20

Student name:\_\_\_\_\_\_\_\_\_\_

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
1)** The right-hand side of the balance sheet is where \_\_\_\_\_\_\_\_ is reported.

1) \_\_\_\_\_\_

A) property, plant, and equipment   
 B) accumulated retained earnings  
 C) accumulated depreciation  
 D) cash and equivalents  
 E) intangible assets

**2)** The line on the balance sheet called \_\_\_\_\_\_\_\_ represents the entire book value of the residual ownership of a corporation.

2) \_\_\_\_\_\_

A) total equity   
 B) total long-term liabilities  
 C) retained earnings  
 D) capital surplus  
 E) total assets

**3)** The book value of all of a corporation’s net profits, minus all of its dividend payments, is reported on the \_\_\_\_\_\_\_\_ line of the balance sheet.

3) \_\_\_\_\_\_

A) capital surplus   
 B) accumulated retained earnings  
 C) treasury stock  
 D) common stock  
 E) total equity

**4)** Which one of the following is a current liability?

4) \_\_\_\_\_\_

A) An invoice due to a supplier 14 months from today   
 B) A note payable to a lender in nine months  
 C) Estimated income taxes which were just paid today  
 D) A loan payment due to a bank 14 months from today  
 E) An invoice due from a customer in 30 days

**5)** If total assets increase:

5) \_\_\_\_\_\_

A) net working capital must also increase.   
 B) an investment in fixed assets must have occurred.  
 C) stockholders’ equity must also increase.  
 D) the change must be offset by an equal increase in liabilities and stockholders’ equity.  
 E) net income must be positive.

**6)** Of the following choices, the most liquid asset is typically:

6) \_\_\_\_\_\_

A) inventory.   
 B) land.  
 C) accounts receivable.  
 D) equipment.  
 E) patents.

**7)** Regarding liquidity, which one of the following statements is accurate?

7) \_\_\_\_\_\_

A) Liquid assets generally earn higher rates of return than fixed assets.   
 B) If you can sell an asset next year at a price equal to its actual value, the asset is highly liquid.  
 C) Liquid assets are defined as those assets obtained within the past year.  
 D) The less liquidity a firm has, the lower the probability the firm will encounter financial difficulties.  
 E) Balance sheet accounts are listed in order of decreasing liquidity.

**8)** Liquidity is:

8) \_\_\_\_\_\_

A) a measure of the use of debt in a firm’s capital structure.   
 B) equal to the book value of a firm’s total assets minus its total liabilities.  
 C) equal to the market value of a firm’s total assets minus its total liabilities.  
 D) valuable to a firm even though liquid assets tend to be less profitable to own.  
 E) generally most closely associated with intangible, rather than tangible, assets.

**9)** \_\_\_\_\_\_\_\_ is a component of total stockholders’ equity.

9) \_\_\_\_\_\_

A) Long-term debt   
 B) Deferred taxes  
 C) Property, plant and equipment  
 D) Accumulated retained earnings  
 E) Dividends paid

**10)** Which of the following statements is accurate? Book value is:

10) \_\_\_\_\_\_

A) equivalent to market value for firms with fixed assets.   
 B) based on historical cost.  
 C) always more than market value.  
 D) more of a financial than an accounting valuation.  
 E) adjusted whenever the market value of an asset changes.

**11)** Assume you sell an asset today. Which of the following amounts are you most likely to receive?

11) \_\_\_\_\_\_

A) Market value   
 B) Original cost minus accumulated depreciation  
 C) Historical value  
 D) Book value  
 E) Carrying value

**12)** The accounting definition that underlies the balance sheet can be expressed accurately as:

12) \_\_\_\_\_\_

A) Assets ≡ Liabilities − Stockholders’ equity   
 B) Stockholders’ equity ≡ Assets + Liabilities  
 C) Liabilities ≡ Stockholders’ equity − Assets  
 D) Assets ≡ Stockholders’ equity − Liabilities  
 E) Stockholders’ equity ≡ Assets − Liabilities

**13)** On a balance sheet, \_\_\_\_\_\_\_\_ is (are) reported with fixed assets.

13) \_\_\_\_\_\_

A) intangible assets   
 B) accounts payable  
 C) preferred stock  
 D) inventory  
 E) accounts receivable

**14)** Deferred taxes are a component of \_\_\_\_\_\_\_\_ on a balance sheet.

14) \_\_\_\_\_\_

A) stockholders’ equity   
 B) current assets  
 C) long-term liabilities  
 D) fixed assets  
 E) current liabilities

**15)** If a firm’s financial managers successfully meet their primary goal, then the firm’s:

15) \_\_\_\_\_\_

A) debts will exceed its equity.   
 B) market value will exceed its book value.  
 C) net working capital will exceed its long-term debt.  
 D) carrying value will exceed its market value.  
 E) equity will exceed its assets.

