
- I. The values of debt and equity as they appear on the most recent financial statements
 - II. The value of debt as it appears on the most recent financial statements plus the current market value of RIM's common stock
 - III. The current market value of RIM's stock plus the market value of RIM's debt
- A. I only
 - B. II only
 - C. III only
 - D. I and II only
 - E. II and III only
70. Under GAAP, statement of financial position, assets are _____.
- A. Carried on the books at historic cost.
 - B. Only carried on the books if they are relatively liquid.
 - C. Carried on the books at market value.
 - D. Listed in order of increasing relative liquidity.
 - E. Carried at the larger of historic cost and market value.
71. For which of the following statement of financial position items will the book value and market value most likely be closest at the time the statement of financial position is prepared?
- A. Net fixed assets.
 - B. Common stock.
 - C. Accounts receivable.
 - D. Long-term debt.
 - E. Retained earnings.
72. Which of the following is/are true regarding the statement of financial position and statement of comprehensive income?
- I. The statement of comprehensive income reflects a summary of activity that occurs over some period of time while the statement of financial position is a snapshot taken at a single point in time.
 - II. Both represent a summary of activity that occurs over some time period.
 - III. The two statements, taken together, give an accurate estimate of the firm's cash flows and market value.
- A. I only
 - B. II only
 - C. III only
 - D. I and III only
 - E. II and III only
73. A statement of comprehensive income _____.
- A. Measures performance as a snapshot on a specific date.
 - B. Prepared according to GAAP will show revenue when it accrues.
 - C. Excludes accrued taxes payable.
 - D. Includes expenses only when they are ultimately paid off in cash.
 - E. Is an accurate representation of a firm's net cash flows.

74. Which of the following is a true statement?
- A. Accounting income is generally equal to firm cash flow.
 - B. Accounting statements are usually prepared to match the timing of income and expenses.
 - C. The statement of financial position equity account represents the market value of the firm to shareholders.
 - D. The statement of financial position tells investors exactly what the firm is worth.
 - E. Assets are usually listed on the statement of financial position at market value.
75. Which of the following represents a use of the matching principle in accounting?
- I. The cost of purchasing an item on account is recorded when the payable is paid.
 - II. Revenues from a credit sale are recorded when the receivable is received.
 - III. The production costs of inventory are recorded along with the revenue from the sale on the date the sale is made.
- A. I only
 - B. II only
 - C. III only
 - D. I and III only
 - E. II and III only
76. On January 1, 2009 Slowpay Company makes a verbal commitment to buy a \$150,000 piece of equipment. (On January 5 the contract is signed.) A \$1,000 down payment is paid on January 5 and the machine is delivered on January 11. The balance owed is due on February 15, but Slowpay waits until March 10 to pay. When will the firm that sold the equipment to Slowpay recognize the sale as income under GAAP rules?
- A. On January 1, when the commitment is made.
 - B. On January 5, when the contract is signed.
 - C. On January 10, when Slowpay takes possession.
 - D. On February 15, when the payment is due.
 - E. On March 10, when payment is received.
77. Which of the following statement of comprehensive income accounts is a non-cash item?
- A. Wages and salaries.
 - B. Interest expense.
 - C. Cost of goods sold.
 - D. Depreciation.
 - E. Income taxes.
78. Which of the following is probably considered a fixed cost, at least in the short run?
- A. The cost of raw materials.
 - B. The cost of direct labour expenses.
 - C. The company president's salary.
 - D. The cost of utilities.
 - E. The commissions paid to the sales force.
79. Cash flow from assets is equal to which of the following?
- A. Cash flow to creditors - cash flow to shareholders
 - B. Cash flow to shareholders + cash flow to creditors
 - C. Cash flow to creditors + cash flow to the government
 - D. Cash flow to shareholders - net new borrowing
 - E. Cash flow to shareholders + operating cash flow

80. Which of the following is NOT a component of cash flow from assets?
- I. Net new borrowings.
 - II. Operating cash flow.
 - III. Additions to net working capital.
- A. I only
 - B. II only
 - C. II and III only
 - D. I and III only
 - E. III only
81. Suppose you have the 2009 statement of comprehensive income for a firm, along with the 12/31/2008 and 12/31/2009 statement of financial positions. How would you calculate net capital spending?
- A. Ending net fixed assets (2009) minus beginning net fixed assets (2008) plus 2009 depreciation
 - B. Beginning net fixed assets (2008) minus ending net fixed assets (2009) plus 2009 depreciation
 - C. Beginning net fixed assets (2008) plus ending net fixed assets (2009) minus 2009 depreciation
 - D. Ending net fixed assets (2009) minus beginning net fixed assets (2008) plus 2009 taxes paid
 - E. Ending net fixed assets (2009) plus beginning net fixed assets (2008) minus 2009 taxes paid
82. Net capital spending is equal to _____.
- A. The change in net working capital.
 - B. The change in net fixed assets minus depreciation.
 - C. Net income plus depreciation.
 - D. Total cash flow to stockholders' less interest and dividends paid.
 - E. Operating cash flow minus cash flow from assets minus additions to net working capital.
83. An increase in which of the following will result in an increase in operating cash flow, all else equal?
- I. Interest expense.
 - II. Depreciation.
 - III. Taxes.
- A. II only
 - B. III only
 - C. I and II only
 - D. II and III only
 - E. I, II, and III
84. An increase in which of the following will cause operating cash flow to decrease, all else the same?
- I. Interest expense.
 - II. Depreciation.
 - III. Taxes paid.
- A. I and II only
 - B. II and III only
 - C. I only
 - D. II only
 - E. III only
85. Suppose you have the beginning and ending year statement of financial positions of Samco, a steel company based in Hamilton, along with the year's statement of comprehensive income. Changes in net working capital (NWC) would be calculated as:
- A. Ending NWC plus depreciation minus beginning NWC.
 - B. Ending NWC minus depreciation minus beginning NWC.
 - C. Ending NWC plus taxes paid plus beginning NWC.
 - D. Ending NWC minus beginning NWC.
 - E. Ending NWC plus beginning NWC.

86. Which of the following does NOT directly appear in either of the two definitions of cash flow from assets?
- A. Addition to retained earnings.
 - B. Net capital spending.
 - C. Changes in net working capital.
 - D. Operating cash flow.
 - E. Cash flow to stockholders.
87. If operating cash flow is negative, then _____.
- A. The firm is bankrupt.
 - B. The firm can pay no dividends.
 - C. Cash flow to bondholders must be negative.
 - D. Cash flow to stockholders must be positive.
 - E. Cash flow from assets may be positive.
88. In 2009, Sensicon Company, based in Toronto, experienced negative cash flow from assets. It must be the case that:
- A. The company is in financial distress.
 - B. Cash flow to creditors and cash flow to shareholders are both negative.
 - C. Sensicon's interest payments were greater than its dividend payments.
 - D. Sensicon's dividend payments were greater than its interest payments.
 - E. Operating cash flow was less than the combination of additions to net working capital and net new capital expenditures.
89. What is the proper measure of cash flow to creditors in a given year?
- A. Interest paid.
 - B. Operating cash flow minus net new borrowing.
 - C. Interest paid plus changes in long-term debt.
 - D. Interest paid plus net new borrowing minus additions to net fixed assets.
 - E. Interest paid minus net new borrowing.
90. Which of the following is a component of cash flow to creditors?
- I. Interest paid.
 - II. Net new borrowing.
 - III. Dividends paid.
- A. I only
 - B. II only
 - C. I and II only
 - D. I and III only
 - E. II and III only
91. The net new equity raised by a firm during a given year can be calculated as:
- A. New equity sales minus equity repurchases plus retained earnings.
 - B. New equity sales minus equity repurchases plus retained earnings minus dividends paid.
 - C. New equity sales minus equity repurchases.
 - D. New equity sales plus retained earnings.
 - E. New equity sales minus dividends paid.
92. Net new equity is equal to _____.
- A. The dollar value of equity sales minus any equity repurchases.
 - B. The dollar value of equity sales plus retained earnings.
 - C. The dollar value of equity sales plus retained earnings minus dividends paid.
 - D. The dollar value of equity sales plus retained earnings plus dividends paid.
 - E. The dollar value of equity sales plus dividends paid.

93. XYZ Company had a net income of \$40 million in 2009. The firm paid no dividends. If there were no further changes to the stockholders' equity accounts, then _____ by \$40 million.
- A. Common stock must have increased.
 - B. Retained earnings must have increased.
 - C. Total shareholders' equity must have decreased.
 - D. Common stock must have decreased.
 - E. The market value of the firm's stock must have decreased.
94. Cash flow to stockholders is equal to _____.
- A. Net income.
 - B. Dividends paid.
 - C. Net new equity.
 - D. dividends paid minus net new equity.
 - E. dividends paid minus interest paid.
95. Which of the following is a component of cash flow to stockholders?
- I. Net new equity raised.
 - II. New common stock sold.
 - III. Dividends paid.
- A. I only
 - B. I and III only
 - C. II and III only
 - D. I and II only
 - E. I, II, and III
96. Cash flow to stockholders is:
- A. equal to total cash flow from assets minus cash flow to creditors.
 - B. equal to sales of equity plus cash dividends paid.
 - C. equal to operating cash flow minus additions to net working capital minus net capital spending.
 - D. equal to cash dividends minus repurchases of equity plus new equity sold.
 - E. usually greater than cash flow to creditors.
97. Which of the following statements is false?
- A. While marginal and average tax rates often differ, it is the average tax rate that is relevant for most financial decisions.
 - B. The book value of an asset on the statement of financial position can be very different from its market value.
 - C. Net income as calculated from the statement of comprehensive income is not the net cash flow of the firm.
 - D. Non-cash items are expenses charged against revenues that do not directly affect cash flow.
 - E. The cash flow identity states that all net cash flows earned by the firm are distributed in whole to its creditors and shareholders.
98. When evaluating project cash flows in a financial decision, _____.
- A. Taxes can generally be ignored since they are a non-cash expense.
 - B. The financial manager should compute and use the marginal tax rate.
 - C. The marginal tax rate and average tax rate are of equal importance.
 - D. The financial manager should use the tax rate that is equal to the total tax liability divided by total taxable income.
 - E. Taxes are irrelevant unless income for the firm is greater than zero.
99. Suppose a firm has a negative UCC balance. They:
- A. Can claim the amount as a tax deductible expense.
 - B. Must add the amount (as a positive number) to their taxable income.
 - C. Should sell off all items in the asset pool.
 - D. Can calculate CCA for the year using the negative balance.
 - E. Should use the negative amount as a future tax loss.

100. Cash flow from assets represents the cash:
- A. Generated solely from a firm's daily sales.
 - B. Generated solely from the sale of company assets.
 - C. Currently held in the bank.
 - D. Available to pay for current asset purchases.
 - E. Available to distribute to creditors and stockholders.
101. If the market value of an asset exceeds the book value of that asset, then the sale of the asset will:
- A. Generate taxable income.
 - B. Result in a capital loss.
 - C. Cause a cash outflow for the firm.
 - D. Cause net profits to decline.
 - E. Cause operating cash flows to decrease.
102. Which one of the following will decrease net working capital?
- A. An increase in accounts receivable.
 - B. An increase in accounts payable.
 - C. A sale of a fixed asset for cash.
 - D. A sale of inventory at a profit.
 - E. A decrease in accounts payable.
103. Which one of the following will increase net working capital?
- A. A decrease in cash.
 - B. An increase in accounts payable.
 - C. An increase in depreciation.
 - D. A profitable sale of inventory.
 - E. The write-off of a bad debt.
104. Which one of the following will increase shareholders' equity, all else held constant?
- A. A purchase of equipment on account.
 - B. The collection of an accounts receivable.
 - C. A sale of inventory at a profit.
 - D. A payment on a loan.
 - E. The declaration of a stock dividend.
105. Which of the following statements concerning a statement of financial position is (are) correct?
- I. Assets equal liabilities minus shareholders' equity.
 - II. Current assets can be converted into cash within twelve months.
 - III. A patent is an example of an intangible asset.
 - IV. Retained earnings is classified as long-term debt.
- A. I and II only
 - B. I and III only
 - C. II and III only
 - D. II and IV only
 - E. III and IV only
106. Which one of the following assets is generally considered the most liquid?
- A. Equipment.
 - B. Inventory.
 - C. Building.
 - D. Accounts receivable.
 - E. Land.

107. Which one of the following will cause net income to decrease for the following year?
- A. The accumulation of more long-term debt by a firm.
 - B. An increase in the amount of dividends paid per share.
 - C. A reduction in tax rates.
 - D. An increase in profit margins.
 - E. A reduction in depreciation expense.
108. Net income is allocated to which two items?
- A. Shareholders' equity and cash.
 - B. Common stock and dividends.
 - C. Taxes and dividends.
 - D. Paid-in surplus and cash.
 - E. Retained earnings and dividends.
109. Which one of the following will increase earnings per share, all else held constant?
- A. A decrease in the number of shares outstanding
 - B. An increase in wages paid to employees.
 - C. A decrease in sales of the firm.
 - D. An increase in marginal tax rates.
 - E. An increase in depreciation expense.
110. A firm has a calendar tax year. On January 10, the firm purchased depreciable equipment for cash. This purchase will create:
- A. A current cash outflow and an equal decrease in current net income.
 - B. A current cash outflow and a lesser decrease in current net income.
 - C. A decrease in net income by an amount equal to the decrease in net assets.
 - D. No change in net income for the current year.
 - E. An increase in the total taxes of the firm over a period of years.
111. Which of the following are included in cash flow from assets?
- I. The payment of a dividend
 - II. A payment of a bill from a supplier
 - III. The payment of taxes
 - IV. Receipt of a payment from a customer
- A. I and II only
 - B. I and III only
 - C. II and IV only
 - D. I, II, and III only
 - E. II, III, and IV only
112. Which of the following will increase the amount of the cash flow to creditors?
- A. A new long-term loan
 - B. The early payment of an account payable
 - C. An early payoff of a long-term loan
 - D. A decrease in the rate of interest charged on a loan
 - E. The payment of a cash dividend
113. Which one of the following situations will cause cash flow to creditors to be negative?
- A. When there are no new loans and the interest paid exceeds the principal repaid on a loan
 - B. When the amount of a new loan exceeds both the interest and principal payments made
 - C. When the amount of the loan paid off exceeds both the amount of a new loan plus the interest paid
 - D. When the rate of interest on all outstanding loans is decreased
 - E. When there are no new loans and the current loan is paid off in full

114. Net income differs from operating cash flow due to the handling of:
- A. Dividends and interest expense.
 - B. Interest expense and depreciation.
 - C. Depreciation and dividends.
 - D. Dividends, interest expense, and depreciation.
 - E. Dividends.
115. Operating cash flow is equal to earnings before interest and taxes:
- A. Minus depreciation minus taxes.
 - B. Minus depreciation plus taxes.
 - C. Minus interest plus taxes.
 - D. Plus depreciation minus taxes.
 - E. Plus interest minus taxes.
116. The repurchase of outstanding stock by a corporation causes _____ for the firm, all else constant.
- A. An immediate cash inflow
 - B. A decrease in the cash flow to stockholders
 - C. A decrease in both earnings per share and dividends per share
 - D. A decrease in dividends per share
 - E. Both a cash outflow and an increase in earnings per share
117. Cash flow to stockholders is computed as:
- A. Interest paid minus net new debt.
 - B. Dividends paid minus net new debt.
 - C. Dividends paid plus net new equity.
 - D. Cash flow from assets minus cash flow to creditors.
 - E. Cash flow to creditors minus cash flow from assets.
118. Which one of the following will cause cash flow to stockholders to increase, all else constant?
- A. A secondary common stock offering
 - B. A decrease in dividends per share
 - C. An increase in cash flow to creditors given no change in cash flow from assets
 - D. A decrease in cash flow from assets given no change in cash flow to creditors
 - E. A decrease in cash flow to creditors given an increase in cash flow from assets
119. A negative cash flow to stockholders means:
- A. Cash flow from assets must also be negative.
 - B. Cash flow to creditors must also be negative.
 - C. The firm repurchased a significant number of outstanding shares.
 - D. Stockholders were a source of cash for the period.
 - E. The firm is bankrupt.
120. Which of the following will increase cash flow from assets?
- I. The sale of inventory at cost
 - II. The sale of machinery and equipment at book value
 - III. The purchase of inventory on credit
 - IV. An increase in accounts receivable due to a profitable sale
- A. I only
 - B. III only
 - C. IV only
 - D. I and II only
 - E. III and IV only

121. Which of the following accounts is (are) included in cash flow from assets?
- I. Rent expense
 - II. Interest expense
 - III. Accounts receivable
 - IV. Equipment
- A. I and II only
 - B. III and IV only
 - C. I, II, and III only
 - D. I, III, and IV only
 - E. I, II, III, and IV
122. Mylex has current assets of \$95, net fixed assets of \$250, long-term debt of \$40, and owners' equity of \$200, what is the value of current liabilities if that is the only other item on the statement of financial position?
- A. -\$50
 - B. \$50
 - C. \$105
 - D. \$145
 - E. \$545
123. A computer used in a business office by the office manager is classified as:
- A. a current asset.
 - B. an intangible asset.
 - C. net working capital.
 - D. a tangible asset.
 - E. an inventory item.
124. Which of the following are included in current assets?
- I. equipment
 - II. Inventory
 - III. accounts payable
 - IV. cash
- A. II and IV only
 - B. I and III only
 - C. I, II, and IV only
 - D. III and IV only
 - E. II, III, and IV only
125. Which of the following are included in current liabilities?
- I. note payable to a supplier in eighteen months
 - II. debt payable to a mortgage company in nine months
 - III. accounts payable to suppliers
 - IV. loan payable to the bank in fourteen months
- A. I and III only
 - B. II and III only
 - C. III and IV only
 - D. II, III, and IV only
 - E. I, II, and III only
126. Which one of the following statements concerning net working capital is correct?
- A. Net working capital is negative when current assets exceed current liabilities.
 - B. Net working capital includes cash, accounts receivables, fixed assets, and accounts payable.
 - C. Inventory is a part of net working capital.
 - D. The change in net working capital is equal to the beginning net working capital minus the ending net working capital.
 - E. Net working capital includes accounts from the statement of comprehensive income.

127. Which one of the following statements concerning net working capital is correct?
- A. The greater the net working capital, the greater the ability of a firm to meet its short-term obligations.
 - B. The change in net working capital is equal to current assets minus current liabilities.
 - C. Depreciation must be added back to current assets when computing the change in net working capital.
 - D. Net working capital is equal to long-term assets minus long-term liabilities.
 - E. Net working capital is a part of the operating cash flow.
128. An increase in total assets:
- A. means that net working capital is also increasing.
 - B. requires an investment in fixed assets.
 - C. means that shareholders' equity must also increase.
 - D. must be offset by an equal increase in liabilities and shareholders' equity.
 - E. can only occur when a firm has positive net income.
129. Which one of the following statements concerning liquidity is correct?
- A. If you can sell an asset today, it is a liquid asset.
 - B. If you can sell an asset next year at a price equal to its actual value, the asset is highly liquid.
 - C. Trademarks and patents are highly liquid.
 - D. The less liquidity a firm has, the lower the probability the firm will encounter financial difficulties.
 - E. Statement of financial position accounts are listed in order of decreasing liquidity.
130. Liquidity is:
- A. a measure of the use of debt in a firm's capital structure.
 - B. equal to current assets minus current liabilities.
 - C. equal to the market value of a firm's total assets minus its current liabilities.
 - D. valuable to a firm even though liquid assets tend to be less profitable to own.
 - E. generally associated with intangible assets.
131. Shareholders' equity:
- A. includes common stock, paid in surplus, retained earnings, and long-term debt.
 - B. on a statement of financial position is equivalent to the market value of the outstanding shares of stock.
 - C. includes all of a firm's earnings retained by the firm to date.
 - D. increases, all else equal, when the dividends paid are greater than the net income for a year.
 - E. includes the book value of any bonds issued by the firm.
132. Book value:
- A. is equivalent to market value for firms with fixed assets.
 - B. is based on historical cost.
 - C. generally tends to exceed market value when fixed assets are included.
 - D. is more of a financial than an accounting valuation.
 - E. is adjusted to market value whenever the market value exceeds the stated book value.
133. 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 statement of financial position.
 - D. place primary emphasis on historical costs.
 - E. only consider market values if they are less than book values.
134. As seen on a statement of comprehensive income:
- A. interest is deducted from income and increases the total taxes incurred.
 - B. the tax rate is applied to the earnings before interest and taxes when the firm has both depreciation and interest expenses.
 - C. depreciation is shown as an expense but does not affect the taxes payable.
 - D. depreciation reduces both the taxable income and the net income.
 - E. interest expense is added to earnings before interest and taxes to get taxable income.

