**Topic 4 Knowledge Check**

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| Points: | 40 |

Started on Jun 05 at 13:38

Your Submission:

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1. Bookmark question for later

Which one of the following is NOT an example of meaningful ratio analysis?

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| * + Using ratios to assess goal achievement.   + Using ratios to compare a firm with high performing competitors.   + Using GAAP rules to calculate standard ratios.   + Analyzing the trend in ratios over time for a single firm. |
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1. Bookmark question for later

The flexibility aspect of ratios and ratio analysis refers to which of the following?

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| * + Firms of different size can be compared on the same scale.   + Ratios can be used to compare a firm to the industry’s top performers.   + Analysts can create new ratios if needed.   + Ratios determine the financial flexibility of a company. |
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1. Bookmark question for later

Which one of the following ratios is NOT part of the common ratio categories?

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| * + Profitability   + Liquidity   + Financing   + Operating |
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1. Bookmark question for later

Suppose an analyst is reviewing the profitability ratios for a firm.  Which of the following statements represents the most valid insight for the analyst?

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| * + Since the profitability ratios of the firm improved, the firm is obviously headed in the right direction.   + Since the profitability ratios of the firm declined, the analyst devotes additional effort to understanding revenues and costs.   + Since the profitability ratios of the firm improved, the firm is not subject to competitive pressures.   + Since the profitability ratios of the firm declined, the firm is facing serious competitive pressures. |
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1. Bookmark question for later

Ratios help identify the areas of a firm that need investigation.

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| TrueFalse |
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1. Bookmark question for later

Consider two companies, Hoogle and Mapple. They are economically identical. However, for reporting purposes Hoogle uses the managerial discretion that is required with accrual accounting to increase net income relative to Mapple (assume any balance sheet effects are inconsequential). Which of the following is correct:

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| * + Mapple’s OIROI is higher than Hoogle’s and Mapple is more efficient.   + Mapple’s OIROI is higher than Hoogle’s but Mapple is NOT more efficient.   + Hoogle’s OIROI is higher than Mapple’s but Hoogle is NOT more efficient.   + Hoogle’s OIROI is higher than Mapple’s and Hoogle is more efficient. |
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1. Bookmark question for later

Macrosoft’s average collection period is closest to which of the following? (Assume 365 days in a year.)

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| * + 90 days   + 4.05 days   + 45 days   + 80 days |
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1. Bookmark question for later

Which of the following best describes the problem associated with GAAP accounting standards when performing ratio analysis?

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| * + GAAP accounting standards are too simplistic for most firms.   + Most firms use cash accounting rather than accrual accounting.   + Most firms use cash accounting rather than GAAP accounting.   + GAAP accounting standards allow for significant managerial discretion in reported financial statements. |
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1. Bookmark question for later

The industry average current ratio and quick ratio are 2.64 and 1.88 respectively. Which of the following would be the most plausible inference about Macrosoft’s liquidity?

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| * + Macrosoft has worse liquidity than the industry.   + Macrosoft has better liquidity than the industry.   + Macrosoft has higher inventory relative to current liabilities than the industry average.   + Macrosoft has a larger amount of cash relative to its current assets than the industry average. |
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1. Bookmark question for later

In order to make ratio analysis a more effective tool, you should carefully consider:

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| * + Demographic trends.   + Bubbles and recessions.   + Technological changes.   + All the statements are correct. |
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1. Bookmark question for later

Suppose the inventory turnover of a company is higher than the industry.  Based on this observation, which of the following is most likely?

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| * + The firm has too much inventory thus impairing overall liquidity.   + The firm has low sales volume.   + The firm has too little inventory resulting in lost sales or stock-outs.   + The firm has lower liquidity than the industry average. |
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1. Bookmark question for later

Macrosoft’s total asset turnover is closest to which of the following?

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| * + 0.38   + 2.11   + 1.39   + 0.72 |
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1. Bookmark question for later

Big-Tokyo Inc. has a financial leverage ratio of 2.00, total asset turnover of 1.50 and ROE of 18.00%. For Big-Tokyo’s industry, the average ROE is 16.00% and the industry average total asset turnover (TAT) and financial leverage ratio (FLR) are the same as Big-Tokyo. The industry average net margin must be:

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| * + Higher than Big-Tokyo's.   + Lower than Big-Tokyo's.   + Cannot be determined with available data.   + Equal to Big-Tokyo's. |
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1. Bookmark question for later

For Macrosoft’s industry, average fixed asset turnover is 2.31. Which of the following is the most plausible conclusion about Macrosoft?

