

Final Exam (Sample)

Part I: Multiple Choices (2 points for each question, 36 points in total)

1. The statement of cash flows will not report the
 - a. amount of checks outstanding at the end of the period.
 - b. sources of cash in the current period.
 - c. uses of cash in the current period.
 - d. change in the cash balance for the current period.

2. Financing activities include
 - a. lending money to other company.
 - b. acquiring investments.
 - c. issuing debt.
 - d. acquiring non-current assets.

3. If a company has both an inflow and outflow of cash related to property, plant, and equipment, the
 - a. two cash effects can be netted and presented as one item in the investing activities section.
 - b. cash inflow and cash outflow should be reported separately in the investing activities section.
 - c. two cash effects can be netted and presented as one item in the financing activities section.
 - d. cash inflow and cash outflow should be reported separately in the financing activities section.

4. In preparing a statement of cash flows, a conversion of bonds into ordinary shares will be reported in
 - a. the financing section.
 - b. the operating section.
 - c. a separate note or supplementary schedule to the financial statements.
 - d. the equity section.

5. LF's Pest Control Products has the following information available:

Net Income	\$30,000
Cash Provided by Operations	40,000
Cash Sales	65,000
Capital Expenditures	11,000

Dividends Paid 3,000

What is LF's free cash flow?

- a. \$37,000
 - b. \$29,000
 - c. \$26,000
 - d. \$16,000
6. The most important item on the statement of cash flows is the change in the cash balance for the year
- a. True
 - b. False
7. Depreciation expense on the income statement would be considered as a cash outflow from operating activities.
- a. True
 - b. False
8. For external reporting, a company must prepare either an income statement or a statement of cash flows, but not both.
- a. True
 - b. False
9. Which one of the following is primarily interested in the liquidity of a company?
- a. Government agencies
 - b. Shareholders
 - c. Long-term creditors
 - d. Short-term creditors
10. Horizontal analysis evaluates a series of financial statement data over a period of time
- a. that has been arranged from the highest number to the lowest number.
 - b. that has been arranged from the lowest number to the highest number.
 - c. to determine which items are in error.
 - d. to determine the amount and/or percentage increase or decrease that has taken place.

11. In performing a vertical analysis, the base for cost of goods sold is
 - a. total selling expenses.
 - b. net sales.
 - c. total revenues.
 - d. total expenses.

12. A liquidity ratio measures the
 - a. income or operating success of an enterprise over a period of time.
 - b. ability of the enterprise to survive over a long period of time.
 - c. short-term ability of the enterprise to pay its maturing obligations and to meet unexpected needs for cash.
 - d. number of times interest is earned.

13. The acid-test (quick) ratio
 - a. is used to quickly determine a company's solvency and long-term debt paying ability.
 - b. relates cash, short-term investments, and net receivables to current liabilities.
 - c. is calculated by taking one item from the income statement and one item from the statement of financial position.
 - d. is the same as the current ratio except it is rounded to the nearest whole percent.

14. Asset turnover measures
 - a. how often a company replaces its assets.
 - b. how efficiently a company uses its assets to generate sales.
 - c. the portion of the assets that have been financed by creditors.
 - d. the overall rate of return on assets.

15. The debt to total assets ratio measures
 - a. the company's profitability.
 - b. whether interest can be paid on debt in the current year.
 - c. the proportion of interest paid relative to dividends paid.
 - d. the percentage of the total assets provided by creditors.

16. A weakness of the current ratio is
- the difficulty of the calculation.
 - that it doesn't take into account the composition of the current assets.
 - that it is rarely used by sophisticated analysts.
 - that it can be expressed as a percentage, as a rate, or as a proportion.
17. Kandy Kane Corporation has income from continuing operations before taxes of \$1,600,000 and a discontinued operations gain of \$400,000. If the income tax rate is 25% on all items, the income statement should show income from continuing operations and a discontinued operations gain, respectively, of
- \$1,300,000 and \$400,000.
 - \$1,300,000 and \$300,000.
 - \$1,200,000 and \$400,000.
 - \$1,200,000 and \$300,000.
18. Based on the 6/11 group presentations, which of the following description is **incorrect**?
- According to group 5's research, both 台橡 and 南帝 have worse profitability in the year of 2017 because the materials used to produce products are more expensive during the period.
 - 統一超 has much better profitability in the year of 2017 relative to other years mainly because it reported larger other income and expense resulting from gains from sale of 上海星巴克。
 - According to group 12's presentation, they compare 誠品生活 with 時報。
 - According to group 12's presentation, they compare 誠品生活 with 遠百。

Part II: Problems (68 points in total)

1. AGECE Corporation's comparative balance sheet as of December 31, 2020 and 2019 and its statement of comprehensive income for the year ended December 31, 2020 below. (10 points)

Required:

Using the direct method, prepare the cash flow from operating activity part of the statement of cash flow for AGECE Corporation.