135. The earnings per share will:
- A. increase as net income increases.
 - B. increase as the number of shares outstanding increase.
 - C. decrease as the total revenue of the firm increases.
 - D. increase as the tax rate increases.
 - E. decrease as the costs decrease.
136. Dividends per share:
- A. increase as the net income increases as long as the number of shares outstanding remains constant.
 - B. decrease as the number of shares outstanding decrease, all else constant.
 - C. are inversely related to the earnings per share.
 - D. are based upon the dividend requirements established by Generally Accepted Accounting Procedures.
 - E. are equal to the amount of net income distributed to shareholders divided by the number of shares outstanding.
137. According to Generally Accepted Accounting Principles, costs are:
- A. recorded as incurred.
 - B. recorded when paid.
 - C. matched with revenues.
 - D. matched with production levels.
 - E. expensed as management desires.
138. Depreciation:
- A. is a noncash expense that is recorded on the statement of comprehensive income.
 - B. increases the net fixed assets as shown on the statement of financial position.
 - C. reduces both the net fixed assets and the costs of a firm.
 - D. is a noncash expense which increases the net operating income.
 - E. decreases net fixed assets, net income, and operating cash flows.
139. Fixed costs in the short-run generally include which of the following?
- I. manufacturing wages
 - II. cost of materials used in production
 - III. property insurance
 - IV. contractually determined management salaries
- A. I and II only
 - B. II and III only
 - C. III and IV only
 - D. I and IV only
 - E. II and IV only
140. When you are making a financial decision, the most relevant tax rate is the _____ rate.
- A. average
 - B. fixed
 - C. marginal
 - D. total
 - E. variable
141. The cash flow from assets is equal to:
- A. operating cash flow minus the change in net working capital plus net capital spending.
 - B. cash flow to creditors minus the cash flow to shareholders.
 - C. earnings before interest and taxes plus depreciation plus taxes.
 - D. earnings before interest and taxes plus depreciation plus taxes minus net capital spending minus the change in net working capital.
 - E. earnings before interest and taxes plus depreciation minus taxes minus net capital spending minus the change in net working capital.

142. An increase in which one of the following will cause the cash flow from assets to increase?
- A. depreciation
 - B. change in net working capital
 - C. net working capital
 - D. taxes
 - E. costs
143. Cash flow from assets must be negative when:
- A. the firm has a taxable loss for the year.
 - B. the cash flow from creditors and the cash flow from stockholders are both negative.
 - C. the cash flow from creditors is negative and the cash flow from stockholders is positive.
 - D. the change in net working capital exceeds the net capital spending.
 - E. operating cash flow is less than the change in net working capital.
144. Assume a firm has depreciation, taxes, and interest expense. In this case, operating cash flow:
- A. is the same as net income.
 - B. is the same as net income plus depreciation.
 - C. must be positive because depreciation is added to the taxable income.
 - D. can be positive, negative, or equal to zero.
 - E. is equal to the cash flow to creditors.
145. A firm starts its year with a positive net working capital. During the year, the firm acquires more short-term debt than it does short-term assets. This means that:
- A. the ending net working capital will be negative.
 - B. both accounts receivable and inventory decreased during the year.
 - C. the beginning current assets were less than the beginning current liabilities.
 - D. accounts payable increased and inventory decreased during the year.
 - E. the ending net working capital can be positive, negative, or equal to zero.
146. Net capital spending:
- A. is negative if the sale of fixed assets is greater than the acquisition of current assets.
 - B. is equal to zero if the decrease in the fixed assets account is equal to the depreciation expense for the period.
 - C. reflects the net changes in total assets over a stated period of time.
 - D. is equivalent to the cash flow from assets.
 - E. is equal to the ending net fixed assets minus the beginning net fixed assets.
147. The cash flow to creditors includes the cash:
- A. received by the firm when payments are paid to suppliers.
 - B. outflow of the firm when new debt is acquired.
 - C. outflow when interest is paid on outstanding debt.
 - D. inflow when accounts payable decreases.
 - E. received when long-term debt is paid off.
148. Cash flow to stockholders must be positive when:
- A. the dividends paid exceed the net new equity raised.
 - B. the net sale of common stock exceeds the amount of dividends paid.
 - C. no income is distributed but new shares of stock are sold.
 - D. both the cash flow to assets and the cash flow to creditors are negative.
 - E. both the cash flow to assets and the cash flow to creditors are positive.
149. Which one of the following will increase the net working capital of a retail bakery shop?
- A. purchase of inventory on credit
 - B. purchase of new office equipment
 - C. payment received from a customer
 - D. sale of excess equipment
 - E. sale of inventory on credit

150. Which of the following assets is the most liquid?
- A. an office building
 - B. an electric saw for sale by a hardware store
 - C. a patent on a new kitchen appliance
 - D. a manufacturing plant
 - E. an amount receivable from a customer for a service provided
151. Which one of the following will increase the value of shareholders' equity?
- A. the repurchase of outstanding shares of stock by the issuer
 - B. positive net income and a dividend payout ratio of 60 percent
 - C. the repayment of short-term debt
 - D. the conversion of short-term debt to long-term debt
 - E. the sale of fixed assets at their book value
152. Which one of the following will decrease the value of the owners' equity on a statement of financial position?
- A. dividends paid during the year in an amount which exceeds the net income for the year
 - B. the sale of new shares of stock
 - C. the purchase of new equipment using the proceeds of a bank loan
 - D. the sale of inventory at a profit
 - E. a decrease in the amount of long-term debt owed by a firm
153. When a firm initially acquires debt to help finance its operations, it is said that the firm is:
- A. increasing its liquidity.
 - B. increasing its marketability.
 - C. increasing its operating cash flows.
 - D. spending its cash flow from assets.
 - E. employing financial leverage.
154. The book value of a firm is:
- A. always less than the market value.
 - B. another term for the total assets of a leveraged firm.
 - C. based on historical costs.
 - D. based on the current value of a firm's assets.
 - E. the value at which the firm could be sold in today's market.
155. To estimate the amount of cash which could be received if an asset were sold today, you should use the asset's:
- A. historical cost.
 - B. market value.
 - C. value as shown on the latest statement of financial position.
 - D. book value.
 - E. depreciated historical cost.
156. Which one of the following statements is correct concerning a statement of comprehensive income?
- A. Interest expense increases the taxes owed by a firm.
 - B. Net income is either paid out as dividends or added to the retained earnings of the firm.
 - C. Depreciation increases the net income of a firm.
 - D. Net income is equivalent to the operating cash flow of a firm.
 - E. Taxes will increase the amount of a loss incurred by a firm with negative taxable income.
157. The earnings per share will:
- A. increase if the tax rate increases.
 - B. remain constant if the number of shares outstanding is increased.
 - C. increase anytime the revenue of a firm increases.
 - D. increase only if the net income of a firm increases.
 - E. increase if the number of shares outstanding is decreased.

158. Dividends paid:
- A. must be equal to or less than the net income earned each year.
 - B. equal the cash flow to stockholders in any given year.
 - C. reduce the taxable income of a firm.
 - D. are considered a noncash expense.
 - E. are equal to net income less the change in retained earnings.
159. Which one of the following will increase the operating cash flow of a firm, all else constant?
- A. an increase in depreciation expense
 - B. an increase in the taxes paid
 - C. a decrease in sales
 - D. a decrease in the interest expense
 - E. a decrease in variable costs
160. Cash flow from assets is equal to:
- A. operating cash flow minus net new equity plus net new borrowing.
 - B. cash flow to creditors minus cash flow to stockholders.
 - C. operating cash flow minus the change in net working capital minus net capital spending.
 - D. operating cash flow plus net capital spending minus the change in net working capital.
 - E. operating cash flow minus depreciation plus taxes.
161. Operating cash flow can be computed as:
- A. net income minus depreciation plus taxes.
 - B. cash flow from assets plus net capital spending plus the change in net working capital.
 - C. net income plus depreciation.
 - D. earnings before interest and taxes minus depreciation plus taxes.
 - E. earnings before interest and taxes plus depreciation and interest, minus taxes.
162. Which one of the following will decrease a firm's net working capital?
- A. an increase in the cash account balance
 - B. the payment of a receivable by a customer
 - C. the purchase of a fixed asset using short-term debt
 - D. the acquisition of a building using long-term debt
 - E. the sale of inventory for cash
163. When net capital spending is a negative value, the firm has:
- A. depreciation expense which exceeds the cost of new assets acquired.
 - B. acquired more fixed assets than it has current assets.
 - C. sold more fixed assets than it acquired during a stated period of time.
 - D. reduced its total assets during the course of the year.
 - E. reduced its investment in inventory.
164. Cash flow to creditors must increase when:
- A. a firm increases its long-term debt by more than its interest expense in any given year.
 - B. the cash flow to stockholders is constant and the cash flow from assets increases.
 - C. the operating cash flow increases and the cash flow to stockholders decreases.
 - D. the interest rate on the firm's debt decreases.
 - E. a firm borrows more than it repays in any one given year.
165. All else constant, the cash flow to stockholders:
- A. increases when the dividends per share are increased.
 - B. remains unchanged when the firm repurchases shares of outstanding stock.
 - C. increases when a firm increases its degree of financial leverage.
 - D. increases when the cash flow from assets decreases.
 - E. increases as the common stock account balance increases.

166. At year-end 2009, Jordan Company's statement of financial position showed current assets = \$800, fixed assets = \$1,500, intangible assets = \$300, current liabilities = \$600, and long-term liabilities = \$1,400. What is the value of the shareholders' equity account?
- A. \$300
 - B. \$500
 - C. \$600
 - D. \$900
 - E. \$1,100
167. During 2009, Spend-it Corporation reported net income of \$200 and paid a \$40 stock dividend. Spend-it's December 31, 2008 statement of financial position reported the following items: common stock = \$220, capital surplus = \$180, retained earnings = \$300. What is the value of the retained earnings account for the December 31, 2009 statement of financial position?
- A. \$160
 - B. \$340
 - C. \$360
 - D. \$460
 - E. \$540
168. Based on the following information, calculate stockholders' equity: cash = \$30; total current liabilities = \$80; accounts receivable = \$30; inventory = \$90; net fixed assets = \$220; accounts payable = \$20; long term debt = \$50.
- A. \$170
 - B. \$190
 - C. \$220
 - D. \$240
 - E. \$290
169. ABC Corporation reported retained earnings of \$400 on its year-end 2008 statement of financial position. During 2009, the company reported a loss of \$40 in net income, and it paid out a dividend of \$11. What will retained earnings be for ABC's 2009 year-end statement of financial position?
- A. \$220
 - B. \$349
 - C. \$320
 - D. \$380
 - E. \$420
170. If total assets = \$550, fixed assets = \$375, current liabilities = \$140, equity = \$265, long-term debt = \$145, and current assets is the only remaining item on the statement of financial position, what is the value of net working capital?
- A. -\$265
 - B. \$35
 - C. \$190
 - D. \$230
 - E. \$265
171. Given the following statement of financial position data, calculate net working capital: cash = \$110, accounts receivable = \$410, inventory = \$350, net fixed assets = \$1,000, accounts payable = \$60, short-term debt = \$375, and long-term debt = \$510.
- A. -\$590
 - B. \$0
 - C. \$100
 - D. \$435
 - E. \$535

172. Given the following statement of comprehensive income data, calculate net income: sales = \$135, cost of goods sold = \$40, miscellaneous expenses = \$35, depreciation = \$20, interest expense = \$20, tax rate = 34%.
- A. \$13.20
 - B. \$19.80
 - C. \$20.00
 - D. \$23.10
 - E. \$42.90
173. Given the following statement of comprehensive income data, calculate revenue: Net Income = \$2500, EBIT = \$4000, Depreciation = \$500, Operating expenses = \$1500
- A. \$3000
 - B. \$4000
 - C. \$5500
 - D. \$6000
 - E. \$2500
174. RDJ Manufacturing had 300 million shares of stock outstanding at the end of 2009. During 2009, the company reported net income of \$600 million, retained earnings of \$900 million, and \$240 million in dividends paid. What is RDJ's earnings per share?
- A. \$0.50
 - B. \$0.67
 - C. \$0.80
 - D. \$1.25
 - E. \$2.00
175. Given the following statement of comprehensive income data, calculate operating cash flow: net sales = \$16,500, cost of goods sold = \$10,350, operating expenses = \$3,118, depreciation = \$1,120, interest expense = \$900, tax rate = 34%.
- A. \$667.92
 - B. \$1,912.00
 - C. \$2,201.12
 - D. \$2,381.92
 - E. \$2,687.92
176. If net income = \$46,750, depreciation expense = \$20,000, interest expense = \$10,000, and the tax rate = 15%, what is operating cash flow?
- A. \$21,250
 - B. \$72,250
 - C. \$76,750
 - D. \$85,250
 - E. \$93,350
177. Swell, Inc. had net fixed assets of \$6.5 million on December 31, 2008 and \$11 million on December 31, 2009. If Swell's depreciation expense for 2009 was \$750,000, what was the firm's 2009 capital spending?
- A. \$3.75 million
 - B. \$4.25 million
 - C. \$4.50 million
 - D. \$5.25 million
 - E. \$6.75 million

178. If cash flow from operations is \$938, net capital spending is -\$211, and net working capital declines by \$73, what is cash flow from assets?
- A. \$654
 - B. \$800
 - C. \$954
 - D. \$1,076
 - E. \$1,222
179. Given the following information from More Money, Inc.'s 2009 financial statements, calculate cash flow from assets: operating cash flow = \$284,500, net fixed assets declined by \$8,000, depreciation expense = \$13,000, and net working capital increased by \$1,500.
- A. \$262,000
 - B. \$278,000
 - C. \$281,000
 - D. \$288,000
 - E. \$301,000
180. During 2009, a firm paid \$25,000 in interest expense and its long-term debt decreased from \$350,000 to \$250,000. What is the 2009 cash flow to creditors?
- A. -\$75,000
 - B. -\$25,000
 - C. \$25,000
 - D. \$75,000
 - E. \$125,000
181. Suppose that a firm paid dividends of \$300 and interest of \$611. In addition, the firm raised cash by selling new debt of \$400 and new equity of \$911. What is the firm's cash flow to creditors?
- A. -\$1,040
 - B. -\$240
 - C. \$211
 - D. \$890
 - E. \$1,040
182. Brandy's Candies paid \$23 million in dividends during 2008, while also making net common stock repurchases of \$27 million. What was the cash flow to stockholders for 2008?
- A. -\$4 million
 - B. \$4 million
 - C. \$23 million
 - D. \$27 million
 - E. \$50 million
183. Suppose a firm's net income is \$950, dividends paid total \$300, and new equity sales over the same period amount to \$311. If the initial value of equity was \$7,100, what is the cash flow to shareholders?
- A. -\$650
 - B. -\$11
 - C. \$50
 - D. \$650
 - E. \$8,100
184. Suppose that a firm paid dividends of \$300 and interest of \$611. In addition, the firm raised cash by selling new debt of \$400 and new equity of \$911. What is the firm's cash flow to stockholders?
- A. -\$1,250
 - B. -\$611
 - C. \$650
 - D. \$890
 - E. \$1,250

185. At the start of the year, Gershon, Inc. had total shareholders' equity = \$12,000. If net income during the year was a \$200 loss, dividends paid = \$400, and \$1,000 was raised from the sale of new stock, what is the end of year value for total shareholders' equity?
- \$10,060
 - \$11,800
 - \$12,400
 - \$12,800
 - \$13,200
186. Ice Corporation has purchased a Class 10 piece of equipment for a cost of \$50,000 with a CCA rate of 30%. Under the half year rule, the UCC amount used to calculate the first year CCA is
- \$50,000
 - \$15,000
 - \$25,000
 - \$35,000
 - \$42,500
187. A firm has recently purchased Class 10 equipment for \$100,000 with a CCA rate of 30%. Under the half-year rule, what is the amount of depreciation that the firm can claim as a tax-deductible expense in the second year?
- \$30,000
 - \$15,000
 - \$42,000
 - \$25,500
 - \$45,000

	Taxable income	Tax rate
\$0 – \$ 50	000	15%
\$50	001 – \$ 75	000 25%
\$75	001 – \$100	000 34%
\$100,001 – \$335,000		39%

188. If Systemic Corporation reports taxable income of \$77,000, then the _____.
- average tax rate is 18.7%
 - average tax rate is 34.0%
 - marginal tax rate is 15.0%
 - marginal tax rate is 25.0%
 - marginal tax rate is 39.0%
189. Celeste Video, Inc. reports 2009 taxable income of \$200,011. How large is this firm's tax bill?
- \$48,750
 - \$61,250
 - \$67,000
 - \$78,000
 - \$91,125

Taxable income	Tax rate
\$0 – \$ 50,000	15%
\$50,001 – \$ 75,000	25%
\$75,001 – \$100,000	34%
\$100,001 – \$335,000	39%
\$335,001 – \$10,000,000	34%
\$10,000,001 – \$15,000,000	35%
\$15,000,001 – \$18,333,333	38%
\$18,333,334 and above	35%

190. If a company has taxable income = \$250,000, what is the average tax rate?
- A. 32.3%
 - B. 34.0%
 - C. 36.8%
 - D. 39.6%
 - E. 42.0%
191. If a firm has taxable income = \$74,000, how much will it pay in taxes?
- A. \$10,050
 - B. \$11,750
 - C. \$13,500
 - D. \$16,750
 - E. \$18,500
192. If a firm has taxable income of \$17.5 million and a total tax bill of \$6.1 million, its marginal tax rate is _____.
- A. 15%
 - B. 25%
 - C. 34%
 - D. 38%
 - E. 39%
193. If a firm has taxable income of \$17.5 million and a total tax bill of \$6.1 million, its average tax rate is _____.
- A. 15.0%
 - B. 25.9%
 - C. 34.9%
 - D. 38.2%
 - E. 42.2%

Kuipers, Inc.
2009 Statement of comprehensive income
(\$ in millions)

Net sales	\$1,384
Less: Cost of goods sold	605
Less: Depreciation	<u>180</u>
Earnings before interest and taxes	599
Less: Interest paid	<u>80</u>
Taxable income	519
Less: Taxes	<u>156</u>
Net income	<u>\$363</u>
Addition to retained earnings	\$254
Dividends paid	109

Kuipers, Inc.
12/31/2008 and 12/31/2009 Statement of financial position
(\$ in millions)

	<u>2008</u>	<u>2009</u>		<u>2008</u>	<u>2009</u>
Cash	\$ 100	\$ 121	Accounts payable	\$ 400	\$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	\$ 790	\$ 720
Total	\$ 890	\$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	\$2,446	\$2,660	Total liabilities	\$2,446	\$2,660

194. What is the firm's operating cash flow for 2009 (\$ in millions)?

- A. \$359
- B. \$441
- C. \$543
- D. \$589
- E. \$623

195. What is the firm's net capital spending for 2009 (\$ in millions)?

- A. -\$32
- B. \$32
- C. \$148
- D. \$328
- E. \$447

196. What is the firm's change in net working capital for 2009 (\$ in millions)?

- A. -\$40
- B. \$4
- C. \$94
- D. \$136
- E. \$205

197. What is the firm's cash flow from assets for 2009 (\$ in millions)?
- \$21
 - \$159
 - \$197
 - \$431
 - \$1,087
198. What is the firm's cash flow to creditors for 2009 (\$ in millions)?
- \$30
 - \$47
 - \$100
 - \$130
 - \$146
199. What is the firm's cash flow to stockholders for 2009 (\$ in millions)?
- \$89
 - \$129
 - \$188
 - \$363
 - \$383
200. If the firm has 180 million shares of stock outstanding, what is the firm's 2009 earnings per share?
- \$0.50
 - \$0.61
 - \$1.41
 - \$1.83
 - \$2.02
201. If the firm has 180 million shares of stock outstanding, what is the firm's 2009 dividends per share?
- \$0.50
 - \$0.61
 - \$1.41
 - \$1.83
 - \$2.02

	2008	2009
Sales	\$2,900	\$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

202. What is earnings before interest and taxes for 2009?
- \$112
 - \$158
 - \$580
 - \$660
 - \$780

203. What is net income for 2009?
- A. \$112
 - B. \$158
 - C. \$580
 - D. \$660
 - E. \$780
204. What is operating cash flow for 2009?
- A. \$248
 - B. \$662
 - C. \$908
 - D. \$1,072
 - E. \$1,375
205. What is net working capital for 2009?
- A. \$362
 - B. \$473
 - C. \$519
 - D. \$607
 - E. \$1,060
206. What is cash flow to stockholders for 2009?
- A. \$79
 - B. \$189
 - C. \$445
 - D. \$524
 - E. \$547
207. What is cash flow to creditors for 2009?
- A. \$100
 - B. \$320
 - C. \$420
 - D. \$520
 - E. \$720
208. What is net capital spending for 2009?
- A. -\$10
 - B. \$30
 - C. \$300
 - D. \$530
 - E. \$630
209. What is the change in net working capital during 2009?
- A. -\$245
 - B. -\$125
 - C. \$362
 - D. \$607
 - E. \$904
210. What is cash flow from assets for 2009?
- A. \$428
 - B. \$540
 - C. \$633
 - D. \$923
 - E. \$1,067

211. A firm has current assets of \$400, shareholders' equity of \$700, current liabilities of \$300, and net fixed assets of \$600. What is the amount of long-term debt?
- \$0
 - \$100
 - \$200
 - \$300
 - \$400
212. A new firm issued \$500 in common stock. At the end of the first year, the firm had total assets of \$1100 and total debt of \$400. What was the amount of net income for the first year, assuming the firm paid no dividends?
- \$200 (a loss)
 - \$200
 - \$700
 - \$1200
 - Cannot be determined from the information provided

RST, Inc.
2009 Statement of comprehensive income

Net sales	\$8,769
Cost of goods sold	\$6,128
Depreciation	\$1,364
Earnings before interest and taxes	\$1,277
Interest paid	\$730
Taxable income	\$547
Taxes	\$186
Net income	\$361
Dividends paid	\$?
Addition to retained earnings	\$?