**16)** A(n) \_\_\_\_\_\_\_\_ asset is one that can be readily converted into cash without a significant loss in its value.

16) \_\_\_\_\_\_

A) marketable   
 B) tangible  
 C) intangible  
 D) liquid  
 E) fixed

**17)** Assume a profitable firm has neither issued nor repurchased any shares of its common stock, nor has it ever paid dividends. If the book value of the firm’s stockholders’ equity has increased, it follows that the:

17) \_\_\_\_\_\_

A) book value of the firm’s inventory has decreased.   
 B) firm’s earnings per share has increased.  
 C) market value of the firm’s buildings has increased.  
 D) market value of the firm’s long-term debt has increased.  
 E) noncash expenses have increased.

**18)** The balance sheet reports assets in order of:

18) \_\_\_\_\_\_

A) decreasing liquidity.   
 B) date of acquisition.  
 C) increasing size.  
 D) market value relative to book value.  
 E) book value.

**19)** If a firm’s treasury stock balance increases, the:

19) \_\_\_\_\_\_

A) total equity of the firm increases.   
 B) firm has issued new shares of stock to the federal government.  
 C) number of shares outstanding increases.  
 D) firm repurchased outstanding shares of stock.  
 E) total liabilities of the firm increases.

**20)** The book value of a firm’s assets:

20) \_\_\_\_\_\_

A) is determined under Generally Accepted Accounting Principles (GAAP) and is based on the cost of those assets.   
 B) represents the true market value of those assets according to GAAP.  
 C) is always the best measure of the company’s value to an investor.  
 D) is always higher than the replacement cost of the assets.  
 E) is reported on the firm’s income statement.

**21)** Under Generally Accepted Accounting Principles (GAAP), a firm’s assets are reported at:

21) \_\_\_\_\_\_

A) market value.   
 B) liquidation value.  
 C) market value less accumulated depreciation.  
 D) historical cost less accumulated depreciation.  
 E) liquidation value less accumulated depreciation.

**22)** The income statement:

22) \_\_\_\_\_\_

A) measures performance of the firm for one specific day.   
 B) ignores any income other than operating revenues.  
 C) excludes deferred tax expense.  
 D) treats dividends paid as a cash expense.  
 E) includes noncash expenses.

**23)** Generally Accepted Accounting Principles (GAAP) require revenue to be recognized as income when:

23) \_\_\_\_\_\_

A) a contract is signed to perform a service or deliver a good.   
 B) the transaction is complete and the goods or services are delivered.  
 C) payment is requested.  
 D) income taxes are paid on the revenue earned.  
 E) the end of the financial reporting period arrives.

**24)** A firm’s accounting performance during a particular period of time is reported on the:

24) \_\_\_\_\_\_

A) income statement.   
 B) balance sheet.  
 C) statement of cash flows.  
 D) tax reconciliation statement.  
 E) statement of equity.

**25)** The term “noncash items” is referring to:

25) \_\_\_\_\_\_

A) the credit sales of a firm.   
 B) the accounts payable of a firm.  
 C) the costs incurred for the purchase of intangible fixed assets.  
 D) expenses charged against revenues that do not directly affect cash flow.  
 E) all accounts on the balance sheet other than cash on hand.

**26)** If a firm has long-term debt, net income must equal:

26) \_\_\_\_\_\_

A) Pretax income − Interest expense − Taxes.   
 B) EBIT − Taxes.  
 C) Taxes + Addition to retained earnings.  
 D) Operating income × (1 − Marginal tax rate).  
 E) Dividends + Addition to retained earnings.

**27)** As seen on the income statement of a tax-paying firm:

27) \_\_\_\_\_\_

A) interest is deducted from income and increases the total taxes incurred.   
 B) the tax rate is applied to the earnings before interest and taxes when the firm pays interest.  
 C) depreciation is shown as an expense but does not affect the tax expense.  
 D) depreciation reduces both the pretax income and the net income.  
 E) interest expense is added to earnings before interest and taxes to compute pretax income.

**28)** All else held constant, the earnings per share will decrease as the:

28) \_\_\_\_\_\_

A) net income increases.   
 B) number of shares outstanding increases.  
 C) total revenue of the firm increases.  
 D) tax rate decreases.  
 E) costs decrease.

**29)** Which one of the following statements is correct?

29) \_\_\_\_\_\_

A) Pretax income is equal to net income minus taxes.   
 B) The addition to retained earnings is equal to net income plus dividends.  
 C) 5 D) Only current taxes are included in the tax expense.  
 E) Earnings per share can be negative but dividends per share cannot.

**30)** Earnings per share:

30) \_\_\_\_\_\_

A) will increase if net income increases and the number of shares outstanding decreases.   
 B) will increase if net income decreases and the number of shares outstanding increases.  
 C) is defined as the addition to retained earnings divided by the number of shares outstanding.  
 D) is the total amount of dividends paid per year on a per share basis.  
 E) must increase at the same rate as the net income.

