Question 1. Which of the following financial ratios is the most likely to represent information about whether a firm has enough liquids assets to pay for debt that is maturing within one year?



(A) Current ratio

(B) Debt-to-equity ratio



(C) Gross profit margin



(D) Interest coverage ratio



Question 2. Which of the following financial ratios is the most likely one you would use in order to determine whether a firm has an appropriate level of pricing for the products the firm sells to customers?



(A) Current ratio



(B) Debt-to-equity ratio

(C) Gross profit margin



(D) Interest coverage ratio



Question 3.

You want to fill in the following blanks, given the following information:

Total asset turnover ratio is 3.6  
Gross profit margin is 10%.  
Average collection period is 36 days  
Inventory turnover ratio is 32.4  
Acid-test ratio is 2.3

Assume that there are 360 days in a year and all sales were made on credit.



|  |  |  |  |
| --- | --- | --- | --- |
| Cash | 10 | Accounts Payables | 20 |
| Accounts Receivables | 36 | Long-term Debt | 20 |
| Inventory | 10 | Common Stock | 20 |
| Plant and Equipment | 44 | Retained Earnings | 40 |
| Total Assets | 100 | Total Debt and Shareholders' Equity | 100 |



Question 3-1. What is the amount for Cash? 10



Question 3-2. What is the amount for Accounts Receivable? 36

Question 3-3. What is the amount for Plant and Inventory? 10

Question 3-4. What is the amount for Plant and Equipment? 44

Assets = Debt + Equity. Total Debt and Shareholders' Equity = 100. Hence, Common Stock is 20.

Asset turnover = Sales/Assets = 3.6. Hence, sales = 360.



Gross profit margin = (Sales – COGS)/Sales = 0.1. Hence, COGS = 324.



Average collection period = 360/(Sales/ Accounts Receivables) = 36. Hence, Accounts Receivables is 36.



Inventory turnover = COGS/Inventory = 32.4. Hence, Inventory is 10.



Acid-test ratio = (Cash + Accounts Receivables)/Accounts Payables = (Cash + 36)/20 = 2.3. Hence, Cash = 10.

Plant and Equipment is the remaining component in Total Assets. It is 44.

Question 4. Which of the following statements is FALSE?

(A) If the average collection period from customers for a firm is higher than the industry average, the firm should try to accelerate the pace of collecting unpaid amounts from customers

(B) If the payable turnover in days for a firm is lower than the industry leverage, it should accelerate the pace of making payments to its suppliers

(C) If the net profit margin for a firm is low, but its gross profit margin is high, then it may have paid out too much salary to its workers

(D) A firm in the banking industry typically has higher financial leverage than a start-up firm

As for cash inflows, you want to receive them as soon as possible.

As for cash outflows, you want to delay them as much as possible.

Question 5.

Below is the balance sheet in dollars for in Company SZ in 2020.



|  |  |  |  |
| --- | --- | --- | --- |
| Cash | 10 | Accounts Payables | 20 |
| Accounts Receivables | 36 | Long-term Debt | 20 |
| Inventory | 10 | Common Stock | 20 |
| Plant and Equipment | 44 | Retained Earnings | 40 |
| Total Assets | 100 | Total Debt and Shareholders' Equity | 100 |

Below is the balance sheet in dollars for in Company SZ in 2019.



|  |  |  |  |
| --- | --- | --- | --- |
| Cash | 10 | Accounts Payables | 10 |
| Accounts Receivables | 46 | Long-term Debt | 30 |
| Inventory | 15 | Common Stock | 20 |
| Plant and Equipment | 39 | Retained Earnings | 50 |
| Total Assets | 110 | Total Debt and Shareholders' Equity | 110 |

You want to create a flow of fund statement.

Question 5-1. You want to identify the sources of fund and their amounts. Which of the following items does not represent sources of fund?



(A) Increase in Plant and Equipment by $5



(B) Decrease in Accounts Receivables by $10

(C) Decrease in Inventory by $5



(D) Increase in Accounts Payables by $10

Sources of fund refer to decreases in Assets, increases in Liabilities, and increases in Equity.



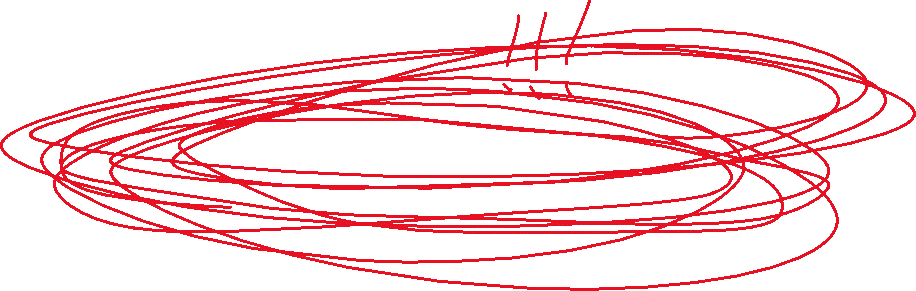
Question 5-2. You want to identify the uses of fund and their amounts. Which of the following items does not represent uses of fund?

(A) Increase in Plant and Equipment by $5

(B) Decrease in Long-term Debt by $10

(C) Decrease in Retained Earnings by $10

(D) Decrease in Inventory by $5



Uses of fund refer to increases in Assets, decreases in Liabilities, and decreases in Equity.