RST, Inc.
Statement of financial positions as of December 31, 2008 and 2009

	2008	2009		2008	2009
Cash	\$1,423	\$965	Accounts payable	\$1,007	\$2,251
Accounts rec.	\$2,196	\$2,894	Notes payable	\$2,100	\$1,850
Inventory	\$1,543	\$1,650	Total	\$3,107	\$4,101
Total	\$5,162	\$5,509	Long-term debt	\$8,670	\$7,280
Net fixed assets	\$21,300	\$22,758	Common stock	\$7,200	\$9,200
			Retained earnings	\$7,485	\$7,686
Total assets	\$26,462	\$28,267	Total liabilities and Owner's equity	\$26,462	\$28,267

213. If there are 100 shares of stock outstanding, what is the amount of the dividends paid per share?
- \$1.48
 - \$1.60
 - \$1.86
 - \$2.01
 - \$3.61
214. If there are 250 shares of stock outstanding, what is the amount of the earnings per share?
- \$0.64
 - \$0.80
 - \$1.21
 - \$1.44
 - \$2.19

215. What is the amount of non-cash items for 2009?
- A. \$186
 - B. \$201
 - C. \$730
 - D. \$1,364
 - E. \$2,094
216. What is the net working capital for 2009?
- A. \$643
 - B. \$1,408
 - C. \$2,055
 - D. \$3,115
 - E. \$5,509
217. What is the average tax rate for 2009?
- A. 19%
 - B. 25%
 - C. 34%
 - D. 39%
 - E. cannot be determined from the information provided
218. What is the operating cash flow for the year 2009?
- A. \$361
 - B. \$995
 - C. \$1,725
 - D. \$1,911
 - E. \$2,455
219. What is the cash flow to creditors for 2009?
- A. -\$1,075
 - B. -\$660
 - C. -\$264
 - D. \$1,126
 - E. \$2,120
220. What is the cash flow to stockholders for 2009?
- A. -\$2,160
 - B. -\$1,840
 - C. \$1,840
 - D. \$2,160
 - E. \$2,320
221. What is the change in net working capital for 2009?
- A. -\$647
 - B. -\$347
 - C. \$347
 - D. \$647
 - E. \$994

KLM, Inc.
2009 Statement of comprehensive income

Net sales	\$3,685
Cost of goods sold	\$3,180
Depreciation	\$104
Earnings before interest and taxes	\$401
Interest paid	\$25
Taxable income	\$376
Taxes	\$128
Net income	\$248
Dividends paid	\$60
Addition to retained earnings	\$188

KLM Corporation
Statement of financial positions as of December 31, 2008 and 2009

	2008	2009		2008	2009
Cash	\$ 520	\$ 601	Accounts payable	\$ 621	\$ 704
Accounts rec.	\$ 235	\$ 219	Notes payable	\$ 333	\$ 272
Inventory	\$ 964	\$ 799	Current liabilities	\$ 954	\$ 976
Current assets	\$1,719	\$1,619	Long-term debt	\$ 350	\$ 60
Net fixed assets	\$ 890	\$ 930	Common stock	\$ 800	\$ 820
			Retained earnings	\$ 505	\$ 693
Total assets	\$2,609	\$2,549	Total liabilities and Owner's equity	\$2,609	\$2,549

222. What is the change in net working capital for 2009?

- A. -\$643
- B. -\$122
- C. \$122
- D. \$643
- E. \$765

223. What is the net capital spending for 2009?

- A. -\$144
- B. -\$64
- C. \$64
- D. \$144
- E. \$208

224. What is the cash flow from assets for 2009?

- A. \$111
- B. \$355
- C. \$1,307
- D. \$2,259
- E. \$2,503

225. What is the ending net working capital for 2009?

- A. -\$60
- B. \$40
- C. \$60
- D. \$643
- E. \$765

226. What is the net new equity for 2009?

- A. -\$40
- B. -\$20
- C. \$20
- D. \$40
- E. \$60

227. What is the operating cash flow for 2009?

- A. \$169
- B. \$272
- C. \$377
- D. \$425
- E. \$480

228. What is the cash flow to stockholders for 2009?

- A. \$40
- B. \$60
- C. \$80
- D. \$148
- E. \$268

OPQ, Inc.
2009 Statement of comprehensive income

Net sales	\$8,953
Cost of goods sold	\$5,865
Depreciation	\$?
EBIT	\$?
Interest paid	\$675
Earnings before taxes	\$?
Taxes	\$400
Net income	\$705
Dividends paid	\$?
Addition to retained earnings	\$450

OPQ, Inc.
Statement of financial positions as of December 31, 2008 and 2009

	2008	2009		2008	2009
Cash	\$ 725	\$ 1,135	Accounts payable	\$ 859	\$1,031
Accounts rec.	\$ 2,330	\$?	Notes payable	\$?	\$4,020
Inventory	\$ 3,240	\$ 5,202	Current liabilities	\$?	\$?
Current assets	\$?	\$?	Long-term debt	\$9,250	\$9,750
Net fixed assets	\$?	\$ 9,211	Common stock	\$ 250	\$?
			Retained earnings	\$?	\$2,797
Total assets	\$16,083	\$17,848	Total liab. & equity	\$?	\$?

229. What is the operating cash flow for 2009?

- A. \$872
- B. \$2,013
- C. \$2,413
- D. \$2,688
- E. \$2,813

230. The net working capital at the end of 2008 is _____ and _____ at the end of 2009.

- A. -\$2,955; -\$1,113
- B. \$2,059; \$3,586
- C. \$5,436; \$1,286
- D. \$5,436; \$7,606
- E. \$2,059; \$8,637

231. The cash flow to creditors for 2009 is _____ while the cash flow to stockholders for 2009 is _____.

- A. -\$640; \$705
- B. -\$175; \$255
- C. \$175; \$255
- D. \$175; \$450
- E. \$640; \$450

232. Alpha, Inc. earned \$95,000 in net income in 2008 and paid \$20,548.50 in taxes. Alpha, Inc. earned \$95,001 in net income in 2009 and paid \$20,548.84 in taxes. What is the marginal tax rate for Alpha, Inc.?
- A. 15%
 - B. 25%
 - C. 34%
 - D. 35%
 - E. 38%

Taxable income		Tax Rate
\$ 0	\$ 50,000	15%
\$ 50,001	\$ 75,000	25%
\$ 75,001	\$ 100,000	34%
\$100,001	\$ 335,000	39%
\$335,001	\$10,000,000	34%

233. The marginal tax rate on an income of \$239,650 is:
- A. 15%
 - B. 25%
 - C. 34%
 - D. 39%
 - E. 43%
234. The total tax on an income of \$289,600 is:
- A. \$89,544
 - B. \$96,194
 - C. \$112,944
 - D. \$113,900
 - E. \$128,544
235. All-Rite sold \$133,500 in used equipment in 2009 and replaced it with \$212,000 of new equipment. Depreciation for 2009 and \$12,500. What is the net capital spending for 2009?
- A. \$66,000
 - B. \$78,500
 - C. \$91,000
 - D. \$199,500
 - E. \$212,000
236. Jack's Shoes has net income of \$19,600 in 2009 and owes \$8,650 in taxes for the year. The company repaid \$4,200 in loan principal and \$650 in loan interest during the year. No new funds were borrowed. The depreciation expense is \$420. What is the operating cash flow for the year?
- A. \$10,720
 - B. \$19,370
 - C. \$20,670
 - D. \$28,670
 - E. \$29,320
237. A firm has \$300 in inventory, \$600 in fixed assets, \$200 in accounts receivables, \$100 in accounts payable, and \$50 in cash. What is the amount of the current assets?
- A. \$500
 - B. \$550
 - C. \$600
 - D. \$1,150
 - E. \$1,200

238. A firm has net working capital of \$350. Long-term debt is \$600, total assets are \$950 and fixed assets are \$400. What is the amount of the total liabilities?
- A. \$200
 - B. \$400
 - C. \$600
 - D. \$800
 - E. \$1,200
239. The total assets are \$900, the fixed assets are \$600, long-term debt is \$500, and short-term debt is \$200. What is the amount of net working capital?
- A. \$0
 - B. \$100
 - C. \$200
 - D. \$300
 - E. \$400
240. Shareholders' equity in a firm is \$500. The firm owes a total of \$400 of which 75 percent is payable within the next year. The firm has net fixed assets of \$600. What is the amount of the net working capital?
- A. -\$200
 - B. -\$100
 - C. \$0
 - D. \$100
 - E. \$200
241. Brad's Co. has equipment with a book value of \$500 that could be sold today at a 50 percent discount. Their inventory is valued at \$400 and could be sold to a competitor for that amount. The firm has \$50 in cash and customers owe them \$300. What is the accounting value of their liquid assets?
- A. \$50
 - B. \$350
 - C. \$700
 - D. \$750
 - E. \$1,000
242. Martha's Enterprises spent \$2,400 to purchase equipment three years ago. This equipment is currently valued at \$1,800 on today's statement of financial position but could actually be sold for \$2,000. Net working capital is \$200 and long-term debt is \$800. What is the book value of shareholders' equity?
- A. \$200
 - B. \$800
 - C. \$1,200
 - D. \$1,400
 - E. The answer cannot be determined from the information provided.
243. Art's Boutique has sales of \$640,000 and costs of \$480,000. Interest expense is \$40,000 and depreciation is \$60,000. The tax rate is 34%. What is the net income?
- A. \$20,400
 - B. \$39,600
 - C. \$50,400
 - D. \$79,600
 - E. \$99,600

244. Tim's Playhouse paid \$155 in dividends and \$220 in interest expense. The addition to retained earnings is \$325 and net new equity is \$50. The tax rate is 25 percent. Sales are \$1,600 and depreciation is \$160. What are the earnings before interest and taxes?
- A. \$480
 B. \$640
 C. \$860
 D. \$1,020
 E. \$1,440
245. Pete's Boats has beginning long-term debt of \$180 and ending long-term debt of \$210. The beginning and ending total debt balances are \$340 and \$360, respectively. The interest paid is \$20. What is the amount of the cash flow to creditors?
- A. -\$10
 B. \$0
 C. \$10
 D. \$40
 E. \$50
246. Thompson's Jet Skis has operating cash flow of \$218. Depreciation is \$45 and interest paid is \$35. A net total of \$69 was paid on long-term debt. The firm spent \$180 on fixed assets and increased net working capital by \$38. What is the amount of the cash flow to stockholders?
- A. -\$104
 B. -\$28
 C. \$28
 D. \$114
 E. \$142

Nabors, Inc.
 2009 Statement of comprehensive income
 (\$ in millions)

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

Nabors, Inc.
 2008 and 2009 Statement of financial positions
 (\$ in millions)

	2008	2009		2008	2009
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	<u>\$17,185</u>	<u>\$17,980</u>	Total liab. & equity	<u>\$17,185</u>	<u>\$17,980</u>

247. What is the change in the net working capital from 2008 to 2009?
- A. \$1,235
 B. \$1,035
 C. \$1,335
 D. \$3,405
 E. \$4,740

248. What is the amount of the noncash expenses for 2009?

- A. \$570
- B. \$630
- C. \$845
- D. \$1,370
- E. \$2,000

249. What is the amount of the net capital spending for 2009?

- A. -\$290
- B. \$795
- C. \$1,080
- D. \$1,660
- E. \$2,165

250. What is the operating cash flow for 2009?

- A. \$845
- B. \$1,930
- C. \$2,215
- D. \$2,845
- E. \$3,060

251. What is the cash flow from assets for 2009?

- A. \$430
- B. \$485
- C. \$1,340
- D. \$2,590
- E. \$3,100

252. What is the amount of net new borrowing for 2009?

- A. -\$225
- B. -\$25
- C. \$0
- D. \$25
- E. \$225

253. What is the cash flow to creditors for 2009?

- A. -\$405
- B. -\$225
- C. \$225
- D. \$405
- E. \$630

254. What is the amount of dividends paid in 2009?

- A. \$25
- B. \$275
- C. \$570
- D. \$625
- E. \$845

255. What is the cash flow to stockholders for 2009?

- A. -\$250
- B. -\$25
- C. \$25
- D. \$250
- E. \$275

Knickerdoodles, Inc.

	<u>2008</u>	<u>2009</u>
Sales	\$ 740	\$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

256. What is the net working capital for 2009?

- A. \$345
- B. \$405
- C. \$805
- D. \$812
- E. \$1,005

257. What is the change in net working capital from 2008 to 2009?

- A. -\$93
- B. -\$7
- C. \$7
- D. \$85
- E. \$97

258. What is net capital spending for 2009?

- A. -\$250
- B. -\$57
- C. \$0
- D. \$57
- E. \$477

259. What is the operating cash flow for 2009?

- A. \$143
- B. \$297
- C. \$325
- D. \$353
- E. \$367

260. What is the cash flow from assets for 2009?

- A. \$50
- B. \$247
- C. \$297
- D. \$447
- E. \$517

261. What is net new borrowing for 2009?

- A. -\$70
- B. -\$35
- C. \$35
- D. \$70
- E. \$105

262. What is the cash flow to creditors for 2009?

- A. -\$170
- B. -\$35
- C. \$135
- D. \$170
- E. \$205

263. What is the cash flow to stockholders for 2009?

- A. \$408
- B. \$417
- C. \$452
- D. \$482
- E. \$503

	<u>2009</u>
Cost of goods sold	\$3,210
Interest	215
Dividends	160
Depreciation	375
Change in retained earnings	360
Tax rate	35%

264. What is the taxable income for 2009?

- A. \$360
- B. \$520
- C. \$640
- D. \$780
- E. \$800

265. What is the operating cash flow for 2009?

- A. \$520
- B. \$800
- C. \$1,015
- D. \$1,110
- E. \$1,390

266. What are the sales for 2009?

- A. \$4,225
- B. \$4,385
- C. \$4,600
- D. \$4,815
- E. \$5,000

267. A firm has \$1,800 in fixed assets, \$400 in net working capital, \$200 in accounts payable, and \$100 in cash. What is the amount of the current assets?

- A. \$200
- B. \$400
- C. \$500
- D. \$600
- E. \$700

268. The total assets are \$1,650, the fixed assets are \$800, long-term debt is \$700, and short-term debt is \$450. What is the amount of net working capital?

- A. \$350
- B. \$400
- C. \$500
- D. \$950
- E. \$1,200

269. Chadwick Industries has equipment with a book value of \$18 million that could be sold today for \$21 million. The inventory is valued at \$5.6 million and could be sold to a competitor today for \$5.1 million. The firm has \$740 thousand in cash and customers owe them \$2.6 million. What is the total market value of the firm's assets?
- A. \$26.04 million
 - B. \$26.44 million
 - C. \$28.70 million
 - D. \$29.04 million
 - E. \$29.44 million
270. Cantrell Industries spent \$386,000 to purchase equipment three years ago. This equipment is currently valued at \$276,000 on today's statement of financial position but could actually be sold for \$298,000. Net working capital is \$56,000 and long-term debt is \$171,000. What is the book value of shareholders' equity?
- A. \$49,000
 - B. \$71,000
 - C. \$105,000
 - D. \$161,000
 - E. \$183,000
271. The owner of Fred's Electronics is trying to sell the business. The company built a building four years ago at a cost of \$2.2 million. The building is currently appraised at \$2.46 million. The firm's equipment originally cost \$1.2 million and is currently valued at \$700,000. The inventory is listed on the statement of financial position at \$150,000 but is only worth \$125,000. The owner expects to collect 90 percent of the \$300,000 in accounts receivable. The firm has \$14,000 in cash and has total debt of \$3.1 million. What is the market value of this firm?
- A. \$455,000
 - B. \$469,000
 - C. \$499,000
 - D. \$504,000
 - E. \$524,000
272. Julie's Boutique paid \$400 in dividends and \$500 in interest this past year. Common stock increased by \$500 and retained earnings decreased by \$200. What is the net income for the year?
- A. -\$300
 - B. \$200
 - C. \$600
 - D. \$700
 - E. \$1,100
273. Kathy's Krafts has sales of \$820,000 and costs of \$530,000. Interest expense is \$35,000. The tax rate is 34% and the tax amount is \$71,400. What is the amount of the depreciation expense if that is the only remaining expense on the statement of comprehensive income?
- A. \$37,500
 - B. \$38,000
 - C. \$41,600
 - D. \$45,000
 - E. \$52,400

274. Given the tax rates below, what is the average tax rate for a firm with taxable income of \$178,500?

Taxable Income	Tax Rate
\$0 – 50,000	15%
50,001 – 75,000	25%
75,001 – 100,000	34%
100,001 – 335,000	39%

- A. 29.62 percent
- B. 30.13 percent
- C. 34.00 percent
- D. 35.67 percent
- E. 39.00 percent

275. The tax rates are as shown below. Your firm currently has taxable income of \$98,650. How much additional tax will you owe if you increase your taxable income by \$13,000?

Taxable Income	Tax Rate
\$0 – 50,000	15%
50,001 – 75,000	25%
75,001 – 100,000	34%
100,001 – 335,000	39%

- A. \$1,950.00
- B. \$4,420.00
- C. \$4,560.50
- D. \$4,800.00
- E. \$5,002.50

276. The Corner Store paid \$46 in dividends and \$120 in interest expense during the year. The addition to retained earnings is \$142 and net new equity is \$50. The tax rate is 20 percent. Sales are \$2,400 and depreciation is \$140. What are the earnings before interest and taxes?

- A. \$286
- B. \$325
- C. \$355
- D. \$2,072
- E. \$2,260

277. Bill's Mowers has beginning net fixed assets of \$1,620 and ending net fixed assets of \$1,780. Assets valued at \$410 were sold during the year. Depreciation was \$45. What is the value of the fixed asset purchases for the year?

- A. \$295
- B. \$615
- C. \$705
- D. \$795
- E. \$855

278. At the beginning of the year, Bob's Cabinet Works had long-term debt of \$280 and total debt of \$430. At the end of the year, long-term debt was \$255 and total debt was \$390. The firm paid \$20 of interest during the year. What is the amount of the cash flow to creditors?

- A. -\$20
- B. -\$5
- C. \$5
- D. \$45
- E. \$60

279. Marla's Homemade Cookies has net income of \$1,280. During the year, the company sold \$50 worth of common stock and paid dividends of \$40. What is the amount of the cash flow to stockholders?

- A. -\$90
- B. -\$10
- C. \$10
- D. \$40
- E. \$90

Aussel Motors, Inc.
2009 Statement of comprehensive income
(\$ in millions)

Net sales	\$6,080
Less: Cost of goods sold	3,890
Less: Depreciation	<u>860</u>
Earnings before interest and taxes	1,330
Less Interest paid	<u>270</u>
Taxable Income	\$1,060
Less: Taxes	<u>360</u>
Net Income	\$700

Aussell, Inc.
2008 and 2009 Statement of financial positions
(\$ in millions)

	2008	2009		2008	2009
Cash	\$415	\$560	Accounts payable	\$540	\$610
Accounts receivable	860	840	Current portion LTD	<u>0</u>	<u>50</u>
Inventory	<u>1,270</u>	<u>1,390</u>	Total	540	660
Total	2,545	2,790	Long term debt	2,165	3,480
Net Fixed Assets	<u>3,180</u>	<u>4,660</u>	Common stock	2,000	2,250
			Retained earnings	<u>1,020</u>	<u>1,060</u>
Total assets	\$5,725	\$7,450	Total liab. & equity	\$5,720	\$7,450

280. What is the change in the net working capital from 2008 to 2009?

- A. -\$40
- B. \$75
- C. \$125
- D. \$2,005
- E. \$2,140

281. What is the amount of the noncash expenses for 2009?

- A. \$270
- B. \$630
- C. \$780
- D. \$860
- E. \$1,130

282. What is the amount of the net capital spending for 2009?

- A. \$240
- B. \$620
- C. \$1,480
- D. \$1,860
- E. \$2,340

283. What is the operating cash flow for 2009?
- A. \$1,060
 - B. \$1,560
 - C. \$1,830
 - D. \$1,920
 - E. \$1,960
284. What is the cash flow from assets for 2009?
- A. -\$635
 - B. -\$385
 - C. \$385
 - D. \$510
 - E. \$635
285. What is the amount of net new borrowing for 2009?
- A. -\$1,045
 - B. -\$270
 - C. \$270
 - D. \$1,045
 - E. \$1,315
286. What is the cash flow to creditors for 2009?
- A. -\$1,045
 - B. -\$365
 - C. \$885
 - D. \$945
 - E. \$1,585
287. What is the amount of dividends paid in 2009?
- A. \$40
 - B. \$370
 - C. \$410
 - D. \$660
 - E. \$700
288. What is the cash flow to stockholders for 2009?
- A. \$360
 - B. \$410
 - C. \$580
 - D. \$660
 - E. \$910

Master Machines, Inc.

