5.03 Analyzing Balance Sheets

Question 1
A company reported a goodwill impairment of USD 800 million for the first quarter ending 20X2. Based on only this information, it is *most likely* that:
A. net income was unaffected by the impairment.
B. investing cash flow was reduced by the amount of impairment.
C. management overpaid for one or more acquisitions in the past.

Question 2
An analyst compiles the following common-size balance sheet items for a company:

	20X9	**20X8**
Cash and cash equivalents	4	5
Accounts receivable	15	14
Inventory	28	25
Total current assets	*47*	*44*
Property, plant & equipment	50	56
Goodwill	3	0
Total assets	*100*	*100*
Accounts payable	12	9
Short-term debt	8	10
Total current liabilities	20	19
Long-term debt	57	59
Total liabilities	*77*	*78*
Total shareholders' equity	23	22
Total liabilities and shareholders' equity	*100*	*100*

Based only on the data above, the *most appropriate* conclusion the analyst can draw is that compared to 20X8, in 20X9 the company has:
A. increasing solvency risk.
B. a more liquid asset base.
C. not made any acquisitions.

Question 3
An analyst gathers the following data:

Selected Financial Statement Items

(MXN *millions*)

	Company		
Accounts	A	B	C
Cash	15	25	20
Marketable securities	10	7	15
Accounts receivable	16	19	35
Inventory	126	45	16
Prepaid insurance expense	15	19	25
Accounts payable	13	20	13
Wages payable	18	15	22
Current portion of long-term debt	11	57	16
Interest payable	35	5	39

Which of the following companies *most likely* has the greatest ability to pay its current liabilities based on the quick ratio?
A. Company A
B. Company B
C. Company C

Question 4
An analyst forecasts the upcoming year's fixed charge coverage ratio (FCCR) to be 2. Within the forecast:

- EBIT is AUD 10 million,
- tax expense is AUD 1.5 million, and
- interest expense is AUD 4 million.

The forecasted lease amount (in AUD millions) is *closest* to:
A. 1.0
B. 2.0
C. 3.5

Question 5
An analyst collects the following year-end information on three companies:

Selected Financial Data

($ *thousands*)	Company X	Company Y	Company Z
Current assets			
Cash	1,200	16,500	3,000
Accounts receivable	3,000	5,300	8,000
Inventory	8,000	23,000	16,000
Total current assets	12,200	44,800	27,000
Property, plant, and equipment	6,000	9,000	10,000
Goodwill	7,000	8,500	5,000
Total assets	25,200	62,300	42,000

On its common-size balance sheet, which company *most likely* reports the highest percentage of inventory?
A. Company X
B. Company Y
C. Company Z

Question 6
Which of the following is *most likely* a disclosure for PPE that is required under IFRS but not under US GAAP?
A. Useful lives
B. Gross carrying amounts
C. Estimated depreciation over the next five years

Question 7
An airline company reports the following information for 20X8:

	£ thousands
Gross profit	2,900
Finance lease payments	(900)
Other operating expenses	(500)
Interest payments	(800)
Earnings before tax (EBT)	700
Tax (30%)	(210)
Net income	490

The fixed charge coverage ratio for 20X8 is *closest* to:

A. 1.29
B. 1.41
C. 1.88

Question 8
An analyst compiles the following financial data for two companies:

Selected Financial Data			
Company A ($ millions)			
Cash and cash equivalents	300	Accounts payable	140
Marketable securities	60	Taxes payable	40
Accounts receivable	90	Short-term debt	420
Inventories	240		
Company B			
Cash ratio	0.56		
Quick ratio	0.85		
Current ratio	1.09		

Based only on this data, which ratio indicates that Company A has a greater risk of being unable to meet its short-term obligations than Company B?
A. Cash ratio
B. Quick ratio
C. Current ratio

Question 9
Over multiple fiscal years, a company's historical common-size balance sheets *most likely* reflect a change in:
A. financial leverage.
B. operating cash flow.
C. cross-sectional profitability.

Question 10
A portfolio manager gathers the following data:

(KRW *millions*)	
Cash	15,000
Accounts receivable	25,000
Inventory	17,000
Accounts payable	35,000
Interest payable	74,000
Bonds payable	135,000
Noncurrent deferred revenue	35,000
Common stock	157,000
Retained earnings	200,000

If the company has no other long-term debts, its long-term debt-to-equity ratio is *closest* to:
A. 0.38
B. 0.48
C. 1.08

Question 11
An acquiring company purchases a target company. The goodwill created from the transaction is *best described* as the difference between the acquirer's purchase price and the target company's:
A. book value of equity.
B. fair value of net assets.
C. market value of common stock.

