# Module 1 Practice Quiz 3

**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 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 |  |  |

**Income statement:**

|  |  |
| --- | --- |
| Sales | 1000 |
| Costs | 750 |
| Operating income | 250 |
| Interest | 60 |
| Taxable income | 190 |
| Taxes | 57 |
| Net income | 133 |

The company's OPAT (operating profit after taxes) is \_\_\_\_\_\_\_\_\_\_\_.

1. 190
2. 133
3. **193**

**Correct Response**

OPAT = Operating income - taxes = 250 - 57

1. 250

Correct

1 / 1 points

2. 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 |  |  |

**Income statement:**

|  |  |
| --- | --- |
| Sales | 1000 |
| Costs | 750 |
| Operating income | 250 |
| Interest | 60 |
| Taxable income | 190 |
| Taxes | 57 |
| Net income | 133 |

Is the following statement true or false?

Since this company has negative book equity, one should not compute an ROE (return on equity) profitability ratio.

1. **True**

**Correct Response**

It makes no sense to divide profits by a negative number. You need to compute return on assets instead.

1. False

Correct

1 / 1 points

3. 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 |  |  |

**Income statement:**

|  |  |
| --- | --- |
| Sales | 1000 |
| Costs | 750 |
| Operating income | 250 |
| Interest | 60 |
| Taxable income | 190 |
| Taxes | 57 |
| Net income | 133 |

Which option is correct?

1. **Asset turnover = 0.83; profit margin = 0.19; ROA = 0.16**

**Correct Response**

Asset turnover = Sales/Assets = 1000/1200 (remember that here you want to use book assets). Profit margin = OPAT/Sales = 193/1000, and ROA = OPAT/Assets = 193/1200.

1. Asset turnover = 0.25; profit margin = 0.13; ROA = 0.16
2. Asset turnover = 0.83; profit margin = 0.13; ROA = 0.05
3. Asset turnover = 0.25; profit margin = 0.19; ROA = 0.05

Correct

1 / 1 points

4. Examine the following cash flow statements and answer the questions below

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | C |
| Cash From Operating | -250 | -200 | 250 |
| Cash From Investing | -400 | 400 | -400 |
| Cash From Financing | 650 | -200 | 250 |
| Net Change in Cash | 0 | 0 | 100 |

Is the following statement true or false?

Firm B is likely to be a start up since it has negative cash profits, but it is investing heavily in the business and raising funds from investors.

1. True
2. **False**

**Correct Response**

Firm B is actually selling off investments (positive cash flow from investments) and paying off investors (negative cash flow from financing). Firm A looks more like a start up.

Correct

1 / 1 points

5. Examine the following cash flow statements and answer the questions below

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | C |
| Cash From Operating | -250 | -200 | 250 |
| Cash From Investing | -400 | 400 | -400 |
| Cash From Financing | 650 | -200 | 250 |
| Net Change in Cash | 0 | 0 | 100 |

Is the following statement true or false?

Firm C generated excess cash during the year, so the net change in cash will increase the firm's cash balances.

1. **True**

**Correct Response**

The answer is true, cash balances will go up by exactly 100.

1. False

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 |  |  |

**Cash flow statement:**

|  |  |
| --- | --- |
| Cash flow from operations | 270 |
| Cash flow from investments | -150 |
| Cash flow from financing | -50 |
| Net change in cash | 70 |

This company's cash profitability ratio is

1. 0.058
2. **0.225**

**Correct Response**

Cash profitability = Operating cash flow/assets = 270/1200

1. 0.183
2. -0.125

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 |  |  |

**Income statement:**

|  |  |
| --- | --- |
| Sales | 1000 |
| Costs | 750 |
| Operating income | 250 |
| Interest | 60 |
| Taxable income | 190 |
| Taxes | 57 |
| Net income | 133 |

Which option is correct?

1. **Value/OPAT = 20.73; Market/Book = 3.33**

**Correct Response**

Value/OPAT = 4,000/193; and Market/Book = 4,000/1,200. We use the market value of assets, computed in Lesson 1-2 Practice Quiz question 5.

1. Value/OPAT = 18.79; Market/Book = -8.33
2. Value/OPAT = 18.79; Market/Book = 2.08
3. Value/OPAT = 30.06; Market/Book = -8.33

Correct

1 / 1 points

8. Is the following statement true or false?

A company with a market-book ratio lower than one is a company that is likely to have poor growth prospects.

1. **True**

**Correct Response**

This ratio captures future/past, so a low ratio means that future prospects are likely to be poor.

1. False