	2008	2009
Sales	\$1,240	\$1,385
COGS	820	910
Interest	25	20
Dividends	25.50	25.90
Depreciation	270	240
Cash	110	95
Accounts receivable	145	165
Current liabilities	380	469
Inventory	410	440
Long term debt	300	320
Net fixed assets	620	660
Common stock	500	350
Tax rate		34%

289. What is the change in net working capital from 2008 to 2009?
- A. -\$69
 - B. -\$54
 - C. \$231
 - D. \$255
 - E. \$287
290. What is net capital spending for 2009?
- A. \$40
 - B. \$70
 - C. \$280
 - D. \$310
 - E. \$350
291. What is the operating cash flow for 2009?
- A. \$381.90
 - B. \$396.10
 - C. \$401.90
 - D. \$440.10
 - E. \$451.90
292. What is net new borrowing for 2009?
- A. -\$40
 - B. -\$20
 - C. \$20
 - D. \$40
 - E. \$60
293. What is the cash flow to stockholders for 2009?
- A. \$124.40
 - B. \$168.80
 - C. \$171.10
 - D. \$173.60
 - E. \$175.90
294. The Phillip Edwards Co. has net income of \$2,460 for the current year. During the year, the common stock account increased in value by \$1,500 and retained earnings increased by \$350. What is the amount the firm paid in dividends to its shareholders during the year?
- A. \$350
 - B. \$380
 - C. \$610
 - D. \$2,110
 - E. \$2,810
295. The R.J. Ramboldt Co. paid dividends of \$1,400, interest of \$800, and taxes of \$2,100 for the year. The tax rate is 35 percent and the depreciation expense is \$500. What is the operating cash flow for the year?
- A. \$4,800
 - B. \$4,950
 - C. \$5,200
 - D. \$5,350
 - E. \$5,500

296. Knight Insurance has shareholders' equity of \$136,900. The firm owes a total of \$71,400 of which 30 percent is payable within the next year. The firm has net fixed assets of \$152,800. What is the amount of the net working capital?
- A. \$21,420
 - B. \$25,300
 - C. \$34,080
 - D. \$46,720
 - E. \$55,500
297. Six years ago, Thompson Distributors purchased a mailing machine at a cost of \$368,000. This equipment is currently valued at \$172,200 on today's statement of financial position but could actually be sold for \$211,400. This is the only fixed asset the firm owns. Net working capital is \$121,000 and long-term debt is \$82,500. What is the book value of shareholders' equity?
- A. \$89,700
 - B. \$210,700
 - C. \$211,400
 - D. \$249,900
 - E. \$406,500
298. A firm has common stock of \$5,500, paid-in surplus of \$8,200, total liabilities of \$6,600, current assets of \$7,200, and fixed assets of \$16,900. What is the amount of the shareholders' equity?
- A. \$10,300
 - B. \$13,700
 - C. \$15,600
 - D. \$17,500
 - E. \$20,300
299. Peter owns The Train Store which he is trying to sell so that he can retire and travel. The Train Store owns the building in which it is located. This building was built at a cost of \$427,000 and is currently appraised at \$575,000. The display counters and fixtures originally cost \$87,000 and are currently valued at \$49,000. The inventory is valued on the statement of financial position at \$289,000 and has a retail market value equal to 1.4 times its cost. Peter expects the store to collect 97 percent of the \$48,041 in accounts receivable. The firm has \$11,200 in cash and has total debt of \$167,400. What is the market value of this firm?
- A. \$771,000
 - B. \$907,800
 - C. \$919,000
 - D. \$945,800
 - E. \$957,000
300. Amy's Dress Shoppe has sales of \$421,000 with costs of \$342,000. Interest expense is \$18,000 and depreciation is \$33,000. The tax rate is 34 percent. What is the net income?
- A. \$9,520
 - B. \$12,420
 - C. \$18,480
 - D. \$30,360
 - E. \$52,140

301. Given the tax rates as shown, what is the average tax rate for a firm with taxable income of \$218,740?

<u>Taxable Income</u>	<u>Tax Rate</u>
\$ 0 – 50,000	15%
50,001 – 75,000	25%
75,001 – 100,000	34%
100,001 – 335,000	39%

- A. 25.38 percent
- B. 28.43 percent
- C. 30.67 percent
- D. 31.34 percent
- E. 39.00 percent

302. The tax rates are as shown. California Surfin' currently has taxable income of \$86,750. How much additional tax will the firm owe if taxable income increases by \$16,500?

<u>Taxable Income</u>	<u>Tax Rate</u>
\$ 0 – 50,000	15%
50,001 – 75,000	25%
75,001 – 100,000	34%
100,001 – 335,000	39%

- A. \$5,773
- B. \$5,811
- C. \$6,120
- D. \$6,212
- E. \$6,435

303. The Burger Joint paid \$420 in dividends and \$611 in interest expense. The addition to retained earnings is \$397.74 and net new equity is \$750. The tax rate is 34 percent. Sales are \$6,250 and depreciation is \$710. What are the earnings before interest and taxes?

- A. \$1,576.67
- B. \$1,582.16
- C. \$1,660.00
- D. \$1,780.82
- E. \$1,850.00

304. Toby's Pizza has total sales of \$987,611 and costs of \$724,268. Depreciation is \$39,740 and the tax rate is 34 percent. The firm does not have any interest expense. What is the operating cash flow?

- A. \$147,577.98
- B. \$187,317.98
- C. \$191,417.06
- D. \$213,008.14
- E. \$223,603.00

305. At the beginning of the year, a firm has current assets of \$91,807 and current liabilities of \$102,343. At the end of the year, the current assets are \$89,476 and the current liabilities are \$92,638. What is the change in net working capital?

- A. -\$13,698
- B. -\$8,407
- C. \$2,109
- D. \$7,374
- E. \$11,991

306. Hi-Performance Motors has net income of \$62,408. The firm pays out 55 percent of the net income to its shareholders as dividends. During the year, the company sold \$125,000 worth of common stock. What is the cash flow to stockholders?
- A. -\$125,000.00
 - B. -\$90,675.60
 - C. -\$48,246.19
 - D. \$22,309.11
 - E. \$51,368.29
307. The Row Boat Cafe has operating cash flow of \$36,407. Depreciation is \$4,609 and interest paid is \$1,105. A net total of \$3,780 was paid on long-term debt. The firm spent \$18,000 on fixed assets and increased net working capital by \$3,247. What is the amount of the cash flow to stockholders?
- A. \$10,275
 - B. \$12,933
 - C. \$15,160
 - D. \$19,998
 - E. \$20,045
308. The rationale for examining financial statements is to:
- A. Extract key information for future decision making.
 - B. Attain precise and accurate data of the company.
 - C. Consider what went wrong.
 - D. Maintain consistency.
 - E. Determine if they adhere to GAAP.
309. How will differentiating sources and uses of cash from past projects assist the manager in future projects?
- A. Better predicting cash flows.
 - B. Perfectly timing cash flows.
 - C. Determining cash flows with perfect precision.
 - D. Identifying cash flows immediately.
 - E. Estimating stock price.
310. The statement of financial position equation is referred to as:
- A. $\text{Asset} = \text{Liability} + \text{Equity}$.
 - B. $\text{Revenue} - \text{Expense} = \text{Profit}$.
 - C. $\text{Revenues} + \text{Assets} = \text{Net Worth}$.
 - D. $\text{Equity} - \text{Expenses} = \text{Net Worth}$.
 - E. $\text{Equity} + \text{Expenses} = \text{Net Worth}$.
311. The term used for revenues less cost of goods sold and operating expenses is:
- A. Earnings before taxes.
 - B. Net income.
 - C. Taxable income.
 - D. Earnings before interest and taxes.
 - E. Gross profit.
312. Canadian Enterprises had earnings before interest and taxes (EBIT) of \$865, depreciation of \$120 and taxes of \$180. Given this information, calculate OCF.
- A. \$825
 - B. \$815
 - C. \$805
 - D. \$795
 - E. \$765

313. Which of the following equation is correct?
- A. $\text{EBIT} + \text{depreciation} - \text{taxes} = \text{OCF}$
 - B. $\text{Ending net fixed assets} + \text{depreciation} = \text{Net capital spending}$
 - C. $\text{Current assets} - \text{current liabilities} = \text{Change in net working capital}$
 - D. $\text{Operating cash flow} + \text{net capital spending} = \text{Cash flow from assets}$
 - E. $\text{EBIT} - \text{Depreciation} + \text{Taxes} = \text{OCF}$
314. Dale Corporation had beginning fixed assets of \$3,500 an ending fixed asset balance of \$4,800 invested and depreciation expense of \$200. Given this information, determine the net investment in fixed assets.
- A. \$1,200
 - B. \$1,300
 - C. \$1,400
 - D. \$1,500
 - E. \$1,600
315. Janex Corporation had OCF of \$250, net capital spending of \$500 and change in net working capital of \$150. Given this information, determine its cash from assets.
- A. \$400
 - B. \$800
 - C. \$(400)
 - D. \$(800)
 - E. \$150
316. Blaze Corporation had OCF of \$400, change in net working capital of 300 and cash flow from assets of \$320. Given this information, calculate its change in net working capital.
- A. \$(170)
 - B. \$(220)
 - C. \$170
 - D. \$220
 - E. \$150
317. Bassi Corporation had a beginning and ending fixed asset balance of \$400 and \$650 respectively. During the year its net capital spending was \$170. Given this information, determine the company's depreciation expense.
- A. \$80
 - B. \$100
 - C. \$120
 - D. \$140
 - E. \$160
318. Zonex Corporation had an operating cash flow of \$600, change in net working capital of \$120 and cash flow from assets of \$360. In addition, it had depreciation of \$120, and a beginning fixed asset value of \$500. Given this information, calculate the company's ending fixed asset value.
- A. \$400
 - B. \$500
 - C. \$600
 - D. \$700
 - E. \$800
319. Bandal Corporation had operating cash flows of \$400, ending fixed asset value of \$300, change in net working capital of \$80, depreciation of \$80, cash flow from assets of \$130. Given this information, determine the beginning value of fixed assets.
- A. \$220
 - B. \$250
 - C. \$280
 - D. \$300
 - E. \$320

320. In Quebec, Provincial tax rates are 16% on the first \$40,100; 20% on the next \$40,100; and 24% on any income after that. If a Quebec resident had income of \$95,000 then determine the total tax paid.
- A. \$16,228
 - B. \$17,998
 - C. \$18,288
 - D. \$19,398
 - E. \$20,328
321. In Quebec, Provincial tax rates are 16% on the first \$40,100; 20% on the next \$40,100; and 24% on any income after that. If a Quebec resident had income of \$95,000 then determine the average provincial tax rate.
- A. 18.50%
 - B. 18.93%
 - C. 20.50%
 - D. 20.93%
 - E. 21.50%
322. In Quebec, Provincial tax rates are 16% on the first \$40,100; 20% on the next \$40,100; and 24% on any income after that. If a Quebec resident had income of \$95,000 then determine the marginal provincial tax rate.
- A. 22%
 - B. 24%
 - C. 28%
 - D. 30%
 - E. 32%
323. In Quebec, Provincial tax rates are 16% on the first \$40,100; 20% on the next \$40,100; and 24% on any income after that. If a Quebec resident had income of \$102,000, then determine the total tax paid
- A. \$19,220
 - B. \$19,668
 - C. \$20,280
 - D. \$20,930
 - E. \$21,320
324. In Quebec, Provincial tax rates are 16% on the first \$40,100; 20% on the next \$40,100; and 24% on any income after that. If a Quebec resident had income of \$102,000, then determine the average provincial tax rate.
- A. 19.28%
 - B. 20.25%
 - C. 21.28%
 - D. 25.38%
 - E. 25.58%
325. In Quebec, Provincial tax rates are 16% on the first \$40,100; 20% on the next \$40,100; and 24% on any income after that. If a Quebec resident had income of \$102,000, then determine the marginal provincial tax rate.
- A. 24% %
 - B. 25%
 - C. 26%
 - D. 27%
 - E. 28%

326. Anax Corporation purchased a long-term asset for \$100,000. The asset has a 30% CCA rate. At the end of year 5, Anax sold the asset for 25% of its original value. Given this information, determine the value of the terminal loss or recapture at the end of year 5.
- A. Recapture; \$3,391
 - B. Recapture \$4,391
 - C. Recapture \$1,501
 - D. Terminal Loss \$1,501
 - E. Terminal Loss \$4,391
327. Cymex Corporation purchased a long-term asset for \$80,000. The asset has a 20% CCA rate. At the end of year 5, Cymex sold the asset for 25,000. Given this information, determine the value of the terminal loss or recapture at the end of year 5.
- A. Recapture; \$8,601
 - B. Recapture \$4,491
 - C. Recapture \$1,501
 - D. Terminal Loss \$1,501
 - E. Terminal Loss \$4,491
328. What is a liquid asset and why is it necessary for a firm to maintain a reasonable level of liquid assets?
329. Discuss the difference between book values and market values on the statement of financial position and explain which is more important to the financial manager and why.
330. Explain why the statement of comprehensive income is not a good representation of cash flow.
331. Why is interest expense excluded from the operating cash flow calculation?

332. Note that in all of our cash flow computations to determine cash flow from assets, we never include the addition to retained earnings. Why not? Is this an oversight?
333. Explain the effects depreciation has on both the cash flows and the statement of comprehensive incomes of a firm.
334. Discuss the difference between book values and market values on the statement of financial position and explain which is more important to the financial manager and why.
335. Note that we added depreciation back to operating cash flow and to additions to fixed assets. Why add it back twice, isn't this double-counting?
336. Sometimes when businesses are critically delinquent on their tax liabilities, the tax authority comes in and literally seizes the business by chasing all of the employees out of the building and changing the locks. What does this tell you about the importance of taxes relative to our discussion of cash flow? Why might a business owner want to avoid such an occurrence?

337. Interpret, in words, what cash flow from assets represents by discussing operating cash flow, changes in net working capital, and additions to fixed assets.

338. When the half-year rule was introduced, do you think firms looked favourably or unfavourably upon the change?

339. Discuss the differences between net income and cash flow from operations. Which measure is more relevant to a corporate treasurer and why?

340. Explain why cash flow from assets must be positive over the long-term if a firm is to remain financially solvent.

341. How can you determine if a firm is self-sustaining by reviewing the firm's cash flow from assets?

342. Interpret in words, what cash flow from assets represents by discussing operating cash flow, changes in net working capital, and additions to fixed assets.

02 Key

1. Patents on new anti-cholesterol drug are considered intangible fixed assets.

TRUE

*Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #1
Type: Concepts*

2. The financial statement summarizing the value of a firm's equity on a particular date is the statement of comprehensive income.

FALSE

*Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #2
Type: Concepts*

3. According to generally accepted accounting principles (GAAP), assets are generally shown on financial statements at the higher of current market value or historical cost.

FALSE

*Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #3
Type: Concepts*

4. Noncash items refer to expenses charged against revenues that do not directly affect cash flow.

TRUE

*Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #4
Type: Concepts*

5. If a firm's cash flow to stockholders is negative, then total dividends must have exceeded the value of net new equity sold by the firm during the year.

FALSE

*Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #5
Type: Concepts*

6. Conceptually, capital cost allowance (CCA) is equivalent to depreciation

TRUE

*Difficulty: Intermediate
Learning Objective: 02-05 The basics of Capital Cost Allowance (CCA) and Undepreciated Capital Cost (UCC).
Ross - Chapter 02 #6
Type: Concepts*

7. A firm's marginal tax rate may differ from its average tax rate. However, it is the average tax rate that is relevant for financial decision-making purposes.

FALSE

*Difficulty: Basic
Learning Objective: 02-03 How to determine a firm's cash flow from its financial statements.
Ross - Chapter 02 #7
Type: Concepts*

8. The financial statement summarizing a firm's performance over a period of time is the statement of cash flows

FALSE

*Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #8
Type: Concepts*

9. The difference between a firm's current assets and its current liabilities is called net working capital
TRUE

*Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #9
Type: Concepts*

10. Net income divided by the total number of outstanding shares is referred to as the profit margin.
FALSE

*Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #10
Type: Concepts*

11. The financial statement showing a firm's accounting value on a particular date is the:
- A. Statement of comprehensive income.
 - B.** Statement of financial position.
 - C. Statement of cash flows.
 - D. Tax reconciliation statement.
 - E. Shareholders' equity sheet.

*Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #11
Type: Definitions*

12. A current asset is:
- A. An item currently owned by the firm.
 - B. An item that the firm expects to own within the next year.
 - C.** An item currently owned by the firm that will convert to cash within the next 12 months.
 - D. The amount of cash on hand the firm currently shows on its statement of financial position.
 - E. The market value of all the items currently owned by the firm.

*Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #12
Type: Definitions*

13. _____ normally must be paid by a firm within 12 months.
- A. Long-term bank loans
 - B.** Current liabilities
 - C. Bonds
 - D. Marketable securities
 - E. Accounts receivable

*Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #13
Type: Definitions*

14. The long-term debts of a firm are:
- A. Liabilities that come due within the next 12 months.
 - B.** Liabilities that do not come due for at least 12 months.
 - C. Liabilities owed to the firm's suppliers.
 - D. Liabilities owed to the firm's shareholders.
 - E. Liabilities the firm expects to incur within the next 12 months.

*Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #14
Type: Definitions*

15. Net working capital is defined as:
- A. Total liabilities minus shareholders' equity.
 - B. Current liabilities minus shareholders' equity.
 - C. Fixed assets minus shareholders' equity.
 - D. Total assets minus total liabilities.
 - E. Current assets minus current liabilities.**

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #15
Type: Definitions

16. _____ refers to the difference between a firm's current assets and its current liabilities.
- A. Operating cash flow
 - B. Capital spending.
 - C. Net working capital.**
 - D. Cash flow from assets.
 - E. Cash flow to creditors.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #16
Type: Definitions

17. A(n) _____ asset is one which can be quickly converted into cash without significant loss in value.
- A. Current.
 - B. Fixed.
 - C. Intangible.
 - D. Liquid.**
 - E. Long-term.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #17
Type: Definitions

18. Financial leverage refers to:
- A. The proportion of debt used in a firm's capital structure.**
 - B. The ratio of retained earnings to shareholders' equity.
 - C. The ratio of paid-in surplus to shareholders' equity.
 - D. The ratio of cost-of-goods-sold to total sales.
 - E. The amount of receivables present in the firm's asset structure.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #18
Type: Definitions

19. The common set of standards and procedures by which audited financial statements are prepared is known as:
- A. The matching principle.
 - B. The cash flow identity.
 - C. Generally Accepted Accounting Principles (GAAP).**
 - D. The Freedom of Information Act (FOIA).
 - E. The 1993 Omnibus Budget Reconciliation Act.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #19
Type: Definitions

20. The financial statement summarizing a firm's performance over a period of time is the:
- A.** Statement of comprehensive income.
 - B. Statement of financial position.
 - C. Statement of cash flows.
 - D. Tax reconciliation statement.
 - E. Shareholders' equity sheet.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #20
Type: Definitions

21. Earnings per share are equal to:
- A.** Net income divided by the total number of shares outstanding.
 - B. Net income divided by the par value of common stock.
 - C. Gross income multiplied by the par value of common stock.
 - D. Operating income divided by the par value of common stock.
 - E. Net income divided by total stockholders' equity.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #21
Type: Definitions

22. Dividends per share are equal to:
- A. Dividends paid divided by the par value of common stock.
 - B.** Dividends paid divided by the total number of shares outstanding.
 - C. Dividends paid divided by total stockholders' equity.
 - D. Dividends paid multiplied by the par value of common stock.
 - E. Dividends paid multiplied by the total number of shares outstanding.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #22
Type: Definitions

23. Non-cash items are:
- A. The credit sales of a firm.
 - B. The accounts payable of a firm.
 - C. Expenses 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 statement of financial position other than cash on hand.

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #23
Type: Definitions

24. _____ refers to the cash flow that results from the firm's ongoing, normal business activities.
- A.** Operating cash flow.
 - B. Capital spending.
 - C. Net working capital.
 - D. Cash flow from assets.
 - E. Cash flow to creditors.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #24
Type: Definitions

25. _____ refers to the net spending of the firm on fixed asset purchases.
- A. Operating cash flow.
 - B.** Capital spending.
 - C. Net working capital.
 - D. Cash flow from assets.
 - E. Cash flow to creditors.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #25
Type: Definitions

26. _____ refers to the net total cash flow of the firm accruing to its creditors and stockholders.
- A. Operating cash flow.
 - B. Capital spending.
 - C. Net working capital.
 - D.** Cash flow from assets.
 - E. Cash flow to creditors.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #26
Type: Definitions

27. Cash flow from assets is also known as the firm's _____.
- A. Capital structure.
 - B. Equity structure.
 - C. Hidden cash flow.
 - D.** Free cash flow.
 - E. Historical cash flow.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #27
Type: Definitions

28. _____ refers to the firm's interest payments less any net new borrowing.
- A. Operating cash flow.
 - B. Capital spending.
 - C. Net working capital.
 - D. Cash flow from assets.
 - E.** Cash flow to creditors.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #28
Type: Definitions

29. _____ 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 assets.
 - E.** Cash flow to stockholders.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #29
Type: Definitions

30. Your _____ tax rate is the amount of tax payable on the next dollar you earn.
- A. Deductible.
 - B. Residual.
 - C. Total.
 - D. Average.
 - E.** Marginal.

Difficulty: Basic
Learning Objective: 02-03 How to determine a firm's cash flow from its financial statements.
Ross - Chapter 02 #30
Type: Definitions

31. Your _____ tax rate measures the total taxes you pay divided by your taxable income.
- A. Deductible.
 - B. Residual.
 - C. Total.
 - D.** Average.
 - E. Marginal.

