

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.**

- 1) In general, what is changing as you read down the left-hand side of a balance sheet?
  - A) The assets are becoming more fully depreciated.
  - B) The assets are increasing in value.
  - C) The assets are increasing in maturity.
  - D) The assets are becoming less liquid.
  
- 2) Which of the following items should *not* be included in a listing of current assets?
  - A) Marketable securities
  - B) Accounts payable
  - C) Accounts receivable
  - D) Inventories
  
- 3) Suppose Dee's just acquired the assets of Flo's Flowers. The book value of Flo's Flowers assets was \$68,000 but Dee's paid a total of \$75,000. The additional \$7,000 paid by Dee's will be recorded on Dee's balance sheet as:
  - A) accounts payable.
  - B) goodwill.
  - C) other current assets.
  - D) property, plant, and equipment.
  
- 4) What happens to the market value of a firm's equity as the book value of the firm's equity increases?
  - A) It increases by the same amount.
  - B) It decreases by the same amount.
  - C) It remains constant.
  - D) There is no set relationship to determine this outcome.

5) Assume a firm generates \$2,000 in sales and has a \$500 increase in accounts receivable during an accounting period. Based solely on this information, cash flow will increase by:

- A) \$2,500.
- B) \$2,000.
- C) \$1,500.
- D) \$500.

6) Johnson's Nursery has net income of \$42,500, depreciation expense of \$1,800, interest expense of \$900, taxes of \$1,600, additions to net working capital of \$2,300, and capital expenditures of \$11,700. What is the amount of the free cash flow?

- A) \$30,300
- B) \$34,400
- C) \$31,200
- D) \$28,700

7) When a corporation fails, the maximum that can be lost by an individual shareholder is:

- A) the amount of their initial investment.
- B) the amount of their share of the profits.
- C) their proportionate share required to pay the corporation's debts.
- D) the amount of their personal wealth.

8) The legal "life" of a corporation is:

- A) coincidental with that of its CEO.
- B) equal to the life of its board of directors.
- C) permanent, as long as shareholders don't change.
- D) permanent, regardless of current ownership.

- 9) In which type of organizational structure is the agency problem least likely to exist?
- A) Limited Liability Corporation
  - B) Partnership
  - C) Professional Corporation
  - D) Sole Proprietorship
- 10) A firm with no leases has a long-term debt ratio of 50%. This means that the book value of equity:
- A) equals the book value of long-term debt.
  - B) is less than the book value of long-term debt.
  - C) is greater than the book value of long-term debt.
  - D) is unknown in relation to the book value of long-term debt.
- 11) A firm has \$600,000 in current assets and \$150,000 in current liabilities. Which of the following is correct if it uses cash to pay off \$50,000 in accounts payable?
- A) Current ratio will increase to 5.0.
  - B) Net working capital will increase to \$500,000.
  - C) Current ratio will decrease.
  - D) Net working capital will not change.
- 12) How would you interpret an inventory turnover ratio of 10.7?
- A) It takes 50 days on average to collect receivables.
  - B) Inventory is converted into sales every 50 days.
  - C) The firm has sufficient inventories to maintain sales for 34.1 days.
  - D) Assets are converted into sales every 50 days.

**13)** Which of the following will allow your firm to achieve its targeted 16% ROA with an asset turnover of 2.5?

- A) A leverage ratio of .0667
- B) A P/E ratio of 14
- C) A return on equity of 25%
- D) An operating profit margin of 6.4%

## Answer Key

Test name: Sample

1) D

2) B

3) B

4) D

5) C

6) C

Free cash flow =  $\$42,500 + 900 + 1,800 - 2,300 - 11,700 = \$31,200$

7) A

8) D

9) D

10) A

11) D

12) C

Days' sales in inventory =  $365 \text{ days} / 10.7 = 34.1 \text{ days}$

13) D

ROA = Operating profit margin  $\times$  Asset turnover

$0.16 = \text{Operating profit margin} \times 2.50$

Operating profit margin = 0.064, or 6.4%