Question 12
An analyst gathers the following information for a company:

20X8	**(€ *thousands*)**
Assets	5,000
Short-term debt	500
Long-term debt	2,000
Deferred tax liabilities	300
Deferred revenue	100
Accounts payable	100

Based on this information, the company's debt-to-capital ratio for 20X8 is *closest* to:
A. 0.50
B. 0.56
C. 0.60

Question 13

A company provides the following balance sheet information:

($ *millions*)	Current year	Prior year
ASSETS		
Current assets	20	15
Plant, property & equipment	60	45
Intangible assets	120	85
Total assets	200	145
LIABILITIES AND EQUITY		
Current liabilities	25	20
Long-term notes payable	20	25
Total liabilities	45	45
Common stock	85	70
Retained earnings	70	30
Total equity	155	100
Total liabilities and equity	200	145

Compared to the prior year, a current year common-size balance sheet would *most likely* show a(n):

A. increase in current assets.

B. increase in common stock.

C. decrease in current liabilities.

Question 14

An analyst collects the following information (in ¥ millions) for a company:

Cash	1,900
Marketable securities	500
Accounts receivable	200
Accounts payable	6,000

If there are no other current liabilities, compared with the industry average cash ratio of 0.4, the company's cash ratio is *most likely*:

A. less than the industry average.

B. equal to the industry average.

C. greater than the industry average.

Question 15

An analyst collects the following selected financial statement items for a company:

Selected Items from 20X8 Financial Statements ($ *thousands*)			
Income statement		*Balance sheet*	
Depreciation expense	(150)	Noncurrent assets	
		Property, plant & equipment (gross)	2,400
		Accumulated depreciation	(450)
		Property, plant & equipment (net)	1,950

Based on this information, and assuming straight-line depreciation, the estimated remaining useful life of the company's noncurrent assets is *closest* to:
A. 3 years.
B. 13 years.
C. 16 years.

Question 16
An analyst gathers the following information about a company:
- In 20X1, the company borrowed using a 20-year mortgage.
- In May 20X3, the company received cash for services to be delivered in 20X5.
- In November 20X3, the company purchased inventory and will pay suppliers in February 20X4.

In 20X3, which of the following is *most likely* classified as a long-term liability?
A. The unearned revenue
B. The current portion of long-term debt
C. The debt payable from the inventory purchase

Question 17
An analyst evaluates the solvency of three companies and gathers the following information:

	Company X	**Company Y**	**Company Z**
Total assets	6,340	3,460	7,030
Common stock	750	140	470
Additional paid-in capital	2,800	1,890	3,900
Retained earnings	900	310	110
Treasury stock	(50)	(100)	(110)

Based on the companies' financial leverage ratios, which company has the *greatest* ability to meet long-term obligations?
A. Company X
B. Company Y
C. Company Z

Question 18
A bank examiner collects the following data:

	Company		
	X	Y	Z
Long-term debt-to-equity ratio	0.80	3.00	1.25
Financial leverage ratio	2.00	5.00	2.75
Total long-term debt (€)	4,000	3,000	5,000

Which company has the *greatest* value of assets?
A. Company X
B. Company Y
C. Company Z

Question 19
An analyst gathers the following information:

Selected Financial Statement Items

	Company		
Accounts	**X**	**Y**	**Z**
Cash	50	50	20
Marketable securities	20	100	120
Accounts receivable	80	40	50
Inventory	60	20	430
Unearned revenue	790	850	930
Accounts payable	220	350	130
Dividends payable	210	320	450
Taxes payable	110	250	540

Based on the cash ratio, the company *least* able to meet its short-term obligations is:
A. Company X
B. Company Y
C. Company Z

Question 20
A company reports under US GAAP. The company's common-size balance sheet for 20X6 and 20X5 is listed below:

Assets (*units in percentages*)	20X6	20X5
Current Assets		
Cash	5.3	10.5
Accounts Receivable	18.4	21.6
Inventory	32.6	27.3
Total Current Assets	56.3	59.4
Property Plant and Equipment	36.4	38.6
Goodwill	7.3	2.0
Total Assets	100.0	100.0

Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts Payable	10.8	10.9
Short-term Debt	14.3	10.4
Accured Expenses	2.8	2.6
Total Current Liabilities	27.9	23.9
Long-term Debt	20.0	22.1
Total Liabilities	47.9	46.0
Total Shareholders' Equity	52.1	54.0
Total Liabilities and Shareholders' Equity	100.0	100.0

Assuming total assets remained the same from 20X5 to 20X6, which statement *most accurately* describes what occurred during 20X6?

A. Working capital increased

B. The company made an acquisition

C. The financial leverage ratio decreased

Question 21

A company discloses its required depreciation expense for five years:

20X3–20X7 depreciation expense (in USD)	
20X3	52,000
20X4	60,000
20X5	75,000
20X6	87,000
20X7	101,000

The company uses units of production to calculate depreciation expense. Based only on this data, the company *most likely* expects an increase in:

A. unit cost.
B. net margin.
C. units produced.

Question 22
An analyst gathers the following selected information for a company:

(€ millions)	20X5	20X4
Cash	380	410
Marketable securities	210	230
Accounts receivable	490	205
Inventory	1,010	540
Total assets	5,300	4,450
Current liabilities	1,750	1,410
Common stock	420	140
Additional paid-in capital	1,760	1,700
Retained earnings	280	310
Treasury stock	(50)	(90)

Based on only this information, which of the following ratios *most likely* suggests decreased financial risk in 20X5?
A. Cash ratio
B. Current ratio
C. Financial leverage ratio

Question 23
An analyst gathers the following information:

Selected Financial Statement Items

	Company		
Accounts	X	Y	Z
Cash	680	740	870
Marketable securities	800	230	770
Accounts receivable	640	210	30
Inventory	40	550	610
Current liabilities	1,200	750	1,150

Based on this information, and assuming there are no other current assets, the company with the largest quick ratio is *most likely*:

A. Company X
B. Company Y
C. Company Z