Difficulty: Basic
Learning Objective: 02-03 How to determine a firm's cash flow from its financial statements.
Ross - Chapter 02 #31
Type: Definitions

32. The _____ tax rate is the rate that applies if one more dollar of income is earned and the _____ tax rate is the total tax bill divided by taxable income.
- A. Marginal; flat
 - B. Marginal; average**
 - C. Flat; marginal
 - D. Flat; average
 - E. Average; marginal

Difficulty: Basic
Learning Objective: 02-03 How to determine a firm's cash flow from its financial statements.
Ross - Chapter 02 #32
Type: Definitions

33. A current asset:
- A. Has a life of less than one year.**
 - B. Includes accounts payable.
 - C. Is an illiquid asset.
 - D. Is included in the statement of comprehensive income.
 - E. Is part of shareholders' equity.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #33
Type: Definitions

34. Current assets minus current liabilities are referred to as:
- A. Tangible assets.
 - B. Net working capital.**
 - C. Net income.
 - D. Net assets.
 - E. Net book value.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #34
Type: Definitions

35. The statement of financial position:
- A. Reflects the income and expenses incurred year-to-date.
 - B. Reflects the income and expenses for the current month only.
 - C. Reflects the financial status of the firm as of a particular date.**
 - D. Reflects the cash flows of a firm over a period of time.
 - E. Reflects the current market value of the firm.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #35
Type: Definitions

36. Which of the following statements is true?
- A. Liabilities equal assets plus shareholders' equity.
 - B. Shareholders' equity equals assets plus liabilities.
 - C. Shareholders' equity equals liabilities minus assets.
 - D. Assets equal liabilities plus shareholders' equity.**
 - E. Assets equal liabilities minus shareholders' equity.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #36
Type: Definitions

37. Which one of the following is an example of an intangible asset?
- A. Accounts receivable.
 - B. Inventory.
 - C. Accounts payable.
 - D. Furniture.
 - E. Patent.**

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #37
Type: Definitions

38. The ease and speed with which an asset can be converted into cash is called:
A. Liquidity.
B. Marketability.
C. Convertibility.
D. Transferability.
E. Liability.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #38
Type: Definitions

39. The cost of an asset less the depreciation to date is referred to as the net _____ value.
A. Liquid.
B. Book.
C. Market.
D. Cash.
E. Financial.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #39
Type: Definitions

40. Which one of the following is a non-cash item?
A. Down payment on a building.
B. Rent expense.
C. Depreciation of equipment.
D. Payroll tax expense.
E. Company provided health insurance.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #40
Type: Definitions

41. The cash generated from a firm's normal business activities is called:
A. Financing cash flow.
B. Net income.
C. Gross profit.
D. Operating cash flow.
E. Free cash flow.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #41
Type: Definitions

42. The use of debt in a firm's capital structure is called:
A. Liquidity.
B. Equity financing.
C. Free cash flow.
D. Net working capital.
E. Financial leverage.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #42
Type: Definitions

43. Value derived by subtracting current liabilities from current assets is called:
A. Operating cash flow.
B. Net capital spending.
C. Net working capital.
D. The liquid asset value.
E. Cash flow from assets.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #43
Type: Definitions

44. A liquid asset is defined as an asset which:
- A. Has a physical presence and can be touched.
 - B.** Can be quickly converted into cash without significant loss in value.
 - C. A firm expects to own for a period of ten years or more.
 - D. Has no physical presence, such as a patent.
 - E. A firm purchased with cash within the last year.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #44
Type: Definitions

45. Operating cash flow is defined as the cash flow:
- A. Which is distributed to the shareholders in the form of dividends.
 - B. Which a firm uses to increase its current accounts.
 - C. From debt issued by a firm to finance its ongoing operations.
 - D. Used by a firm to acquire new fixed assets.
 - E.** That results from a firm's ongoing, daily business activities.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #45
Type: Definitions

46. Cash flow from assets:
- A.** Is defined as the cash available for distribution to creditors and stockholders.
 - B. Is defined as the change in net fixed assets plus depreciation.
 - C. Refers to the change in a firm's cash account over a stated period of time.
 - D. Is defined as the net change in the total assets of a firm over a stated period of time.
 - E. Is another term for the net cash flow from a firm's ongoing, normal business activities.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #46
Type: Definitions

47. Free cash flow is commonly referred to as a firm's:
- A. Cash flow to stockholders.
 - B.** Cash flow from assets.
 - C. Cash flow to creditors.
 - D. Net working capital.
 - E. Liquid capital.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #47
Type: Definitions

48. Which one of the following is a tangible asset of a restaurant?
- A.** Baking oven.
 - B. Goodwill.
 - C. Copyrighted cook book.
 - D. Patent on a mixing machine.
 - E. Old family recipe.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #48
Type: Definitions

49. Which one of the following is a current asset?
- A. Office desk.
 - B. Account payable.
 - C.** Staples held for resale.
 - D. Company-owned truck.
 - E. Welding machine.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #49
Type: Definitions

50. Liquid assets:
- A. Are defined as current assets minus current liabilities.
 - B. Are defined as inventory and equipment.
 - C.** Tend to earn a low rate of return.
 - D. Include any asset which can be sold within one year.
 - E. Is another term for current assets.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #50
Type: Definitions

51. Which one of the following is a noncash item?
- A. Interest expense.
 - B. Taxes.
 - C. Dividends.
 - D.** Depreciation.
 - E. Payroll expense.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #51
Type: Definitions

52. The marginal tax rate can be explained as the amount of tax due:
- A. Per dollar of taxable income earned.
 - B.** On an additional dollar of taxable income.
 - C. Per share of stock outstanding.
 - D. In excess of the tax liability for the prior tax year.
 - E. As a percentage of the firm's sales for any given tax year.

Difficulty: Basic
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #52
Type: Definitions

53. The statement of financial position identity states that:
- A. Current assets + Fixed assets = Total assets
 - B.** Assets = Liabilities + Shareholders' equity
 - C. Current liabilities + Long-term debt = Total liabilities
 - D. Common stock + Retained earnings = Shareholders' equity
 - E. Cash flow = Market value - Book value

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #53
Type: Concepts

54. Statement of financial position assets _____.

- I. Are always equal to total liabilities minus shareholders' equity.
 - II. Represent items acquired with the use of the firm's assumed liabilities and equity.
 - III. Are listed in order of increasing liquidity.
- A. I only
 - B.** II only
 - C. III only
 - D. I and III only
 - E. II and III only

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #54
Type: Concepts

55. Assets are listed on the statement of financial position in:
- A. Order of importance to the firm.
 - B. Order of increasing size.
 - C.** Order of decreasing liquidity.
 - D. No particular order.
 - E. Order of preference in bankruptcy.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #55
Type: Concepts

56. Which of the following is NOT typically characterized as a current asset?
- A. Inventory.
 - B. Cash on hand.
 - C.** Patents.
 - D. Accounts receivable.
 - E. Marketable securities.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #56
Type: Concepts

57. Intangible assets _____.
- A. Are generally considered very liquid.
 - B. Are classified on the statement of financial position just before accounts receivable.
 - C.** Include such things as patents.
 - D. Include any item that exists physically.
 - E. Are generally very valuable.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #57
Type: Concepts

58. A firm with negative net working capital _____.
- A. Is technically bankrupt.
 - B. Has no cash on hand.
 - C. Needs to sell some of its inventory to correct the problem.
 - D.** Has more current liabilities than current assets.
 - E. Most likely will not run short of cash over the next six months.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #58
Type: Concepts

59. Accounts payable are a component of:
- A.** Net working capital.
 - B. Current assets.
 - C. Long-term debt.
 - D. Fixed assets.
 - E. Shareholders' equity.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #59
Type: Concepts

60. Which of the following assets would most likely be considered the least liquid?
- A. A share of common stock in Nortel.
 - B. A bond issued by Corel.
 - C. A share of preferred stock in GM of Canada.
 - D.** A Lethbridge, Alberta municipal bond.
 - E. A Canadian Treasury bill.

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #60
Type: Concepts

61. Which of the following financial statement items is generally considered the most liquid?
- A. Inventory.
 - B. Net fixed assets.
 - C. Long-term debt.
 - D. Patents and trademarks.
 - E. Accounts receivable.**

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #61
Type: Concepts

62. Which of the following assets is generally considered to be the least liquid?
- A. Plant and equipment.
 - B. Inventory.
 - C. Goodwill.**
 - D. Cash.
 - E. Accounts receivable.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #62
Type: Concepts

63. Which of the following is generally true regarding liquidity as it relates to the firm?
- A. Liquidity is detrimental to a firm because it allows the firm to pay its bills more easily, thereby avoiding financial distress.
 - B. Liquidity is valuable to a firm because liquid assets can be sold quickly without much loss in value.**
 - C. Liquidity is valuable to a firm because a firm can borrow money using its liquid assets, such as a warehouse, as collateral.
 - D. Assets are generally listed on a firm's statement of financial position in the order of increasing liquidity.
 - E. Liquid assets generally earn a large return, especially in comparison to illiquid assets.

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #63
Type: Concepts

64. Which of the following are characteristics of a liquid asset?
- I. Can be converted into cash quickly.
 - II. Can be converted into cash with little or no loss in value.
 - III. Generally earn low returns.
- A. I and II only
 - B. II and III only
 - C. III only
 - D. I and III only
 - E. I, II, and III**

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #64
Type: Concepts

65. Which of the following statements about liquidity is true?
- A. If a firm has a high degree of liquidity, it also faces a high degree of financial distress.
 - B. At times, too little liquidity can result in lower profits for a firm since there is often a trade-off between liquidity and profitability.
 - C. You can get an accurate picture of the liquidity of a firm by looking at its current assets.
 - D. Accounts receivable are generally considered to be more liquid than inventory.**
 - E. An asset is liquid if it can be sold quickly regardless of price.

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #65
Type: Concepts

66. An increase in the financial leverage of a firm as a result of an increase in outstanding debt _____ the potential reward to stockholders while _____ the risk of financial distress or bankruptcy.
- A. Decreases; decreasing
 - B. Increases; decreasing
 - C. Increases; increasing**
 - D. Decreases; increasing
 - E. Does not affect; increasing

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #66
Type: Concepts

67. Which of the following would decrease the financial leverage of a firm?
- A. Total assets increase and the debt-to-equity ratio remains constant.
 - B. Total debt increases and total assets remain constant.
 - C. Net new equity is sold and existing bonds are paid off.**
 - D. Net new bonds are sold and outstanding common stock is repurchased.
 - E. Net new bonds are sold and short-term notes payable are paid off.

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #67
Type: Concepts

68. Which of the following accurately describes the relation between book and market value?
- A Financial managers should rely on book values, and not market values, when making decisions for the firm, because the firm's tax liability is based on book values.
 - B Financial managers should rely on market values, and not book values, when making decisions for the firm, because the firm's tax liability is based on market values.
 - C Book value is an accounting summary of value and is inferior to market value as a source of current information regarding the true value of the firm.**
 - D The market value of current assets is often difficult to determine, and thus of little value to the decision making process of financial managers.
 - E. Market value always exceeds book value.

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #68
Type: Concepts

69. As an investor, how would you determine the total market value of a publicly traded corporation such as Research In Motion?
- I. The values of debt and equity as they appear on the most recent financial statements
 - II. The value of debt as it appears on the most recent financial statements plus the current market value of RIM's common stock
 - III. The current market value of RIM's stock plus the market value of RIM's debt
- A. I only
 - B. II only
 - C. III only**
 - D. I and II only
 - E. II and III only

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #69
Type: Concepts

70. Under GAAP, statement of financial position, assets are _____.
- A.** Carried on the books at historic cost.
 - B. Only carried on the books if they are relatively liquid.
 - C. Carried on the books at market value.
 - D. Listed in order of increasing relative liquidity.
 - E. Carried at the larger of historic cost and market value.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #70
Type: Concepts

71. For which of the following statement of financial position items will the book value and market value most likely be closest at the time the statement of financial position is prepared?
- A. Net fixed assets.
 - B. Common stock.
 - C.** Accounts receivable.
 - D. Long-term debt.
 - E. Retained earnings.

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #71
Type: Concepts

72. Which of the following is/are true regarding the statement of financial position and statement of comprehensive income?
- I. The statement of comprehensive income reflects a summary of activity that occurs over some period of time while the statement of financial position is a snapshot taken at a single point in time.
 - II. Both represent a summary of activity that occurs over some time period.
 - III. The two statements, taken together, give an accurate estimate of the firm's cash flows and market value.
- A.** I only
 - B. II only
 - C. III only
 - D. I and III only
 - E. II and III only

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #72
Type: Concepts

73. A statement of comprehensive income _____.
- A. Measures performance as a snapshot on a specific date.
 - B.** Prepared according to GAAP will show revenue when it accrues.
 - C. Excludes accrued taxes payable.
 - D. Includes expenses only when they are ultimately paid off in cash.
 - E. Is an accurate representation of a firm's net cash flows.

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #73
Type: Concepts

74. Which of the following is a true statement?
- A. Accounting income is generally equal to firm cash flow.
 - B.** Accounting statements are usually prepared to match the timing of income and expenses.
 - C. The statement of financial position equity account represents the market value of the firm to shareholders.
 - D. The statement of financial position tells investors exactly what the firm is worth.
 - E. Assets are usually listed on the statement of financial position at market value.

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #74
Type: Concepts

75. Which of the following represents a use of the matching principle in accounting?
- I. The cost of purchasing an item on account is recorded when the payable is paid.
 - II. Revenues from a credit sale are recorded when the receivable is received.
 - III. The production costs of inventory are recorded along with the revenue from the sale on the date the sale is made.
- A. I only
 - B. II only
 - C. III only**
 - D. I and III only
 - E. II and III only

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #75
Type: Concepts

76. On January 1, 2009 Slowpay Company makes a verbal commitment to buy a \$150,000 piece of equipment. (On January 5 the contract is signed.) A \$1,000 down payment is paid on January 5 and the machine is delivered on January 11. The balance owed is due on February 15, but Slowpay waits until March 10 to pay. When will the firm that sold the equipment to Slowpay recognize the sale as income under GAAP rules?
- A. On January 1, when the commitment is made.
 - B. On January 5, when the contract is signed.**
 - C. On January 10, when Slowpay takes possession.
 - D. On February 15, when the payment is due.
 - E. On March 10, when payment is received.

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #76
Type: Concepts

77. Which of the following statement of comprehensive income accounts is a non-cash item?
- A. Wages and salaries.
 - B. Interest expense.
 - C. Cost of goods sold.
 - D. Depreciation.**
 - E. Income taxes.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #77
Type: Concepts

78. Which of the following is probably considered a fixed cost, at least in the short run?
- A. The cost of raw materials.
 - B. The cost of direct labour expenses.
 - C. The company president's salary.**
 - D. The cost of utilities.
 - E. The commissions paid to the sales force.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #78
Type: Concepts

79. Cash flow from assets is equal to which of the following?
- A. Cash flow to creditors - cash flow to shareholders
 - B. Cash flow to shareholders + cash flow to creditors**
 - C. Cash flow to creditors + cash flow to the government
 - D. Cash flow to shareholders - net new borrowing
 - E. Cash flow to shareholders + operating cash flow

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #79
Type: Concepts

80. Which of the following is NOT a component of cash flow from assets?

- I. Net new borrowings.
- II. Operating cash flow.
- III. Additions to net working capital.
- A.** I only
- B. II only
- C. II and III only
- D. I and III only
- E. III only

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #80
Type: Concepts

81. Suppose you have the 2009 statement of comprehensive income for a firm, along with the 12/31/2008 and 12/31/2009 statement of financial positions. How would you calculate net capital spending?

- A.** Ending net fixed assets (2009) minus beginning net fixed assets (2008) plus 2009 depreciation
- B. Beginning net fixed assets (2008) minus ending net fixed assets (2009) plus 2009 depreciation
- C. Beginning net fixed assets (2008) plus ending net fixed assets (2009) minus 2009 depreciation
- D. Ending net fixed assets (2009) minus beginning net fixed assets (2008) plus 2009 taxes paid
- E. Ending net fixed assets (2009) plus beginning net fixed assets (2008) minus 2009 taxes paid

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #81
Type: Concepts

82. Net capital spending is equal to _____.

- A. The change in net working capital.
- B. The change in net fixed assets minus depreciation.
- C. Net income plus depreciation.
- D. Total cash flow to stockholders' less interest and dividends paid.
- E.** Operating cash flow minus cash flow from assets minus additions to net working capital.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #82
Type: Concepts

83. An increase in which of the following will result in an increase in operating cash flow, all else equal?

- I. Interest expense.
- II. Depreciation.
- III. Taxes.
- A. II only
- B. III only
- C.** I and II only
- D. II and III only
- E. I, II, and III

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #83
Type: Concepts

84. An increase in which of the following will cause operating cash flow to decrease, all else the same?

- I. Interest expense.
- II. Depreciation.
- III. Taxes paid.
- A. I and II only
- B. II and III only
- C. I only
- D. II only
- E. III only**

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #84
Type: Concepts

85. Suppose you have the beginning and ending year statement of financial positions of Samco, a steel company based in Hamilton, along with the year's statement of comprehensive income. Changes in net working capital (NWC) would be calculated as:

- A. Ending NWC plus depreciation minus beginning NWC.
- B. Ending NWC minus depreciation minus beginning NWC.
- C. Ending NWC plus taxes paid plus beginning NWC.
- D. Ending NWC minus beginning NWC.**
- E. Ending NWC plus beginning NWC.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #85
Type: Concepts

86. Which of the following does NOT directly appear in either of the two definitions of cash flow from assets?

- A. Addition to retained earnings.**
- B. Net capital spending.
- C. Changes in net working capital.
- D. Operating cash flow.
- E. Cash flow to stockholders.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #86
Type: Concepts

87. If operating cash flow is negative, then _____.

- A. The firm is bankrupt.
- B. The firm can pay no dividends.
- C. Cash flow to bondholders must be negative.
- D. Cash flow to stockholders must be positive.
- E. Cash flow from assets may be positive.**

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #87
Type: Concepts

88. In 2009, Sensicon Company, based in Toronto, experienced negative cash flow from assets. It must be the case that:

- A. The company is in financial distress.
- B. Cash flow to creditors and cash flow to shareholders are both negative.
- C. Sensicon's interest payments were greater than its dividend payments.
- D. Sensicon's dividend payments were greater than its interest payments.
- E. Operating cash flow was less than the combination of additions to net working capital and net new capital expenditures.**

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #88
Type: Concepts

89. What is the proper measure of cash flow to creditors in a given year?
- A. Interest paid.
 - B. Operating cash flow minus net new borrowing.
 - C. Interest paid plus changes in long-term debt.
 - D. Interest paid plus net new borrowing minus additions to net fixed assets.
 - E. Interest paid minus net new borrowing.**

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #89
Type: Concepts

90. Which of the following is a component of cash flow to creditors?
- I. Interest paid.
 - II. Net new borrowing.
 - III. Dividends paid.
- A. I only
 - B. II only
 - C. I and II only**
 - D. I and III only
 - E. II and III only

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #90
Type: Concepts

91. The net new equity raised by a firm during a given year can be calculated as:
- A. New equity sales minus equity repurchases plus retained earnings.
 - B. New equity sales minus equity repurchases plus retained earnings minus dividends paid.
 - C. New equity sales minus equity repurchases.**
 - D. New equity sales plus retained earnings.
 - E. New equity sales minus dividends paid.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #91
Type: Concepts

92. Net new equity is equal to _____.
- A. The dollar value of equity sales minus any equity repurchases.**
 - B. The dollar value of equity sales plus retained earnings.
 - C. The dollar value of equity sales plus retained earnings minus dividends paid.
 - D. The dollar value of equity sales plus retained earnings plus dividends paid.
 - E. The dollar value of equity sales plus dividends paid.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #92
Type: Concepts

93. XYZ Company had a net income of \$40 million in 2009. The firm paid no dividends. If there were no further changes to the stockholders' equity accounts, then _____ by \$40 million.
- A. Common stock must have increased.
 - B. Retained earnings must have increased.**
 - C. Total shareholders' equity must have decreased.
 - D. Common stock must have decreased.
 - E. The market value of the firm's stock must have decreased.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #93
Type: Concepts

94. Cash flow to stockholders is equal to _____.
- A. Net income.
 - B. Dividends paid.
 - C. Net new equity.
 - D.** dividends paid minus net new equity.
 - E. dividends paid minus interest paid.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #94
Type: Concepts

95. Which of the following is a component of cash flow to stockholders?
- I. Net new equity raised.
 - II. New common stock sold.
 - III. Dividends paid.
- A. I only
 - B. I and III only
 - C. II and III only
 - D. I and II only
 - E.** I, II, and III

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #95
Type: Concepts

96. Cash flow to stockholders is:
- A.** equal to total cash flow from assets minus cash flow to creditors.
 - B. equal to sales of equity plus cash dividends paid.
 - C. equal to operating cash flow minus additions to net working capital minus net capital spending.
 - D. equal to cash dividends minus repurchases of equity plus new equity sold.
 - E. usually greater than cash flow to creditors.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #96
Type: Concepts

97. Which of the following statements is false?
- A.** While marginal and average tax rates often differ, it is the average tax rate that is relevant for most financial decisions.
 - B. The book value of an asset on the statement of financial position can be very different from its market value.
 - C. Net income as calculated from the statement of comprehensive income is not the net cash flow of the firm.
 - D. Non-cash items are expenses charged against revenues that do not directly affect cash flow.
 - E. The cash flow identity states that all net cash flows earned by the firm are distributed in whole to its creditors and shareholders.

Difficulty: Basic
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #97
Type: Concepts

98. When evaluating project cash flows in a financial decision, _____.
- A. Taxes can generally be ignored since they are a non-cash expense.
 - B.** The financial manager should compute and use the marginal tax rate.
 - C. The marginal tax rate and average tax rate are of equal importance.
 - D. The financial manager should use the tax rate that is equal to the total tax liability divided by total taxable income.
 - E. Taxes are irrelevant unless income for the firm is greater than zero.

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #98
Type: Concepts

99. Suppose a firm has a negative UCC balance. They:
- A. Can claim the amount as a tax deductible expense.
 - B.** Must add the amount (as a positive number) to their taxable income.
 - C. Should sell off all items in the asset pool.
 - D. Can calculate CCA for the year using the negative balance.
 - E. Should use the negative amount as a future tax loss.

Difficulty: Intermediate
Learning Objective: 02-05 The basics of Capital Cost Allowance (CCA) and Undepreciated Capital Cost (UCC).
Ross - Chapter 02 #99
Type: Concepts

100. Cash flow from assets represents the cash:
- A. Generated solely from a firm's daily sales.
 - B. Generated solely from the sale of company assets.
 - C. Currently held in the bank.
 - D. Available to pay for current asset purchases.
 - E.** Available to distribute to creditors and stockholders.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #100
Type: Concepts

101. If the market value of an asset exceeds the book value of that asset, then the sale of the asset will:
- A.** Generate taxable income.
 - B. Result in a capital loss.
 - C. Cause a cash outflow for the firm.
 - D. Cause net profits to decline.
 - E. Cause operating cash flows to decrease.