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| * + Macrosoft must relax credit standards to increase sales.   + Macrosoft likely needs to invest in fixed assets in the near future.   + Macrosoft is using its fixed assets more efficiently than the industry norm.   + Macrosoft it is using its fixed assets less efficiently than the industry norm. |
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1. Bookmark question for later

Suppose that Macrosoft decides to increase the estimated life over which fixed assets are depreciated.  Which of the following is most likely?

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| * + Macrosoft’s OIROI will increase.   + Macrosoft’s total asset turnover will increase.   + Macrosoft’s inventory turnover will decrease.   + None of the above are likely. |
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1. Bookmark question for later

What is Macrosoft’s interest-bearing debt to total capital ratio (IBDTC)?

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| * + 43.73%   + 52.41%   + 51.24%   + 46.23% |
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1. Bookmark question for later

When performing ratio analysis, scrubbing the data includes all of the following except:

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| * + Identifying accounting differences among competitors.   + Choosing a relevant comparison set.   + Alignment of ratios for companies with different fiscal year-ends.   + All are included in scrubbing the data. |
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1. Bookmark question for later

Suppose that Macrosoft’s times interest earned ratio has varied between 0.80 times and 5.23 over the past five years. Which of the following statements is most plausible?

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| * + Macrosoft should use more debt to finance assets.   + Macrosoft’s borrowing cost may decrease due to the uncertainty of being able to cover interest payments.   + Banks will be eager to loan to Macrosoft because of the fluctuations in the times interest earned ratio.   + Macrosoft’s borrowing cost may increase due to the fluctuations in interest coverage. |
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1. Bookmark question for later

Which one of the following is not an element of the DuPont decomposition?

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| * + Sales as a percentage of total assets.   + Portion of assets financed by equity.   + Percentage of net income paid out as dividends.   + Earnings as a percentage of sales. |
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1. Bookmark question for later

If a firm’s financial leverage ratio is 2.50, what percentage of assets are financed by debt?

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| * + 40%   + 60%   + 50%   + 70% |
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1. Bookmark question for later

Consider the following table comparing Firm A and Firm B to the industry average (both firms operate in the same industry):

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| --- | --- | --- |
|  | **Firm A** | **Firm B** |
| **Current Ratio** | 0.5 higher than the industry | 0.5 higher than the industry |
| **ROE** | Industry average | Industry average |
| **Fixed Asset Turnover** | Lower than the industry by 0.3 | Industry average |
| **Quick Ratio** | Higher than the industry | Industry average |
| **Gross Margin** | Industry average | Industry average |
| **Sales/Current Assets** | Industry average | Lower than the industry |
| **Net Margin** | Higher than the industry | Industry average |
| **Current Liabilities** | Industry average | Industry average |

Which one of the following statements is most plausible?

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| * + Firm B holds more inventory than Firm A.   + Firm B has a higher total asset turnover than Firm A.   + Firm B is more profitable than Firm A.   + None of the above is plausible. |
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1. Bookmark question for later

True/False.  The process of making a target firm’s data comparable to a peer group is known as scrubbing the data.

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| TrueFalse |
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1. Bookmark question for later

What is the ROA for Macrosoft?

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| * + .0221%   + 2.21%   + 3.92%   + 7.27% |
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1. Bookmark question for later

Macrosoft’s biggest competitor, Mapple, has the gross margin of 41.84%, the operating margin of 11.50%, and the net margin of 3.13%. Both companies have a tax rate of 40%. Comparing these two companies, Macrosoft must have:

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| * + Lower cost of goods sold relative to its sales than Mapple.   + Lower operating expense relative to its sales than Mapple.   + Lower interest expense relative to its sales than Mapple.   + Lower sales than Mapple. |
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1. Bookmark question for later

What percentage of Macrosoft’s sales is consumed by operating expense (including depreciation)?