AGECE Corporation
Comparative balance sheet
December 31, 2020 and 2019

	2020	2019
Assets		
Cash	\$154,800	\$ 50,000
Accounts receivable (net)	175,200	200,000
Merchandise inventory	350,000	460,000
Prepaid rent	2,000	3,000
Furniture and fixtures	148,000	134,000
Accumulated depreciation, furniture and fixtures	<u>(42,000)</u>	<u>(24,000)</u>
Total assets	<u>\$788,000</u>	<u>\$ 823,000</u>
Liabilities and Shareholders' Equity		
Notes payable (long-term)	40,000	20,000
Accounts payable	\$142,400	\$ 200,400
Income taxes payable	2,400	4,400
Bonds payable	100,000	200,000
Share Capital-Ordinary, \$20 par value	240,000	200,000
Share Premium-Ordinary	181,440	121,440
Retained earnings	<u>81,760</u>	<u>76,760</u>
Total liabilities and shareholders' equity	<u>\$788,000</u>	<u>\$ 823,000</u>

AGECE Corporation
Statement of Comprehensive Income
For the Year Ended December 31, 2015

Sales	\$1,609,000
Cost of goods sold	<u>1,127,800</u>
Gross margin	\$ 481,200
Operating expense (including depreciation expense of \$46,800)	<u>449,400</u>
Income from operations	\$ 31,800
Other income (expenses)	
Gain on sale of furniture and fixtures	\$ 7,000
Interest expense	<u>(13,200)</u>
Income before income taxes	\$ 25,600
Income taxes expense	<u>4,600</u>
Net income	<u>\$ 21,000</u>

2.

Using the following information, prepare a statement of cash flows for the year ended December 31, 2020, using the indirect method. (26 points)

NTU Corporation
Balance Sheet
December 31, 2020

Assets	<u>2020</u>	<u>2019</u>
Cash	\$ 11,000	\$ 46,500
Accounts receivable	180,000	115,500
Land	75,000	60,000
Equipment	70,000	90,000
Accumulated depreciation	<u>(13,500)</u>	<u>(19,500)</u>
Total assets	<u>\$322,500</u>	<u>\$292,500</u>
 Liabilities and Equity		
Accounts payable	\$ 6,000	\$ 9,000
Long-term debt	20,000	28,500
Share Capital-Ordinary	197,000	174,500
Treasury Share	(7,000)	(2,000)
Retained earnings	<u>106,500</u>	<u>82,500</u>
Total liabilities & equity	<u>\$322,500</u>	<u>\$292,500</u>

NTU Corporation
Statement of Comprehensive Income
For the year ended December 31, 2020

Sales	\$ 420,000
Cost of goods sold	<u>(289,000)</u>
Gross margin	\$ 131,000
Depreciation expense	(10,000)
Operating expense	<u>(65,000)</u>
Operating income	\$ 56,000
Gain on sale of equipment	<u>4,000</u>
Income before income tax	\$ 60,000
Income tax expense	<u>(18,000)</u>
Net Income	<u>42,000</u>

Other comprehensive income	<u>0</u>
Comprehensive income	<u>\$ 42,000</u>

- Equipment with a cost of \$20,000 and accumulated expense of \$16,000 was sold in 2020. Gain on the sale of equipment is 4,000.
- Dividends were declared and paid in 2020 (hint: use the relationship between beginning retained earnings, ending retained earnings, and net income to calculate dividends paid during the year.)
- Share was repurchased during 2020, but no treasury share was sold.

3.

The comparative condensed statements of financial position of Bailey Corporation are presented below.