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #101
Type: Concepts

102. Which one of the following will decrease net working capital?
- A. An increase in accounts receivable.
 - B.** An increase in accounts payable.
 - C. A sale of a fixed asset for cash.
 - D. A sale of inventory at a profit.
 - E. A decrease in accounts payable.

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #102
Type: Concepts

103. Which one of the following will increase net working capital?
- A. A decrease in cash.
 - B. An increase in accounts payable.
 - C. An increase in depreciation.
 - D.** A profitable sale of inventory.
 - E. The write-off of a bad debt.

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #103
Type: Concepts

104. Which one of the following will increase shareholders' equity, all else held constant?
- A. A purchase of equipment on account.
 - B. The collection of an accounts receivable.
 - C.** A sale of inventory at a profit.
 - D. A payment on a loan.
 - E. The declaration of a stock dividend.

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #104
Type: Concepts

105. Which of the following statements concerning a statement of financial position is (are) correct?

- I. Assets equal liabilities minus shareholders' equity.
 - II. Current assets can be converted into cash within twelve months.
 - III. A patent is an example of an intangible asset.
 - IV. Retained earnings is classified as long-term debt.
- A. I and II only
 - B. I and III only
 - C. II and III only**
 - D. II and IV only
 - E. III and IV only

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #105
Type: Concepts

106. Which one of the following assets is generally considered the most liquid?

- A. Equipment.
- B. Inventory.
- C. Building.
- D. Accounts receivable.**
- E. Land.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #106
Type: Concepts

107. Which one of the following will cause net income to decrease for the following year?

- A. The accumulation of more long-term debt by a firm.**
- B. An increase in the amount of dividends paid per share.
- C. A reduction in tax rates.
- D. An increase in profit margins.
- E. A reduction in depreciation expense.

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #107
Type: Concepts

108. Net income is allocated to which two items?

- A. Shareholders' equity and cash.
- B. Common stock and dividends.
- C. Taxes and dividends.
- D. Paid-in surplus and cash.
- E. Retained earnings and dividends.**

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #108
Type: Concepts

109. Which one of the following will increase earnings per share, all else held constant?

- A. A decrease in the number of shares outstanding**
- B. An increase in wages paid to employees.
- C. A decrease in sales of the firm.
- D. An increase in marginal tax rates.
- E. An increase in depreciation expense.

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #109
Type: Concepts

110. A firm has a calendar tax year. On January 10, the firm purchased depreciable equipment for cash. This purchase will create:
- A. A current cash outflow and an equal decrease in current net income.
 - B.** A current cash outflow and a lesser decrease in current net income.
 - C. A decrease in net income by an amount equal to the decrease in net assets.
 - D. No change in net income for the current year.
 - E. An increase in the total taxes of the firm over a period of years.

Difficulty: Challenge
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #110
Type: Concepts

111. Which of the following are included in cash flow from assets?
- I. The payment of a dividend
 - II. A payment of a bill from a supplier
 - III. The payment of taxes
 - IV. Receipt of a payment from a customer
- A. I and II only
 - B. I and III only
 - C. II and IV only
 - D. I, II, and III only
 - E.** II, III, and IV only

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #111
Type: Concepts

112. Which of the following will increase the amount of the cash flow to creditors?
- A. A new long-term loan
 - B. The early payment of an account payable
 - C.** An early payoff of a long-term loan
 - D. A decrease in the rate of interest charged on a loan
 - E. The payment of a cash dividend

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #112
Type: Concepts

113. Which one of the following situations will cause cash flow to creditors to be negative?
- A. When there are no new loans and the interest paid exceeds the principal repaid on a loan
 - B.** When the amount of a new loan exceeds both the interest and principal payments made
 - C. When the amount of the loan paid off exceeds both the amount of a new loan plus the interest paid
 - D. When the rate of interest on all outstanding loans is decreased
 - E. When there are no new loans and the current loan is paid off in full

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #113
Type: Concepts

114. Net income differs from operating cash flow due to the handling of:
- A. Dividends and interest expense.
 - B.** Interest expense and depreciation.
 - C. Depreciation and dividends.
 - D. Dividends, interest expense, and depreciation.
 - E. Dividends.

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #114
Type: Concepts

115. Operating cash flow is equal to earnings before interest and taxes:
- A. Minus depreciation minus taxes.
 - B. Minus depreciation plus taxes.
 - C. Minus interest plus taxes.
 - D.** Plus depreciation minus taxes.
 - E. Plus interest minus taxes.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #115
Type: Concepts

116. The repurchase of outstanding stock by a corporation causes _____ for the firm, all else constant.
- A. An immediate cash inflow
 - B. A decrease in the cash flow to stockholders
 - C. A decrease in both earnings per share and dividends per share
 - D. A decrease in dividends per share
 - E.** Both a cash outflow and an increase in earnings per share

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #116
Type: Concepts

117. Cash flow to stockholders is computed as:
- A. Interest paid minus net new debt.
 - B. Dividends paid minus net new debt.
 - C. Dividends paid plus net new equity.
 - D.** Cash flow from assets minus cash flow to creditors.
 - E. Cash flow to creditors minus cash flow from assets.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #117
Type: Concepts

118. Which one of the following will cause cash flow to stockholders to increase, all else constant?
- A. A secondary common stock offering
 - B. A decrease in dividends per share
 - C. An increase in cash flow to creditors given no change in cash flow from assets
 - D. A decrease in cash flow from assets given no change in cash flow to creditors
 - E.** A decrease in cash flow to creditors given an increase in cash flow from assets

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #118
Type: Concepts

119. A negative cash flow to stockholders means:
- A. Cash flow from assets must also be negative.
 - B. Cash flow to creditors must also be negative.
 - C. The firm repurchased a significant number of outstanding shares.
 - D.** Stockholders were a source of cash for the period.
 - E. The firm is bankrupt.

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #119
Type: Concepts

120. Which of the following will increase cash flow from assets?
- I. The sale of inventory at cost
 - II. The sale of machinery and equipment at book value
 - III. The purchase of inventory on credit
 - IV. An increase in accounts receivable due to a profitable sale
- A. I only
 - B. III only
 - C. IV only**
 - D. I and II only
 - E. III and IV only

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #120
Type: Concepts

121. Which of the following accounts is (are) included in cash flow from assets?
- I. Rent expense
 - II. Interest expense
 - III. Accounts receivable
 - IV. Equipment
- A. I and II only
 - B. III and IV only
 - C. I, II, and III only
 - D. I, III, and IV only**
 - E. I, II, III, and IV

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #121
Type: Concepts

122. Mylex has current assets of \$95, net fixed assets of \$250, long-term debt of \$40, and owners' equity of \$200, what is the value of current liabilities if that is the only other item on the statement of financial position?
- A. -\$50
 - B. \$50
 - C. \$105**
 - D. \$145
 - E. \$545

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #122
Type: Problems

123. A computer used in a business office by the office manager is classified as:
- A. a current asset.
 - B. an intangible asset.
 - C. net working capital.
 - D. a tangible asset.**
 - E. an inventory item.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #123
Type: Concepts

124. Which of the following are included in current assets?

- I. equipment
- II. Inventory
- III. accounts payable
- IV. cash
- A.** II and IV only
- B. I and III only
- C. I, II, and IV only
- D. III and IV only
- E. II, III, and IV only

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #124
Type: Concepts

125. Which of the following are included in current liabilities?

- I. note payable to a supplier in eighteen months
- II. debt payable to a mortgage company in nine months
- III. accounts payable to suppliers
- IV. loan payable to the bank in fourteen months
- A. I and III only
- B.** II and III only
- C. III and IV only
- D. II, III, and IV only
- E. I, II, and III only

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #125
Type: Concepts

126. Which one of the following statements concerning net working capital is correct?

- A. Net working capital is negative when current assets exceed current liabilities.
- B. Net working capital includes cash, accounts receivables, fixed assets, and accounts payable.
- C.** Inventory is a part of net working capital.
- D. The change in net working capital is equal to the beginning net working capital minus the ending net working capital.
- E. Net working capital includes accounts from the statement of comprehensive income.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #126
Type: Concepts

127. Which one of the following statements concerning net working capital is correct?

- A.** The greater the net working capital, the greater the ability of a firm to meet its short-term obligations.
- B. The change in net working capital is equal to current assets minus current liabilities.
- C. Depreciation must be added back to current assets when computing the change in net working capital.
- D. Net working capital is equal to long-term assets minus long-term liabilities.
- E. Net working capital is a part of the operating cash flow.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #127
Type: Concepts

128. An increase in total assets:
- A. means that net working capital is also increasing.
 - B. requires an investment in fixed assets.
 - C. means that shareholders' equity must also increase.
 - D.** must be offset by an equal increase in liabilities and shareholders' equity.
 - E. can only occur when a firm has positive net income.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #128
Type: Concepts

129. Which one of the following statements concerning liquidity is correct?
- A. If you can sell an asset today, it is a liquid asset.
 - B. If you can sell an asset next year at a price equal to its actual value, the asset is highly liquid.
 - C. Trademarks and patents are highly liquid.
 - D. The less liquidity a firm has, the lower the probability the firm will encounter financial difficulties.
 - E.** Statement of financial position accounts are listed in order of decreasing liquidity.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #129
Type: Concepts

130. Liquidity is:
- A. a measure of the use of debt in a firm's capital structure.
 - B. equal to current assets minus current liabilities.
 - C. equal to the market value of a firm's total assets minus its current liabilities.
 - D.** valuable to a firm even though liquid assets tend to be less profitable to own.
 - E. generally associated with intangible assets.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #130
Type: Concepts

131. Shareholders' equity:
- A. includes common stock, paid in surplus, retained earnings, and long-term debt.
 - B. on a statement of financial position is equivalent to the market value of the outstanding shares of stock.
 - C.** includes all of a firm's earnings retained by the firm to date.
 - D. increases, all else equal, when the dividends paid are greater than the net income for a year.
 - E. includes the book value of any bonds issued by the firm.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #131
Type: Concepts

132. Book value:
- A. is equivalent to market value for firms with fixed assets.
 - B.** is based on historical cost.
 - C. generally tends to exceed market value when fixed assets are included.
 - D. is more of a financial than an accounting valuation.
 - E. is adjusted to market value whenever the market value exceeds the stated book value.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #132
Type: Concepts

133. 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 statement of financial position.
 - D. place primary emphasis on historical costs.
 - E. only consider market values if they are less than book values.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #133
Type: Concepts

134. As seen on a statement of comprehensive income:
- A. interest is deducted from income and increases the total taxes incurred.
 - B. the tax rate is applied to the earnings before interest and taxes when the firm has both depreciation and interest expenses.
 - C. depreciation is shown as an expense but does not affect the taxes payable.
 - D.** depreciation reduces both the taxable income and the net income.
 - E. interest expense is added to earnings before interest and taxes to get taxable income.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #134
Type: Concepts

135. The earnings per share will:
- A.** increase as net income increases.
 - B. increase as the number of shares outstanding increase.
 - C. decrease as the total revenue of the firm increases.
 - D. increase as the tax rate increases.
 - E. decrease as the costs decrease.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #135
Type: Concepts

136. Dividends per share:
- A. increase as the net income increases as long as the number of shares outstanding remains constant.
 - B. decrease as the number of shares outstanding decrease, all else constant.
 - C. are inversely related to the earnings per share.
 - D. are based upon the dividend requirements established by Generally Accepted Accounting Procedures.
 - E.** are equal to the amount of net income distributed to shareholders divided by the number of shares outstanding.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #136
Type: Concepts

137. According to Generally Accepted Accounting Principles, costs are:
- A. recorded as incurred.
 - B. recorded when paid.
 - C.** matched with revenues.
 - D. matched with production levels.
 - E. expensed as management desires.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #137
Type: Concepts

138. Depreciation:
- A.** is a noncash expense that is recorded on the statement of comprehensive income.
 - B. increases the net fixed assets as shown on the statement of financial position.
 - C. reduces both the net fixed assets and the costs of a firm.
 - D. is a noncash expense which increases the net operating income.
 - E. decreases net fixed assets, net income, and operating cash flows.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #138
Type: Concepts

139. Fixed costs in the short-run generally include which of the following?

- I. manufacturing wages
- II. cost of materials used in production
- III. property insurance
- IV. contractually determined management salaries
- A. I and II only
- B. II and III only
- C. III and IV only**
- D. I and IV only
- E. II and IV only

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #139
Type: Concepts

140. When you are making a financial decision, the most relevant tax rate is the _____ rate.

- A. average
- B. fixed
- C. marginal**
- D. total
- E. variable

Difficulty: Basic
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #140
Type: Concepts

141. The cash flow from assets is equal to:

- A. operating cash flow minus the change in net working capital plus net capital spending.
- B. cash flow to creditors minus the cash flow to shareholders.
- C. earnings before interest and taxes plus depreciation plus taxes.
- D. earnings before interest and taxes plus depreciation plus taxes minus net capital spending minus the change in net working capital.
- E. earnings before interest and taxes plus depreciation minus taxes minus net capital spending minus the change in net working capital.**

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #141
Type: Concepts

142. An increase in which one of the following will cause the cash flow from assets to increase?

- A. depreciation**
- B. change in net working capital
- C. net working capital
- D. taxes
- E. costs

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #142
Type: Concepts

143. Cash flow from assets must be negative when:

- A. the firm has a taxable loss for the year.
- B. the cash flow from creditors and the cash flow from stockholders are both negative.**
- C. the cash flow from creditors is negative and the cash flow from stockholders is positive.
- D. the change in net working capital exceeds the net capital spending.
- E. operating cash flow is less than the change in net working capital.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #143
Type: Concepts

144. Assume a firm has depreciation, taxes, and interest expense. In this case, operating cash flow:
- A. is the same as net income.
 - B. is the same as net income plus depreciation.
 - C. must be positive because depreciation is added to the taxable income.
 - D.** can be positive, negative, or equal to zero.
 - E. is equal to the cash flow to creditors.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #144
Type: Concepts

145. A firm starts its year with a positive net working capital. During the year, the firm acquires more short-term debt than it does short-term assets. This means that:
- A. the ending net working capital will be negative.
 - B. both accounts receivable and inventory decreased during the year.
 - C. the beginning current assets were less than the beginning current liabilities.
 - D. accounts payable increased and inventory decreased during the year.
 - E.** the ending net working capital can be positive, negative, or equal to zero.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #145
Type: Concepts

146. Net capital spending:
- A. is negative if the sale of fixed assets is greater than the acquisition of current assets.
 - B.** is equal to zero if the decrease in the fixed assets account is equal to the depreciation expense for the period.
 - C. reflects the net changes in total assets over a stated period of time.
 - D. is equivalent to the cash flow from assets.
 - E. is equal to the ending net fixed assets minus the beginning net fixed assets.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #146
Type: Concepts

147. The cash flow to creditors includes the cash:
- A. received by the firm when payments are paid to suppliers.
 - B. outflow of the firm when new debt is acquired.
 - C.** outflow when interest is paid on outstanding debt.
 - D. inflow when accounts payable decreases.
 - E. received when long-term debt is paid off.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #147
Type: Concepts

148. Cash flow to stockholders must be positive when:
- A.** the dividends paid exceed the net new equity raised.
 - B. the net sale of common stock exceeds the amount of dividends paid.
 - C. no income is distributed but new shares of stock are sold.
 - D. both the cash flow to assets and the cash flow to creditors are negative.
 - E. both the cash flow to assets and the cash flow to creditors are positive.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #148
Type: Concepts

149. Which one of the following will increase the net working capital of a retail bakery shop?
- A. purchase of inventory on credit
 - B. purchase of new office equipment
 - C. payment received from a customer
 - D.** sale of excess equipment
 - E. sale of inventory on credit

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #149
Type: Concepts

150. Which of the following assets is the most liquid?
- A. an office building
 - B. an electric saw for sale by a hardware store
 - C. a patent on a new kitchen appliance
 - D. a manufacturing plant
 - E.** an amount receivable from a customer for a service provided

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #150
Type: Concepts

151. Which one of the following will increase the value of shareholders' equity?
- A. the repurchase of outstanding shares of stock by the issuer
 - B.** positive net income and a dividend payout ratio of 60 percent
 - C. the repayment of short-term debt
 - D. the conversion of short-term debt to long-term debt
 - E. the sale of fixed assets at their book value

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #151
Type: Concepts

152. Which one of the following will decrease the value of the owners' equity on a statement of financial position?
- A.** dividends paid during the year in an amount which exceeds the net income for the year
 - B. the sale of new shares of stock
 - C. the purchase of new equipment using the proceeds of a bank loan
 - D. the sale of inventory at a profit
 - E. a decrease in the amount of long-term debt owed by a firm

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #152
Type: Concepts

153. When a firm initially acquires debt to help finance its operations, it is said that the firm is:
- A. increasing its liquidity.
 - B. increasing its marketability.
 - C. increasing its operating cash flows.
 - D. spending its cash flow from assets.
 - E.** employing financial leverage.

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #153
Type: Concepts

154. The book value of a firm is:
- A. always less than the market value.
 - B. another term for the total assets of a leveraged firm.
 - C.** based on historical costs.
 - D. based on the current value of a firm's assets.
 - E. the value at which the firm could be sold in today's market.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #154
Type: Concepts

155. To estimate the amount of cash which could be received if an asset were sold today, you should use the asset's:
- A. historical cost.
 - B.** market value.
 - C. value as shown on the latest statement of financial position.
 - D. book value.
 - E. depreciated historical cost.

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #155
Type: Concepts

156. Which one of the following statements is correct concerning a statement of comprehensive income?
- A. Interest expense increases the taxes owed by a firm.
 - B.** Net income is either paid out as dividends or added to the retained earnings of the firm.
 - C. Depreciation increases the net income of a firm.
 - D. Net income is equivalent to the operating cash flow of a firm.
 - E. Taxes will increase the amount of a loss incurred by a firm with negative taxable income.

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #156
Type: Concepts

157. The earnings per share will:
- A. increase if the tax rate increases.
 - B. remain constant if the number of shares outstanding is increased.
 - C. increase anytime the revenue of a firm increases.
 - D. increase only if the net income of a firm increases.
 - E.** increase if the number of shares outstanding is decreased.

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #157
Type: Concepts

158. Dividends paid:
- A. must be equal to or less than the net income earned each year.
 - B. equal the cash flow to stockholders in any given year.
 - C. reduce the taxable income of a firm.
 - D. are considered a noncash expense.
 - E.** are equal to net income less the change in retained earnings.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #158
Type: Concepts

159. Which one of the following will increase the operating cash flow of a firm, all else constant?
- A. an increase in depreciation expense
 - B. an increase in the taxes paid
 - C. a decrease in sales
 - D. a decrease in the interest expense
 - E.** a decrease in variable costs

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #159
Type: Concepts

160. Cash flow from assets is equal to:
- A. operating cash flow minus net new equity plus net new borrowing.
 - B. cash flow to creditors minus cash flow to stockholders.
 - C.** operating cash flow minus the change in net working capital minus net capital spending.
 - D. operating cash flow plus net capital spending minus the change in net working capital.
 - E. operating cash flow minus depreciation plus taxes.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #160
Type: Concepts

161. Operating cash flow can be computed as:
- A. net income minus depreciation plus taxes.
 - B.** cash flow from assets plus net capital spending plus the change in net working capital.
 - C. net income plus depreciation.
 - D. earnings before interest and taxes minus depreciation plus taxes.
 - E. earnings before interest and taxes plus depreciation and interest, minus taxes.

Difficulty: Basic
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #161
Type: Concepts

162. Which one of the following will decrease a firm's net working capital?
- A. an increase in the cash account balance
 - B. the payment of a receivable by a customer
 - C.** the purchase of a fixed asset using short-term debt
 - D. the acquisition of a building using long-term debt
 - E. the sale of inventory for cash

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #162
Type: Concepts

163. When net capital spending is a negative value, the firm has:
- A. depreciation expense which exceeds the cost of new assets acquired.
 - B. acquired more fixed assets than it has current assets.
 - C.** sold more fixed assets than it acquired during a stated period of time.
 - D. reduced its total assets during the course of the year.
 - E. reduced its investment in inventory.

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #163
Type: Concepts

164. Cash flow to creditors must increase when:
- A. a firm increases its long-term debt by more than its interest expense in any given year.
 - B.** the cash flow to stockholders is constant and the cash flow from assets increases.
 - C. the operating cash flow increases and the cash flow to stockholders decreases.
 - D. the interest rate on the firm's debt decreases.
 - E. a firm borrows more than it repays in any one given year.

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #164
Type: Concepts

165. All else constant, the cash flow to stockholders:
- A.** increases when the dividends per share are increased.
 - B. remains unchanged when the firm repurchases shares of outstanding stock.
 - C. increases when a firm increases its degree of financial leverage.
 - D. increases when the cash flow from assets decreases.
 - E. increases as the common stock account balance increases.

