# Module 1 Practice Quiz 2

**8/8** points earned (100%)

Excellent!

Retake

[Course Home](https://www.coursera.org/learn/corporate-finance/home/welcome)

Correct

1 / 1 points

1. Consider the following two balance sheets for firms A and B and answer the question below.

**FIRM A**

|  |  |  |  |
| --- | --- | --- | --- |
| Current Assets | $200,000 | Current Liabilities | $100,000 |
| Non-Current Assets | $300,000 | Non-Current Liabilities | $300,000 |
|  | \_\_\_\_\_\_\_\_ | Equity | $100,000 |
| Total Assets | $500,000 | Total | $500,000 |

**FIRM B**

|  |  |  |  |
| --- | --- | --- | --- |
| Current Assets | $200,000 | Current Liabilities | $400,000 |
| Non-Current Assets | $800,000 | Non-Current Liabilities | $100,000 |
|  | \_\_\_\_\_\_\_\_ | Equity | $500,000 |
| Total Assets | $1,000,000 | Total | $1,000,000 |

Is the following statement true or false?

Since both companies have the same amount of current assets, one can conclude that they both have similar levels of liquidity.

1. True
2. **False**

**Correct Response**

The answer is false because firm B has much higher levels of current liabilities.

Correct

1 / 1 points

2. Consider the following two balance sheets for firms A and B and answer the question below.

**FIRM A**

|  |  |  |  |
| --- | --- | --- | --- |
| Current Assets | $200,000 | Current Liabilities | $100,000 |
| Non-Current Assets | $300,000 | Non-Current Liabilities | $300,000 |
|  | \_\_\_\_\_\_\_\_ | Equity | $100,000 |
| Total Assets | $500,000 | Total | $500,000 |

**FIRM B**

|  |  |  |  |
| --- | --- | --- | --- |
| Current Assets | $200,000 | Current Liabilities | $400,000 |
| Non-Current Assets | $800,000 | Non-Current Liabilities | $100,000 |
|  | \_\_\_\_\_\_\_\_ | Equity | $500,000 |
| Total Assets | $1,000,000 | Total | $1,000,000 |

Is the following statement true or false?

Firm B has lower liquidity than firm A.

1. **True**

**Correct Response**

The answer is true since firm B's current ratio is significantly lower than firm A's.

1. False

Correct

1 / 1 points

3. Consider the following two balance sheets for firms A and B and answer the question below.

**FIRM A**

|  |  |  |  |
| --- | --- | --- | --- |
| Current Assets | $200,000 | Current Liabilities | $100,000 |
| Non-Current Assets | $300,000 | Non-Current Liabilities | $300,000 |
|  | \_\_\_\_\_\_\_\_ | Equity | $100,000 |
| Total Assets | $500,000 | Total | $500,000 |

**FIRM B**

|  |  |  |  |
| --- | --- | --- | --- |
| Current Assets | $200,000 | Current Liabilities | $400,000 |
| Non-Current Assets | $800,000 | Non-Current Liabilities | $100,000 |
|  | \_\_\_\_\_\_\_\_ | Equity | $500,000 |
| Total Assets | $1,000,000 | Total | $1,000,000 |

Is the following statement true or false?

Firm B has lower leverage than firm A.

1. **True**

**Correct Response**

The answer is true, Firm A has 400k in total liabilities and assets equal to 500k, Firm B has 500k in liabilities but assets equal to 1,000k.

1. False

Correct

1 / 1 points

4. Consider the following data and answer the question below.

**Company 1**

|  |  |  |  |
| --- | --- | --- | --- |
| Cash | 50 | Payables | 150 |
| Inventory | 250 | Short term debt | 120 |
| Receivables | 180 | \_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_ |
| Current Assets | 480 | Current liabilities | 270 |

Which of the following options is correct?

1. Current ratio = 1.67; quick ratio = 1.53
2. Current ratio = 1.8; quick ratio = 0.18
3. Current ratio = 2.1; quick ratio = 0.85
4. **Current ratio = 1.8; quick ratio = 0.85**

**Correct Response**

Current ratio = Current assets/Current liabilities = 480/270. Quick ratio = (Cash+Receivables)/Current liabilities = 230/270.

Correct

1 / 1 points

5. Consider the following data and answer the question below.

**Company 1**

|  |  |  |  |
| --- | --- | --- | --- |
| Cash | 50 | Payables | 150 |
| Inventory | 250 | Short term debt | 120 |
| Receivables | 180 | \_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_ |
| Current Assets | 480 | Current liabilities | 270 |

Consider the data above and assume that we are comparing Company 1 to Company 2. Company 2 has a current ratio equal to 1.1. Which of the following statements is correct?

1. Both companies have the same amount of balance sheet liquidity.
2. Company 1 does not necessarily have higher liquidity than company 2 because company 1 can have other liabilities such as long-term debt.
3. Company 1 has higher liquidity than company 2.
4. **Company 1 does not necessarily have higher liquidity than company 2 because inventory may not be a liquid asset. We also need to compare quick ratios and cash ratios.**

**Correct Response**

As we learned in the lecture, inventory may not be liquid, so we would also need to know the quick ratio and the cash ratio for company 2 before drawing a conclusion.

Correct

1 / 1 points

6. Consider the following data and answer the question below.

**Balance sheet in book values:**

|  |  |  |  |
| --- | --- | --- | --- |
| Assets | 1200 | Total debt | 1200 |
|  |  | Liabilities | 1500 |
|  |  | Equity | -300 |
| Stock price | 25 |  |  |
| Shares outstanding | 100 |  |  |

Is the following statement true or false?

Since this company has negative equity and a leverage ratio above one, it is effectively bankrupt.

1. True
2. **False**

**Correct Response**

Book equity is negative, but the market value of equity is positive (2,500). The relevant value is the market value of equity = stock price \* shares outstanding.

Correct

1 / 1 points

7. Consider the following data and answer the question below.

**Balance sheet in book values:**

|  |  |  |  |
| --- | --- | --- | --- |
| Assets | 1200 | Total debt | 1200 |
|  |  | Liabilities | 1500 |
|  |  | Equity | -300 |
| Stock price | 25 |  |  |
| Shares outstanding | 100 |  |  |

What is the market value of assets for this company?

1. 2,500
2. **4,000**

**Correct Response**

Market value of assets = Market value of equity + Liabilities = 2,500 + 1,500.

1. 1,500
2. 1,200

Correct

1 / 1 points

8. Consider the following data and answer the question below.

**Balance sheet in book values:**

|  |  |  |  |
| --- | --- | --- | --- |
| Assets | 1200 | Total debt | 1200 |
|  |  | Liabilities | 1500 |
|  |  | Equity | -300 |
| Stock price | 25 |  |  |
| Shares outstanding | 100 |  |  |

Which option is correct?

1. Debt/(Debt + Equity) = 1.33 and Liabilities/Assets = 0.38
2. Debt/(Debt + Equity) = 1.33 and Liabilities/Assets = 1.25
3. Debt/(Debt + Equity) = 0.32 and Liabilities/Assets = 1.25
4. **Debt/(Debt + Equity) = 0.32 and Liabilities/Assets = 0.38**

**Correct Response**

Total debt = 1200 and debt + equity = 1200 + 2500 (remember to use market equity). Liabilities = 1500 and the market value of assets = 4000.