BAILEY CORPORATION		
Comparative Condensed Statements of Financial Position		
December 31		
	<u>2020</u>	<u>2019</u>
Assets		
Property, plant, and equipment (net)	\$ 94,500	\$ 90,000
Intangibles	33,500	40,000
Current assets	<u>70,000</u>	<u>80,000</u>
Total assets	<u>\$198,000</u>	<u>\$210,000</u>
Equity and liabilities		
Shareholders' equity	\$ 16,200	\$ 12,000
Non-current liabilities	141,000	150,000
Current liabilities	<u>40,800</u>	<u>48,000</u>
Total equity and liabilities	<u>\$198,000</u>	<u>\$210,000</u>

Instructions

- (a) Prepare a horizontal analysis of the statements of financial position data for Bailey Corporation using 2019 as a base. (6 points)
- (b) Prepare a vertical analysis of the statements of financial position data for Bailey Corporation in columnar form for 2020. (6 points)

4.

The financial statements of Grogan Company appear below:

GROGAN COMPANY
Comparative Statements of Financial Position
December 31,

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Property, plant and equipment (net)	\$260,000	\$300,000
Inventory.....	50,000	70,000
Accounts receivable (net)	50,000	30,000
Short-term investments.....	15,000	60,000
Cash	25,000	40,000
Total assets	<u>\$400,000</u>	<u>\$500,000</u>
 <u>Equity and liabilities</u>		
Share capital – ordinary	\$150,000	\$150,000
Retained earnings	110,000	70,000
Bonds payable.....	80,000	160,000
Accounts payable.....	20,000	30,000
Short-term notes payable	40,000	90,000
Total equity and liabilities	<u>\$400,000</u>	<u>\$500,000</u>

GROGAN COMPANY
Income Statement
For the Year Ended December 31, 2020

Net sales	\$400,000
Cost of goods sold.....	<u>240,000</u>
Gross profit.....	160,000
Operating expenses	<u>42,000</u>
Income from operations	118,000
Interest expense	<u>18,000</u>
Income before income taxes.....	100,000
Income tax expense	<u>30,000</u>
Net income	<u>\$ 70,000</u>

Additional information:

- a. Cash dividends of \$23,000 were declared and paid in 2020.
- b. Weighted-average number of ordinary shares outstanding during 2020 was 30,000 shares.
- c. Market value of ordinary shares on December 31, 2020, was \$21 per share.

Instructions

Using the financial statements and additional information, compute the following ratios for Grogan Company for 2020. Show all computations. Note that there are 8 more questions in the next page. (20 points)

Computations

1. Current ratio _____.
2. Return on ordinary shareholders' equity _____.

3. Price-earnings ratio _____.
4. Acid-test ratio _____.
5. Accounts receivable turnover _____.
6. Times interest earned _____.
7. Profit margin _____.
8. Days in inventory _____.
9. Payout ratio _____.
10. Return on assets _____.

Answer key:

I. Multiple choice questions:

1	2	3	4	5
A	C	B	C	C
6	7	8	9	10
B	B	B	D	D
11	12	13	14	15
B	C	B	B	D
16	17	18		
B	D	D		

II. Problems:

1.

		Adjustment		
	Accruals	Add	Deduct	Cash flows
Sales	1,609,000	Decrease in A/R \$24,800		\$1,633,800
Cost of goods sold	1,127,800	Decrease in A/P \$58,000	Decrease in inventory \$110,000	(1,075,800)
Operating expense (net of depreciation)	449,400 — 46,800 = 402,600		Decrease in prepaid rent \$1,000	(401,600)
Interest expense	13,200			(13,200)
Income tax expense	4,600	Decrease in income tax payable \$2,000		(6,600)
				<u>136,600</u>

AGEC Corporation

Statement of Cash flows

For the year ended Dec. 31, 2015

Cash flow from operating activities

Cash collection from customer	\$ 1,633,800
Cash payment to supplier	(1,075,800)
Cash payment for operating expense	(401,600)
Cash payment for interest	(13,200)
Cash payment for income tax	(6,600)

Cash flows from operating activity	<u>\$ 136,600</u>
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2. 打星號需計算的項目（2項）一個三分，其他自income before income tax起的項目（9項），一個兩分，其他加總項目，請斟酌給分。

ANS:

NTU Corporation		
Statement of Cash Flows		
For the Year Ended December 31, 2020		
<i>Cash Flows from Operating Activities:</i>		
Income before income tax		\$60,000
Add (deduct) adjustments to cash basis:		
Depreciation	\$ 10,000	
Gain on sale of equipment	(4,000)	
Increase in accounts receivable	(64,500)	
Decrease in accounts payable	(3,000)	
Income tax paid	<u>(18,000)</u>	<u>(79,500)</u>
Net cash flows used by operating activities		\$(19,500)
<i>Cash Flows from Investing Activities:</i>		
Cash receipt from sale of equipment	\$ 8,000**	
Cash payment for purchase of land	<u>(15,000)</u>	
Net cash flows used by investing activities		(7,000)
<i>Cash Flows from Financing Activities:</i>		
Cash receipts from sale of ordinary shares	\$22,500	
Cash payment to repurchase stock (treasury shares)	(5,000)	
Cash payment to retire long-term debt	(8,500)	
Cash payment for dividends	<u>(18,000)***</u>	
Net cash flows provided by financing activities		<u>(9,000)</u>
Net decrease in cash		\$(35,500)
Beginning cash balance		<u>46,500</u>
Ending cash balance		<u>\$ 11,000</u>
** Cost of equipment		
		\$ 20,000
Accumulated depreciation		
		<u>- 16,000</u>

Book value	\$ 4,000
Gain on sale of equipment	<u>4,000</u>
Proceeds from sale of equipment	<u>\$ 8,000</u>
*** Beginning retained earnings	\$ 82,500
Net income	42,000
Dividends	<u>(18,000)</u>
Ending retained earnings	<u>\$ 106,500</u>

3.

(a)

BAILEY CORPORATION
Condensed Statements of Financial Position
December 31

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>	<u>Percentage Change from 2019</u>
Assets				
Property, plant, & equipment (net)	\$ 94,500	\$ 90,000	\$ 4,500	5.0%
Intangibles	33,500	40,000	(6,500)	(16.3%)
Current assets	<u>70,000</u>	<u>80,000</u>	<u>(10,000)</u>	(12.5%)
Total assets	<u>\$198,000</u>	<u>\$210,000</u>	<u>\$(12,000)</u>	(5.7%)
Equity and liabilities				
Shareholders' equity	\$ 16,200	\$ 12,000	\$ 4,200	35.0%
Non-current liabilities	141,000	150,000	(9,000)	(6.0%)
Current liabilities	<u>40,800</u>	<u>48,000</u>	<u>(7,200)</u>	(15.0%)
Total equity and liabilities	<u>\$198,000</u>	<u>\$210,000</u>	<u>\$(12,000)</u>	(5.7%)

(b)

BAILEY CORPORATION
Condensed Statements of Financial Position
December 31, 2020

	<u>Amount</u>	<u>Percent</u>
Assets		
Property, plant, and equipment (net)	\$ 94,500	47.7%
Intangibles	33,500	16.9%
Current assets	<u>70,000</u>	<u>35.4%</u>
Total assets	<u>\$198,000</u>	<u>100.0%</u>
Equity and liabilities		
Shareholders' equity	\$ 16,200	8.2%
Non-current liabilities	141,000	71.2%
Current liabilities	<u>40,800</u>	<u>20.6%</u>
Total equity and liabilities	<u>\$198,000</u>	<u>100.0%</u>

4.

1. Current ratio 2.3:1.
$$\frac{\$140,000}{\$60,000} = 2.3$$
2. Return on ordinary shareholders' equity 29.2%.
$$\frac{\$70,000}{(\$260,000 + \$220,000) \div 2} = .292$$
3. Price-earnings ratio 9 times.
$$\text{EPS} = \frac{\$70,000}{30,000} = \$2.33;$$
$$\frac{\$21}{\$2.33} = 9 \text{ times}$$
4. Acid-test ratio 1.5:1.
$$\frac{\$90,000}{\$60,000} = 1.5:1$$
5. Accounts receivable turnover 10 times.
$$\frac{\$400,000}{(\$50,000 + \$30,000) \div 2} = 10$$
6. Times interest earned 6.6 times.
$$\frac{\$70,000 + \$30,000 + \$18,000}{\$18,000} = 6.6$$
7. Profit margin 17.5%.
$$\frac{\$70,000}{\$400,000} = .175$$
8. Days in inventory 91.3 days.
$$\text{Inventory turnover} = \frac{\$240,000}{(\$50,000 + \$70,000) \div 2} = 4.0;$$
$$\frac{365 \text{ days}}{4.0} = 91.3$$
9. Payout ratio 32.9%.
$$\frac{\$23,000}{\$70,000} = .329$$
10. Return on assets 15.6%.
$$\frac{\$70,000}{(\$400,000 + \$500,000) \div 2} = .156$$