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #165
Type: Concepts

166. At year-end 2009, Jordan Company's statement of financial position showed current assets = \$800, fixed assets = \$1,500, intangible assets = \$300, current liabilities = \$600, and long-term liabilities = \$1,400. What is the value of the shareholders' equity account?
- A. \$300
 - B. \$500
 - C. \$600**
 - D. \$900
 - E. \$1,100

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #166
Type: Problems

167. During 2009, Spend-it Corporation reported net income of \$200 and paid a \$40 stock dividend. Spend-it's December 31, 2008 statement of financial position reported the following items: common stock = \$220, capital surplus = \$180, retained earnings = \$300. What is the value of the retained earnings account for the December 31, 2009 statement of financial position?
- A. \$160
 - B. \$340
 - C. \$360
 - D. \$460**
 - E. \$540

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #167
Type: Problems

168. Based on the following information, calculate stockholders' equity: cash = \$30; total current liabilities = \$80; accounts receivable = \$30; inventory = \$90; net fixed assets = \$220; accounts payable = \$20; long term debt = \$50.
- A. \$170
 - B. \$190
 - C. \$220
 - D. \$240**
 - E. \$290

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #168
Type: Problems

169. ABC Corporation reported retained earnings of \$400 on its year-end 2008 statement of financial position. During 2009, the company reported a loss of \$40 in net income, and it paid out a dividend of \$11. What will retained earnings be for ABC's 2009 year-end statement of financial position?
- A. \$220
 - B. \$349**
 - C. \$320
 - D. \$380
 - E. \$420

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #169
Type: Problems

170. If total assets = \$550, fixed assets = \$375, current liabilities = \$140, equity = \$265, long-term debt = \$145, and current assets is the only remaining item on the statement of financial position, what is the value of net working capital?
- A. -\$265
 - B. \$35**
 - C. \$190
 - D. \$230
 - E. \$265

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #170
Type: Problems

171. Given the following statement of financial position data, calculate net working capital: cash = \$110, accounts receivable = \$410, inventory = \$350, net fixed assets = \$1,000, accounts payable = \$60, short-term debt = \$375, and long-term debt = \$510.
- A. -\$590
 - B. \$0
 - C. \$100
 - D. \$435**
 - E. \$535

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #171
Type: Problems

172. Given the following statement of comprehensive income data, calculate net income: sales = \$135, cost of goods sold = \$40, miscellaneous expenses = \$35, depreciation = \$20, interest expense = \$20, tax rate = 34%.
- A. \$13.20**
 - B. \$19.80
 - C. \$20.00
 - D. \$23.10
 - E. \$42.90

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #172
Type: Problems

173. Given the following statement of comprehensive income data, calculate revenue: Net Income = \$2500, EBIT = \$4000, Depreciation = \$500, Operating expenses = \$1500
- A. \$3000
 - B. \$4000
 - C. \$5500
 - D. \$6000**
 - E. \$2500

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #173
Type: Problems

174. RDJ Manufacturing had 300 million shares of stock outstanding at the end of 2009. During 2009, the company reported net income of \$600 million, retained earnings of \$900 million, and \$240 million in dividends paid. What is RDJ's earnings per share?
- A. \$0.50
 - B. \$0.67
 - C. \$0.80
 - D. \$1.25
 - E. \$2.00**

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #174
Type: Problems

175. Given the following statement of comprehensive income data, calculate operating cash flow: net sales = \$16,500, cost of goods sold = \$10,350, operating expenses = \$3,118, depreciation = \$1,120, interest expense = \$900, tax rate = 34%.
- A. \$667.92
 - B. \$1,912.00
 - C. \$2,201.12
 - D. \$2,381.92
 - E. \$2,687.92**

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #175
Type: Problems

176. If net income = \$46,750, depreciation expense = \$20,000, interest expense = \$10,000, and the tax rate = 15%, what is operating cash flow?
- A. \$21,250
 - B. \$72,250
 - C. \$76,750**
 - D. \$85,250
 - E. \$93,350

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #176
Type: Problems

177. Swell, Inc. had net fixed assets of \$6.5 million on December 31, 2008 and \$11 million on December 31, 2009. If Swell's depreciation expense for 2009 was \$750,000, what was the firm's 2009 capital spending?
- A. \$3.75 million
 - B. \$4.25 million
 - C. \$4.50 million
 - D. \$5.25 million**
 - E. \$6.75 million

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #177
Type: Problems

178. If cash flow from operations is \$938, net capital spending is -\$211, and net working capital declines by \$73, what is cash flow from assets?
- A. \$654
 - B. \$800
 - C. \$954
 - D. \$1,076
 - E. \$1,222**

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #178
Type: Problems

179. Given the following information from More Money, Inc.'s 2009 financial statements, calculate cash flow from assets: operating cash flow = \$284,500, net fixed assets declined by \$8,000, depreciation expense = \$13,000, and net working capital increased by \$1,500.
- A. \$262,000
 - B. \$278,000**
 - C. \$281,000
 - D. \$288,000
 - E. \$301,000

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #179
Type: Problems

180. During 2009, a firm paid \$25,000 in interest expense and its long-term debt decreased from \$350,000 to \$250,000. What is the 2009 cash flow to creditors?
- A. -\$75,000
 - B. -\$25,000
 - C. \$25,000
 - D. \$75,000
 - E. \$125,000**

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #180
Type: Problems

181. Suppose that a firm paid dividends of \$300 and interest of \$611. In addition, the firm raised cash by selling new debt of \$400 and new equity of \$911. What is the firm's cash flow to creditors?
- A. -\$1,040
 - B. -\$240
 - C. \$211**
 - D. \$890
 - E. \$1,040

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #181
Type: Problems

182. Brandy's Candies paid \$23 million in dividends during 2008, while also making net common stock repurchases of \$27 million. What was the cash flow to stockholders for 2008?
- A. -\$4 million
 - B. \$4 million
 - C. \$23 million
 - D. \$27 million
 - E. \$50 million**

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #182
Type: Problems

183. Suppose a firm's net income is \$950, dividends paid total \$300, and new equity sales over the same period amount to \$311. If the initial value of equity was \$7,100, what is the cash flow to shareholders?
- A. -\$650
 - B. -\$11**
 - C. \$50
 - D. \$650
 - E. \$8,100

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #183
Type: Problems

184. Suppose that a firm paid dividends of \$300 and interest of \$611. In addition, the firm raised cash by selling new debt of \$400 and new equity of \$911. What is the firm's cash flow to stockholders?
- A. -\$1,250
 - B. -\$611**
 - C. \$650
 - D. \$890
 - E. \$1,250

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #184
Type: Problems

185. At the start of the year, Gershon, Inc. had total shareholders' equity = \$12,000. If net income during the year was a \$200 loss, dividends paid = \$400, and \$1,000 was raised from the sale of new stock, what is the end of year value for total shareholders' equity?
- A. \$10,060
 - B. \$11,800
 - C. \$12,400**
 - D. \$12,800
 - E. \$13,200

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #185
Type: Problems

186. Ice Corporation has purchased a Class 10 piece of equipment for a cost of \$50,000 with a CCA rate of 30%. Under the half year rule, the UCC amount used to calculate the first year CCA is
- A. \$50,000
 - B. \$15,000
 - C. \$25,000**
 - D. \$35,000
 - E. \$42,500

Difficulty: Basic
Learning Objective: 02-05 The basics of Capital Cost Allowance (CCA) and Undepreciated Capital Cost (UCC).
Ross - Chapter 02 #186
Type: Problems

187. A firm has recently purchased Class 10 equipment for \$100,000 with a CCA rate of 30%. Under the half-year rule, what is the amount of depreciation that the firm can claim as a tax-deductible expense in the second year?
- A. \$30,000
 - B. \$15,000
 - C. \$42,000
 - D. \$25,500**
 - E. \$45,000

Difficulty: Basic
Learning Objective: 02-05 The basics of Capital Cost Allowance (CCA) and Undepreciated Capital Cost (UCC).
Ross - Chapter 02 #187
Type: Problems

	Taxable income	Tax rate
\$0 – \$ 50	000	15%
\$50	001 – \$ 75	000 25%
\$75	001 – \$100	000 34%
\$100,001 – \$335,000		39%

188. If Systemic Corporation reports taxable income of \$77,000, then the _____.
- A. average tax rate is 18.7%**
 - B. average tax rate is 34.0%
 - C. marginal tax rate is 15.0%
 - D. marginal tax rate is 25.0%
 - E. marginal tax rate is 39.0%

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #188
Type: Problems

189. Celeste Video, Inc. reports 2009 taxable income of \$200,011. How large is this firm's tax bill?
- A. \$48,750
 - B. \$61,250**
 - C. \$67,000
 - D. \$78,000
 - E. \$91,125

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #189
Type: Problems

Taxable income	Tax rate
\$0 – \$ 50,000	15%
\$50,001 – \$ 75,000	25%
\$75,001 – \$100,000	34%
\$100,001 – \$335,000	39%
\$335,001 – \$10,000,000	34%
\$10,000,001 – \$15,000,000	35%
\$15,000,001 – \$18,333,333	38%
\$18,333,334 and above	35%

Ross - Chapter 02

190. If a company has taxable income = \$250,000, what is the average tax rate?
- A.** 32.3%
 B. 34.0%
 C. 36.8%
 D. 39.6%
 E. 42.0%

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
 Ross - Chapter 02 #190
 Type: Problems

191. If a firm has taxable income = \$74,000, how much will it pay in taxes?
- A. \$10,050
 B. \$11,750
C. \$13,500
 D. \$16,750
 E. \$18,500

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
 Ross - Chapter 02 #191
 Type: Problems

192. If a firm has taxable income of \$17.5 million and a total tax bill of \$6.1 million, its marginal tax rate is _____.
- A. 15%
 B. 25%
 C. 34%
D. 38%
 E. 39%

Difficulty: Basic
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
 Ross - Chapter 02 #192
 Type: Problems

193. If a firm has taxable income of \$17.5 million and a total tax bill of \$6.1 million, its average tax rate is _____.
- A. 15.0%
 B. 25.9%
C. 34.9%
 D. 38.2%
 E. 42.2%

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
 Ross - Chapter 02 #193
 Type: Problems

Kuipers, Inc.
2009 Statement of comprehensive income
(\$ in millions)

Net sales	\$1,384
Less: Cost of goods sold	605
Less: Depreciation	<u>180</u>
Earnings before interest and taxes	599
Less: Interest paid	<u>80</u>
Taxable income	519
Less: Taxes	<u>156</u>
Net income	<u>\$363</u>
Addition to retained earnings	\$254
Dividends paid	109

Kuipers, Inc.
12/31/2008 and 12/31/2009 Statement of financial position
(\$ in millions)

	<u>2008</u>	<u>2009</u>		<u>2008</u>	<u>2009</u>
Cash	\$ 100	\$ 121	Accounts payable	\$ 400	\$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	\$ 790	\$ 720
Total	\$ 890	\$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	\$2,446	\$2,660	Total liabilities	\$2,446	\$2,660

Ross - Chapter 02

194. What is the firm's operating cash flow for 2009 (\$ in millions)?
- A. \$359
 - B. \$441
 - C. \$543
 - D. \$589
 - E. \$623**

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #194
Type: Problems

195. What is the firm's net capital spending for 2009 (\$ in millions)?
- A. -\$32
 - B. \$32
 - C. \$148
 - D. \$328**
 - E. \$447

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #195
Type: Problems

196. What is the firm's change in net working capital for 2009 (\$ in millions)?
- A. -\$40
 - B. \$4
 - C. \$94
 - D. \$136**
 - E. \$205

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #196
Type: Problems

197. What is the firm's cash flow from assets for 2009 (\$ in millions)?
- A. \$21
 - B. \$159**
 - C. \$197
 - D. \$431
 - E. \$1,087

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #197
Type: Problems

198. What is the firm's cash flow to creditors for 2009 (\$ in millions)?
- A. \$30**
 - B. \$47
 - C. \$100
 - D. \$130
 - E. \$146

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #198
Type: Problems

199. What is the firm's cash flow to stockholders for 2009 (\$ in millions)?
- A. \$89
 - B. \$129**
 - C. \$188
 - D. \$363
 - E. \$383

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #199
Type: Problems

200. If the firm has 180 million shares of stock outstanding, what is the firm's 2009 earnings per share?
- A. \$0.50
 - B. \$0.61
 - C. \$1.41
 - D. \$1.83
 - E. \$2.02**

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #200
Type: Problems

201. If the firm has 180 million shares of stock outstanding, what is the firm's 2009 dividends per share?
- A. \$0.50
 - B. \$0.61**
 - C. \$1.41
 - D. \$1.83
 - E. \$2.02

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #201
Type: Problems

	2008	2009
Sales	\$2,900	\$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

Ross - Chapter 02

202. What is earnings before interest and taxes for 2009?
- A. \$112
 - B. \$158
 - C. \$580
 - D. \$660**
 - E. \$780

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
 Ross - Chapter 02 #202
 Type: Problems

203. What is net income for 2009?
- A. \$112
 - B. \$158**
 - C. \$580
 - D. \$660
 - E. \$780

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
 Ross - Chapter 02 #203
 Type: Problems

204. What is operating cash flow for 2009?
- A. \$248
 - B. \$662
 - C. \$908**
 - D. \$1,072
 - E. \$1,375

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
 Ross - Chapter 02 #204
 Type: Problems

205. What is net working capital for 2009?
- A. \$362**
 - B. \$473
 - C. \$519
 - D. \$607
 - E. \$1,060

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
 Ross - Chapter 02 #205
 Type: Problems

206. What is cash flow to stockholders for 2009?
A. \$79
B. \$189
C. \$445
D. \$524
E. \$547

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #206
Type: Problems

207. What is cash flow to creditors for 2009?
A. \$100
B. \$320
C. \$420
D. \$520
E. \$720

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #207
Type: Problems

208. What is net capital spending for 2009?
A. -\$10
B. \$30
C. \$300
D. \$530
E. \$630

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #208
Type: Problems

209. What is the change in net working capital during 2009?
A. -\$245
B. -\$125
C. \$362
D. \$607
E. \$904

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #209
Type: Problems

210. What is cash flow from assets for 2009?
A. \$428
B. \$540
C. \$633
D. \$923
E. \$1,067

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #210
Type: Problems

211. A firm has current assets of \$400, shareholders' equity of \$700, current liabilities of \$300, and net fixed assets of \$600. What is the amount of long-term debt?
A. \$0
B. \$100
C. \$200
D. \$300
E. \$400

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #211
Type: Problems

212. A new firm issued \$500 in common stock. At the end of the first year, the firm had total assets of \$1100 and total debt of \$400. What was the amount of net income for the first year, assuming the firm paid no dividends?
- A. -\$200 (a loss)
B. \$200
 C. \$700
 D. \$1200
 E. Cannot be determined from the information provided

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #212
Type: Problems

RST, Inc.
2009 Statement of comprehensive income

Net sales	\$8,769
Cost of goods sold	\$6,128
Depreciation	\$1,364
Earnings before interest and taxes	\$1,277
Interest paid	\$730
Taxable income	\$547
Taxes	\$186
Net income	\$361
Dividends paid	\$?
Addition to retained earnings	\$?

RST, Inc.
Statement of financial positions as of December 31, 2008 and 2009

	2008	2009		2008	2009
Cash	\$1,423	\$965	Accounts payable	\$1,007	\$2,251
Accounts rec.	\$2,196	\$2,894	Notes payable	\$2,100	\$1,850
Inventory	\$1,543	\$1,650	Total	\$3,107	\$4,101
Total	\$5,162	\$5,509	Long-term debt	\$8,670	\$7,280
Net fixed assets	\$21,300	\$22,758	Common stock	\$7,200	\$9,200
			Retained earnings	\$7,485	\$7,686
Total assets	\$26,462	\$28,267	Total liabilities	\$26,462	\$28,267
			and Owner's equity		

213. If there are 100 shares of stock outstanding, what is the amount of the dividends paid per share?
- A. \$1.48
B. \$1.60
 C. \$1.86
 D. \$2.01
 E. \$3.61

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #213
Type: Problems

214. If there are 250 shares of stock outstanding, what is the amount of the earnings per share?
- A. \$0.64
 B. \$0.80
 C. \$1.21
D. \$1.44
 E. \$2.19

Difficulty: Basic
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #214
Type: Problems

215. What is the amount of non-cash items for 2009?
- A. \$186
 - B. \$201
 - C. \$730
 - D. \$1,364**
 - E. \$2,094

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #215
Type: Problems

216. What is the net working capital for 2009?
- A. \$643
 - B. \$1,408**
 - C. \$2,055
 - D. \$3,115
 - E. \$5,509

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #216
Type: Problems

217. What is the average tax rate for 2009?
- A. 19%
 - B. 25%
 - C. 34%**
 - D. 39%
 - E. cannot be determined from the information provided

Difficulty: Basic
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #217
Type: Problems

218. What is the operating cash flow for the year 2009?
- A. \$361
 - B. \$995
 - C. \$1,725
 - D. \$1,911
 - E. \$2,455**

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #218
Type: Problems

219. What is the cash flow to creditors for 2009?
- A. -\$1,075
 - B. -\$660
 - C. -\$264
 - D. \$1,126
 - E. \$2,120**

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #219
Type: Problems

220. What is the cash flow to stockholders for 2009?
- A. -\$2,160
 - B. -\$1,840**
 - C. \$1,840
 - D. \$2,160
 - E. \$2,320

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #220
Type: Problems

221. What is the change in net working capital for 2009?

- A.** -\$647
- B. -\$347
- C. \$347
- D. \$647
- E. \$994

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #221
Type: Problems

KLM, Inc.
 2009 Statement of comprehensive income

Net sales	\$3,685
Cost of goods sold	\$3,180
Depreciation	\$104
Earnings before interest and taxes	\$401
Interest paid	\$25
Taxable income	\$376
Taxes	\$128
Net income	\$248
Dividends paid	\$60
Addition to retained earnings	\$188

KLM Corporation
 Statement of financial positions as of December 31, 2008 and 2009

	2008	2009		2008	2009
Cash	\$ 520	\$ 601	Accounts payable	\$ 621	\$ 704
Accounts rec.	\$ 235	\$ 219	Notes payable	\$ 333	\$ 272
Inventory	\$ 964	\$ 799	Current liabilities	\$ 954	\$ 976
Current assets	\$1,719	\$1,619	Long-term debt	\$ 350	\$ 60
Net fixed assets	\$ 890	\$ 930	Common stock	\$ 800	\$ 820
			Retained earnings	\$ 505	\$ 693
Total assets	\$2,609	\$2,549	Total liabilities and Owner's equity	\$2,609	\$2,549

Ross - Chapter 02

222. What is the change in net working capital for 2009?

- A. -\$643
- B.** -\$122
- C. \$122
- D. \$643
- E. \$765

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #222
Type: Problems

223. What is the net capital spending for 2009?

- A. -\$144
- B. -\$64
- C. \$64
- D.** \$144
- E. \$208

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #223
Type: Problems

224. What is the cash flow from assets for 2009?
A. \$111
B. \$355
C. \$1,307
D. \$2,259
E. \$2,503

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #224
Type: Problems

225. What is the ending net working capital for 2009?
A. -\$60
B. \$40
C. \$60
D. \$643
E. \$765

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #225
Type: Problems

226. What is the net new equity for 2009?
A. -\$40
B. -\$20
C. \$20
D. \$40
E. \$60

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #226
Type: Problems

227. What is the operating cash flow for 2009?
A. \$169
B. \$272
C. \$377
D. \$425
E. \$480

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #227
Type: Problems

228. What is the cash flow to stockholders for 2009?
A. \$40
B. \$60
C. \$80
D. \$148
E. \$268

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #228
Type: Problems

OPQ, Inc.
2009 Statement of comprehensive income

Net sales	\$8,953
Cost of goods sold	\$5,865
Depreciation	\$?
EBIT	\$?
Interest paid	\$675
Earnings before taxes	\$?
Taxes	\$400
Net income	\$705
Dividends paid	\$?
Addition to retained earnings	\$450

OPQ, Inc.
Statement of financial positions as of December 31, 2008 and 2009

	2008	2009		2008	2009
Cash	\$ 725	\$ 1,135	Accounts payable	\$ 859	\$1,031
Accounts rec.	\$ 2,330	\$?	Notes payable	\$?	\$4,020
Inventory	\$ 3,240	\$ 5,202	Current liabilities	\$?	\$?
Current assets	\$?	\$?	Long-term debt	\$9,250	\$9,750
Net fixed assets	\$?	\$ 9,211	Common stock	\$ 250	\$?
			Retained earnings	\$?	\$2,797
Total assets	\$16,083	\$17,848	Total liab. & equity	\$?	\$?