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| * + 40.47%   + 10.13%   + 30.34%   + 59.53% |
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1. Bookmark question for later

If the industry average ROE is 4.12% and ROA is 2.09%, the most plausible conclusion about Macrosoft’s profitability is:

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| * + Macrosoft is more profitable than the industry.   + Macrosoft should use more equity financing.   + Macrosoft is underperforming the industry.   + The industry is outperforming Macrosoft |
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1. Bookmark question for later

Suppose a firm has a financial leverage ratio of 2.50.  What percentage of the firm’s assets are financed by equity?

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| * + 60%   + 40%   + 70%   + 50% |
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1. Bookmark question for later

In Macrosoft’s industry, the average current ratio is 2.76, the average quick ratio is 1.56, the average inventory turnover is 1.68 and the industry average collection period is 54.3 days. When comparing Macrosoft to the industry, which one of the following statements is the most accurate?

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| * + Macrosoft is less liquid than the industry because of the firm’s high current and quick ratios.   + Macrosoft inventories are less liquid than the industry average.   + Macrosoft’s higher current ratio and quick ratio could be due to the build up illiquid current assets.   + None of the statements are correct. |
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1. Bookmark question for later

If the current ratio of a company is higher than the industry, then:

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| * + The company has higher liquidity than the industry.   + The company has about the same liquidity as the industry.   + The company has lower liquidity than the industry.   + You cannot tell without looking at other liquidity ratios. |
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1. Bookmark question for later

Suppose the inventory turnover of a company is higher than the industry.  Based on this observation, which of the following is most likely?

|  |
| --- |
| * + The firm has low sales volume.   + The firm has too little inventory resulting in lost sales or stock-outs.   + The firm has too much inventory thus impairing overall liquidity.   + The firm has lower liquidity than the industry average. |
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1. Bookmark question for later

Intel provides the following data for 2014:

· A/R 600

· Inventory 800

· Fixed assets 1,000

· A/P 500

· Long term debt 900

· Common stock 400

What is the current ratio?

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| * + 2.8   + 1.2   + 2.0   + 1.5 |
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1. Bookmark question for later

If a company wishes to obtain a bank loan, will it want to have a higher current ratio or a lower current ratio?

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| * + Higher   + The same   + It does not matter   + Lower |
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1. Bookmark question for later

A company has cash of $100, accounts receivable of $250, inventory of $300, and accounts payable of $300. What is the quick ratio?

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| * + 0.33   + 2.17   + 1.00   + 1.17 |
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1. Bookmark question for later

A company has cash sales of $200 and credit sales of $750. It’s average accounts receivable is $90. What is the A/R turnover?  What is the average collection period?

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| * + Turnover 10.56 ACP: 24.9   + Turnover: 8.33 ACP: .694   + Turnover: 10.56 ACP: 43.8   + Turnover 8.33 ACP: 43.8 |
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1. Bookmark question for later

The OIROI (operating income return on investment) uses what elements on the income statement?

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| * + Sales, total assets, equity   + Operating income, EBIT, total liabilities   + EBIT, total assets   + Net margin, total current assets |
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1. Bookmark question for later

Why would a company be interested in the TAT (total asset turnover) ratio?

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| * + It indicates how efficient assets are at producing sales.   + It indicates how efficient assets are to liabilities and equity.   + It indicates how efficient assets are at producing income.   + It indicates what the turnover of sales is to liabilities. |
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1. Bookmark question for later

If a company has current assets of $80 and fixed assets of $120, if sales are $150 and EBIT is $35, what is the fixed asset turnover?

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| * + 2.29   + 0.80   + 5.71   + 1.25 |
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1. Bookmark question for later

If a company has current assets of $90 and fixed assets of $140, if it has debt of $125, what is its debt ratio?

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| * + 1.84   + 1.36   + 1.12   + 0.54 |
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1. Bookmark question for later

A company has sales of $300, expenses of $200 and interest expense of $25, what is its times interest earned ratio?

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| * + 4.00   + 2.00   + 1.75   + 3.00 |
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1. Bookmark question for later

Suppose a firm has a financial leverage ratio of 2.50.  What percentage of the firm’s assets is financed by equity?

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| --- |
| * + 70%   + 50%   + 40%   + 60% |

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