Ross - Chapter 02

229. What is the operating cash flow for 2009?
- A. \$872
 - B. \$2,013
 - C. \$2,413
 - D. \$2,688**
 - E. \$2,813

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #229
Type: Problems

230. The net working capital at the end of 2008 is _____ and _____ at the end of 2009.
- A. -\$2,955; -\$1,113
 - B. \$2,059; \$3,586**
 - C. \$5,436; \$1,286
 - D. \$5,436; \$7,606
 - E. \$2,059; \$8,637

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #230
Type: Problems

231. The cash flow to creditors for 2009 is _____ while the cash flow to stockholders for 2009 is _____.
- A. -\$640; \$705
 - B. -\$175; \$255
 - C. \$175; \$255**
 - D. \$175; \$450
 - E. \$640; \$450

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #231
Type: Problems

232. Alpha, Inc. earned \$95,000 in net income in 2008 and paid \$20,548.50 in taxes. Alpha, Inc. earned \$95,001 in net income in 2009 and paid \$20,548.84 in taxes. What is the marginal tax rate for Alpha, Inc.?
- A. 15%
 - B. 25%
 - C. 34%**
 - D. 35%
 - E. 38%

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #232
Type: Problems

Taxable income	Tax Rate
\$ 0	\$ 50,000 15%
\$ 50,001	\$ 75,000 25%
\$ 75,001	\$ 100,000 34%
\$100,001	\$ 335,000 39%
\$335,001	\$10,000,000 34%

Ross - Chapter 02

233. The marginal tax rate on an income of \$239,650 is:
- A. 15%
 - B. 25%
 - C. 34%
 - D. 39%**
 - E. 43%

Difficulty: Basic
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #233
Type: Problems

234. The total tax on an income of \$289,600 is:
- A. \$89,544
 - B. \$96,194**
 - C. \$112,944
 - D. \$113,900
 - E. \$128,544

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #234
Type: Problems

235. All-Rite sold \$133,500 in used equipment in 2009 and replaced it with \$212,000 of new equipment. Depreciation for 2009 and \$12,500. What is the net capital spending for 2009?
- A. \$66,000
 - B. \$78,500
 - C. \$91,000**
 - D. \$199,500
 - E. \$212,000

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #235
Type: Problems

236. Jack's Shoes has net income of \$19,600 in 2009 and owes \$8,650 in taxes for the year. The company repaid \$4,200 in loan principal and \$650 in loan interest during the year. No new funds were borrowed. The depreciation expense is \$420. What is the operating cash flow for the year?
- A. \$10,720
 - B. \$19,370
 - C. \$20,670**
 - D. \$28,670
 - E. \$29,320

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #236
Type: Problems

237. A firm has \$300 in inventory, \$600 in fixed assets, \$200 in accounts receivables, \$100 in accounts payable, and \$50 in cash. What is the amount of the current assets?
- A. \$500
 - B. \$550**
 - C. \$600
 - D. \$1,150
 - E. \$1,200

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #237
Type: Problems

238. A firm has net working capital of \$350. Long-term debt is \$600, total assets are \$950 and fixed assets are \$400. What is the amount of the total liabilities?
- A. \$200
 - B. \$400
 - C. \$600
 - D. \$800**
 - E. \$1,200

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #238
Type: Problems

239. The total assets are \$900, the fixed assets are \$600, long-term debt is \$500, and short-term debt is \$200. What is the amount of net working capital?
- A. \$0
 - B. \$100**
 - C. \$200
 - D. \$300
 - E. \$400

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #239
Type: Problems

240. Shareholders' equity in a firm is \$500. The firm owes a total of \$400 of which 75 percent is payable within the next year. The firm has net fixed assets of \$600. What is the amount of the net working capital?
- A. -\$200
 - B. -\$100
 - C. \$0**
 - D. \$100
 - E. \$200

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #240
Type: Problems

241. Brad's Co. has equipment with a book value of \$500 that could be sold today at a 50 percent discount. Their inventory is valued at \$400 and could be sold to a competitor for that amount. The firm has \$50 in cash and customers owe them \$300. What is the accounting value of their liquid assets?
- A. \$50
 - B. \$350
 - C. \$700
 - D. \$750**
 - E. \$1,000

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #241
Type: Problems

242. Martha's Enterprises spent \$2,400 to purchase equipment three years ago. This equipment is currently valued at \$1,800 on today's statement of financial position but could actually be sold for \$2,000. Net working capital is \$200 and long-term debt is \$800. What is the book value of shareholders' equity?
- A. \$200
 - B. \$800
 - C. \$1,200**
 - D. \$1,400
 - E. The answer cannot be determined from the information provided.

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #242
Type: Problems

243. Art's Boutique has sales of \$640,000 and costs of \$480,000. Interest expense is \$40,000 and depreciation is \$60,000. The tax rate is 34%. What is the net income?
- A. \$20,400
 - B. \$39,600**
 - C. \$50,400
 - D. \$79,600
 - E. \$99,600

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #243
Type: Problems

244. Tim's Playhouse paid \$155 in dividends and \$220 in interest expense. The addition to retained earnings is \$325 and net new equity is \$50. The tax rate is 25 percent. Sales are \$1,600 and depreciation is \$160. What are the earnings before interest and taxes?
- A. \$480
 - B. \$640
 - C. \$860**
 - D. \$1,020
 - E. \$1,440

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #244
Type: Problems

245. Pete's Boats has beginning long-term debt of \$180 and ending long-term debt of \$210. The beginning and ending total debt balances are \$340 and \$360, respectively. The interest paid is \$20. What is the amount of the cash flow to creditors?
- A. -\$10**
 - B. \$0
 - C. \$10
 - D. \$40
 - E. \$50

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #245
Type: Problems

246. Thompson's Jet Skis has operating cash flow of \$218. Depreciation is \$45 and interest paid is \$35. A net total of \$69 was paid on long-term debt. The firm spent \$180 on fixed assets and increased net working capital by \$38. What is the amount of the cash flow to stockholders?
A. -\$104
 B. -\$28
 C. \$28
 D. \$114
 E. \$142

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #246
Type: Problems

Nabors, Inc.
 2009 Statement of comprehensive income
 (\$ in millions)

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

Nabors, Inc.
 2008 and 2009 Statement of financial positions
 (\$ in millions)

	2008	2009		2008	2009
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	<u>\$17,185</u>	<u>\$17,980</u>	Total liab.& equity	<u>\$17,185</u>	<u>\$17,980</u>

247. What is the change in the net working capital from 2008 to 2009?
 A. \$1,235
 B. \$1,035
C. \$1,335
 D. \$3,405
 E. \$4,740

Ross - Chapter 02

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #247
Type: Problems

248. What is the amount of the noncash expenses for 2009?
 A. \$570
 B. \$630
 C. \$845
D. \$1,370
 E. \$2,000

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #248
Type: Problems

249. What is the amount of the net capital spending for 2009?
A. -\$290
B. \$795
C. \$1,080
D. \$1,660
E. \$2,165

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #249
Type: Problems

250. What is the operating cash flow for 2009?
A. \$845
B. \$1,930
C. \$2,215
D. \$2,845
E. \$3,060

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #250
Type: Problems

251. What is the cash flow from assets for 2009?
A. \$430
B. \$485
C. \$1,340
D. \$2,590
E. \$3,100

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #251
Type: Problems

252. What is the amount of net new borrowing for 2009?
A. -\$225
B. -\$25
C. \$0
D. \$25
E. \$225

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #252
Type: Problems

253. What is the cash flow to creditors for 2009?
A. -\$405
B. -\$225
C. \$225
D. \$405
E. \$630

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #253
Type: Problems

254. What is the amount of dividends paid in 2009?
A. \$25
B. \$275
C. \$570
D. \$625
E. \$845

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #254
Type: Problems

255. What is the cash flow to stockholders for 2009?
- A. -\$250
 - B. -\$25
 - C. \$25**
 - D. \$250
 - E. \$275

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #255
Type: Problems

Knickerdoodles, Inc.

	<u>2008</u>	<u>2009</u>
Sales	\$ 740	\$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

256. What is the net working capital for 2009?
- A. \$345
 - B. \$405
 - C. \$805
 - D. \$812**
 - E. \$1,005

Ross - Chapter 02

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #256
Type: Problems

257. What is the change in net working capital from 2008 to 2009?
- A. -\$93**
 - B. -\$7
 - C. \$7
 - D. \$85
 - E. \$97

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #257
Type: Problems

258. What is net capital spending for 2009?
- A. -\$250
 - B. -\$57**
 - C. \$0
 - D. \$57
 - E. \$477

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #258
Type: Problems

259. What is the operating cash flow for 2009?
 A. \$143
B. \$297
 C. \$325
 D. \$353
 E. \$367

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #259
Type: Problems

260. What is the cash flow from assets for 2009?
 A. \$50
 B. \$247
 C. \$297
D. \$447
 E. \$517

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #260
Type: Problems

261. What is net new borrowing for 2009?
 A. -\$70
 B. -\$35
 C. \$35
D. \$70
 E. \$105

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #261
Type: Problems

262. What is the cash flow to creditors for 2009?
 A. -\$170
B. -\$35
 C. \$135
 D. \$170
 E. \$205

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #262
Type: Problems

263. What is the cash flow to stockholders for 2009?
 A. \$408
 B. \$417
 C. \$452
D. \$482
 E. \$503

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #263
Type: Problems

	<u>2009</u>
Cost of goods sold	\$3,210
Interest	215
Dividends	160
Depreciation	375
Change in retained earnings	360
Tax rate	35%

264. What is the taxable income for 2009?
A. \$360
B. \$520
C. \$640
D. \$780
E. \$800

Difficulty: Challenge
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #264
Type: Problems

265. What is the operating cash flow for 2009?
A. \$520
B. \$800
C. \$1,015
D. \$1,110
E. \$1,390

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #265
Type: Problems

266. What are the sales for 2009?
A. \$4,225
B. \$4,385
C. \$4,600
D. \$4,815
E. \$5,000

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #266
Type: Problems

267. A firm has \$1,800 in fixed assets, \$400 in net working capital, \$200 in accounts payable, and \$100 in cash. What is the amount of the current assets?
A. \$200
B. \$400
C. \$500
D. \$600
E. \$700

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #267
Type: Problems

268. The total assets are \$1,650, the fixed assets are \$800, long-term debt is \$700, and short-term debt is \$450. What is the amount of net working capital?
A. \$350
B. \$400
C. \$500
D. \$950
E. \$1,200

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #268
Type: Problems

269. Chadwick Industries has equipment with a book value of \$18 million that could be sold today for \$21 million. The inventory is valued at \$5.6 million and could be sold to a competitor today for \$5.1 million. The firm has \$740 thousand in cash and customers owe them \$2.6 million. What is the total market value of the firm's assets?
- A. \$26.04 million
 - B. \$26.44 million
 - C. \$28.70 million
 - D. \$29.04 million
 - E. \$29.44 million**

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #269
Type: Problems

270. Cantrell Industries spent \$386,000 to purchase equipment three years ago. This equipment is currently valued at \$276,000 on today's statement of financial position but could actually be sold for \$298,000. Net working capital is \$56,000 and long-term debt is \$171,000. What is the book value of shareholders' equity?
- A. \$49,000
 - B. \$71,000
 - C. \$105,000
 - D. \$161,000**
 - E. \$183,000

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #270
Type: Problems

271. The owner of Fred's Electronics is trying to sell the business. The company built a building four years ago at a cost of \$2.2 million. The building is currently appraised at \$2.46 million. The firm's equipment originally cost \$1.2 million and is currently valued at \$700,000. The inventory is listed on the statement of financial position at \$150,000 but is only worth \$125,000. The owner expects to collect 90 percent of the \$300,000 in accounts receivable. The firm has \$14,000 in cash and has total debt of \$3.1 million. What is the market value of this firm?
- A. \$455,000
 - B. \$469,000**
 - C. \$499,000
 - D. \$504,000
 - E. \$524,000

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #271
Type: Problems

272. Julie's Boutique paid \$400 in dividends and \$500 in interest this past year. Common stock increased by \$500 and retained earnings decreased by \$200. What is the net income for the year?
- A. -\$300
 - B. \$200**
 - C. \$600
 - D. \$700
 - E. \$1,100

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #272
Type: Problems

273. Kathy's Krafts has sales of \$820,000 and costs of \$530,000. Interest expense is \$35,000. The tax rate is 34% and the tax amount is \$71,400. What is the amount of the depreciation expense if that is the only remaining expense on the statement of comprehensive income?
- A. \$37,500
 B. \$38,000
 C. \$41,600
D. \$45,000
 E. \$52,400

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #273
Type: Problems

274. Given the tax rates below, what is the average tax rate for a firm with taxable income of \$178,500?

Taxable Income	Tax Rate
\$0 – 50,000	15%
50,001 – 75,000	25%
75,001 – 100,000	34%
100,001 – 335,000	39%

- A. 29.62 percent**
 B. 30.13 percent
 C. 34.00 percent
 D. 35.67 percent
 E. 39.00 percent

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #274
Type: Problems

275. The tax rates are as shown below. Your firm currently has taxable income of \$98,650. How much additional tax will you owe if you increase your taxable income by \$13,000?

Taxable Income	Tax Rate
\$0 – 50,000	15%
50,001 – 75,000	25%
75,001 – 100,000	34%
100,001 – 335,000	39%

- A. \$1,950.00
 B. \$4,420.00
 C. \$4,560.50
 D. \$4,800.00
E. \$5,002.50

Difficulty: Intermediate
Learning Objective: 02-03 How to determine a firms cash flow from its financial statements.
Ross - Chapter 02 #275
Type: Problems

276. The Corner Store paid \$46 in dividends and \$120 in interest expense during the year. The addition to retained earnings is \$142 and net new equity is \$50. The tax rate is 20 percent. Sales are \$2,400 and depreciation is \$140. What are the earnings before interest and taxes?

- A. \$286
 B. \$325
C. \$355
 D. \$2,072
 E. \$2,260

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #276
Type: Problems

277. Bill's Mowers has beginning net fixed assets of \$1,620 and ending net fixed assets of \$1,780. Assets valued at \$410 were sold during the year. Depreciation was \$45. What is the value of the fixed asset purchases for the year?
- A. \$295
 - B. \$615**
 - C. \$705
 - D. \$795
 - E. \$855

Difficulty: Intermediate
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #277
Type: Problems

278. At the beginning of the year, Bob's Cabinet Works had long-term debt of \$280 and total debt of \$430. At the end of the year, long-term debt was \$255 and total debt was \$390. The firm paid \$20 of interest during the year. What is the amount of the cash flow to creditors?
- A. -\$20
 - B. -\$5
 - C. \$5
 - D. \$45**
 - E. \$60

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #278
Type: Problems

279. Marla's Homemade Cookies has net income of \$1,280. During the year, the company sold \$50 worth of common stock and paid dividends of \$40. What is the amount of the cash flow to stockholders?
- A. -\$90
 - B. -\$10**
 - C. \$10
 - D. \$40
 - E. \$90

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #279
Type: Problems

Aussel Motors, Inc.
 2009 Statement of comprehensive income
 (\$ in millions)

Net sales	\$6,080
Less: Cost of goods sold	3,890
Less: Depreciation	<u>860</u>
Earnings before interest and taxes	1,330
Less Interest paid	<u>270</u>
Taxable Income	\$1,060
Less: Taxes	<u>360</u>
Net Income	\$700

Aussell, Inc.
 2008 and 2009 Statement of financial positions
 (\$ in millions)

	2008	2009		2008	2009
Cash	\$415	\$560	Accounts payable	\$540	\$610
Accounts receivable	860	840	Current portion LTD	<u>0</u>	<u>50</u>
Inventory	<u>1,270</u>	<u>1,390</u>	Total	540	660
Total	2,545	2,790	Long term debt	2,165	3,480
Net Fixed Assets	<u>3,180</u>	<u>4,660</u>	Common stock	2,000	2,250
			Retained earnings	<u>1,020</u>	<u>1,060</u>
Total assets	\$5,725	\$7,450	Total liab. & equity	\$5,720	\$7,450

Ross - Chapter 02

280. What is the change in the net working capital from 2008 to 2009?
- A. -\$40
 - B. \$75
 - C. \$125**
 - D. \$2,005
 - E. \$2,140

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #280
Type: Problems

281. What is the amount of the noncash expenses for 2009?
- A. \$270
 - B. \$630
 - C. \$780
 - D. \$860**
 - E. \$1,130

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #281
Type: Problems

282. What is the amount of the net capital spending for 2009?
- A. \$240
 - B. \$620
 - C. \$1,480
 - D. \$1,860
 - E. \$2,340**

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #282
Type: Problems

283. What is the operating cash flow for 2009?
A. \$1,060
B. \$1,560
C. \$1,830
D. \$1,920
E. \$1,960

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #283
Type: Problems

284. What is the cash flow from assets for 2009?
A. -\$635
B. -\$385
C. \$385
D. \$510
E. \$635

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #284
Type: Problems

285. What is the amount of net new borrowing for 2009?
A. -\$1,045
B. -\$270
C. \$270
D. \$1,045
E. \$1,315

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #285
Type: Problems

286. What is the cash flow to creditors for 2009?
A. -\$1,045
B. -\$365
C. \$885
D. \$945
E. \$1,585

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #286
Type: Problems

287. What is the amount of dividends paid in 2009?
A. \$40
B. \$370
C. \$410
D. \$660
E. \$700

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #287
Type: Problems

288. What is the cash flow to stockholders for 2009?
A. \$360
B. \$410
C. \$580
D. \$660
E. \$910

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #288
Type: Problems

Master Machines, Inc.

	2008	2009
Sales	\$1,240	\$1,385
COGS	820	910
Interest	25	20
Dividends	25.50	25.90
Depreciation	270	240
Cash	110	95
Accounts receivable	145	165
Current liabilities	380	469
Inventory	410	440
Long term debt	300	320
Net fixed assets	620	660
Common stock	500	350
Tax rate		34%

Ross - Chapter 02

289. What is the change in net working capital from 2008 to 2009?
- A. -\$69
 - B. -\$54**
 - C. \$231
 - D. \$255
 - E. \$287

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
 Ross - Chapter 02 #289
 Type: Problems

290. What is net capital spending for 2009?
- A. \$40
 - B. \$70
 - C. \$280**
 - D. \$310
 - E. \$350

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
 Ross - Chapter 02 #290
 Type: Problems

291. What is the operating cash flow for 2009?
- A. \$381.90
 - B. \$396.10
 - C. \$401.90**
 - D. \$440.10
 - E. \$451.90

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
 Ross - Chapter 02 #291
 Type: Problems

292. What is net new borrowing for 2009?
- A. -\$40
 - B. -\$20
 - C. \$20**
 - D. \$40
 - E. \$60

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
 Ross - Chapter 02 #292
 Type: Problems

293. What is the cash flow to stockholders for 2009?
- A. \$124.40
 - B. \$168.80
 - C. \$171.10
 - D. \$173.60
 - E. \$175.90**

Difficulty: Challenge
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #293
Type: Problems

294. The Phillip Edwards Co. has net income of \$2,460 for the current year. During the year, the common stock account increased in value by \$1,500 and retained earnings increased by \$350. What is the amount the firm paid in dividends to its shareholders during the year?
- A. \$350
 - B. \$380
 - C. \$610
 - D. \$2,110**
 - E. \$2,810

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #294
Type: Problems

295. The R.J. Ramboldt Co. paid dividends of \$1,400, interest of \$800, and taxes of \$2,100 for the year. The tax rate is 35 percent and the depreciation expense is \$500. What is the operating cash flow for the year?
- A. \$4,800
 - B. \$4,950
 - C. \$5,200**
 - D. \$5,350
 - E. \$5,500

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #295
Type: Problems

296. Knight Insurance has shareholders' equity of \$136,900. The firm owes a total of \$71,400 of which 30 percent is payable within the next year. The firm has net fixed assets of \$152,800. What is the amount of the net working capital?
- A. \$21,420
 - B. \$25,300
 - C. \$34,080**
 - D. \$46,720
 - E. \$55,500

Current liabilities = $.30 \times \$71,400 = \$21,420$; Total assets = $\$71,400 + \$136,900 = \$208,300$; Current assets = $\$208,300 - \$152,800 = \$55,500$; Net working capital = $\$55,500 - \$21,420 = \$34,080$

Difficulty: Basic
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #296
Type: Problems

297. Six years ago, Thompson Distributors purchased a mailing machine at a cost of \$368,000. This equipment is currently valued at \$172,200 on today's statement of financial position but could actually be sold for \$211,400. This is the only fixed asset the firm owns. Net working capital is \$121,000 and long-term debt is \$82,500. What is the book value of shareholders' equity?
- A. \$89,700
 - B. \$210,700**
 - C. \$211,400
 - D. \$249,900
 - E. \$406,500

Book value of shareholders' equity = $\$172,200 + \$121,000 - \$82,500 = \$210,700$

Difficulty: Basic
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #297
Type: Problems

298. A firm has common stock of \$5,500, paid-in surplus of \$8,200, total liabilities of \$6,600, current assets of \$7,200, and fixed assets of \$16,900. What is the amount of the shareholders' equity?
- A. \$10,300
 - B. \$13,700
 - C. \$15,600
 - D. \$17,500**
 - E. \$20,300

Shareholders' equity = $\$7,200 + \$16,900 - \$6,600 = \$17,500$ (Note: The amount of retained earnings is not provided, so you must use total assets minus total liabilities to derive the correct answer).

Difficulty: Challenge
Learning Objective: 02-04 The difference between average and marginal tax rates.
Ross - Chapter 02 #298
Type: Problems

299. Peter owns The Train Store which he is trying to sell so that he can retire and travel. The Train Store owns the building in which it is located. This building was built at a cost of \$427,000 and is currently appraised at \$575,000. The display counters and fixtures originally cost \$87,000 and are currently valued at \$49,000. The inventory is valued on the statement of financial position at \$289,000 and has a retail market value equal to 1.4 times its cost. Peter expects the store to collect 97 percent of the \$48,041 in accounts receivable. The firm has \$11,200 in cash and has total debt of \$167,400. What is the market value of this firm?
- A. \$771,000
 - B. \$907,800
 - C. \$919,000**
 - D. \$945,800
 - E. \$957,000

Market value of firm = $\$575,000 + \$49,000 + 1.4(\$289,000) + .97(\$48,041) + \$11,200 - \$167,400 = \$919,000$

Difficulty: Intermediate
Learning Objective: 02-01 The difference between accounting value (or "book" value) and market value.
Ross - Chapter 02 #299
Type: Problems

300. Amy's Dress Shoppe has sales of \$421,000 with costs of \$342,000. Interest expense is \$18,000 and depreciation is \$33,000. The tax rate is 34 percent. What is the net income?
- A. \$9,520
 - B. \$12,420
 - C. \$18,480**
 - D. \$30,360
 - E. \$52,140

$$\text{Net income} = (\$421,000 - \$342,000 - \$18,000 - \$33,000) (1 - .34) = \$18,480$$

Difficulty: Intermediate
Learning Objective: 02-02 The difference between accounting income and cash flow.
Ross - Chapter 02 #300
Type: Problems