**31)** Earnings per share will increase when:

31) \_\_\_\_\_\_

A) depreciation decreases.   
 B) the number of shares outstanding increases.  
 C) operating income decreases.  
 D) dividends per share decrease.  
 E) the average tax rate increases.

**32)** If the number of shares outstanding and total earnings both remain constant, an increase in dividends per share will:

32) \_\_\_\_\_\_

A) reduce the earnings per share.   
 B) reduce the addition to retained earnings.  
 C) reduce net income.  
 D) increase total equity.  
 E) increase total assets.

**33)** Which one of the following items is a noncash item?

33) \_\_\_\_\_\_

A) Deferred taxes   
 B) Interest expense  
 C) Current taxes  
 D) Dividends  
 E) Selling expenses

**34)** Assume a firm is profitable and pays income taxes. For each $1 increase in the firm’s depreciation expense:

34) \_\_\_\_\_\_

A) net income will decrease by $1.   
 B) net income will increase by $1.  
 C) net income will decrease by more than $1.  
 D) net income will decrease by less than $1.  
 E) net income will increase by less than $1.

**35)** According to Generally Accepted Accounting Principles (GAAP), the cost of goods sold is:

35) \_\_\_\_\_\_

A) recorded when inventory is acquired.   
 B) recorded when payables are paid.  
 C) matched with revenues.  
 D) matched with production levels.  
 E) expensed at the end of the production cycle.

**36)** If a firm is profitable and pays income taxes, depreciation expense:

36) \_\_\_\_\_\_

A) decreases both operating income and net income.   
 B) increases net fixed assets.  
 C) reduces both net fixed assets and total operating costs.  
 D) is a noncash expense that increases net operating income.  
 E) decreases net fixed assets, net income, and operating cash flows.

**37)** During a period of one year, which one of the following choices is most likely to be a fixed, rather than variable, cash expense?

37) \_\_\_\_\_\_

A) Raw materials cost   
 B) Bond interest  
 C) Commissions paid to sales representatives  
 D) Depreciation  
 E) Manufacturing labor costs

**38)** Assume a firm is either a proprietorship, partnerships, or LLC. When an analyst at the firm is evaluating a financial decision, the analyst should employ the \_\_\_\_\_\_\_\_ tax rate.

38) \_\_\_\_\_\_

A) average   
 B) fixed  
 C) marginal  
 D) total  
 E) variable

**39)** The \_\_\_\_\_\_\_\_ tax rate applies to the next dollar of taxable income earned.

39) \_\_\_\_\_\_

A) deductible   
 B) residual  
 C) total  
 D) average  
 E) marginal

**40)** As of 2018, the U.S. corporate tax rate is:

40) \_\_\_\_\_\_

A) based on a progressive tax rate schedule.   
 B) based on a tiered, multi-rate flat tax.  
 C) a flat tax of 34 percent.  
 D) zero with all corporate taxable income passed to shareholders.  
 E) a flat rate of 21 percent.

**41)** A firm starts its year with positive net working capital. During the year, the firm acquires more short-term debt than it does short-term assets. This means that:

41) \_\_\_\_\_\_

A) the ending net working capital must be negative.   
 B) both accounts receivable and inventory decreased during the year.  
 C) the beginning current assets were less than the beginning current liabilities.  
 D) accounts payable and inventory increased during the year.  
 E) the ending net working capital can be positive, negative, or equal to zero.

**42)** For a growing firm, the change in net working capital is generally:

42) \_\_\_\_\_\_

A) positive.   
 B) negative.  
 C) highly erratic.  
 D) highly negative.  
 E) equal to zero.

**43)** An increase in \_\_\_\_\_\_\_\_ will cause the operating cash flow of a profitable firm to increase.

43) \_\_\_\_\_\_

A) depreciation   
 B) cash  
 C) net working capital  
 D) taxes  
 E) administrative expenses

**44)** The cash flow to creditors is *not* impacted by:

44) \_\_\_\_\_\_

A) interest paid on long-term debt.   
 B) a new mortgage on a building.  
 C) an increase in accounts payable.  
 D) a mortgage interest payment.  
 E) a reduction in long-term debt.

**45)** A firm’s \_\_\_\_\_\_\_\_ equals its dividend payments less any net new equity raised.

45) \_\_\_\_\_\_

A) operating cash flow   
 B) capital spending  
 C) net working capital  
 D) cash flow from creditors  
 E) cash flow to stockholders

**46)** \_\_\_\_\_\_\_\_ will cause the current year’s cash flow to creditors to increase.

46) \_\_\_\_\_\_

A) Collection of a refund for the overpayment of a loan   
 B) Payoff of a 36-month loan after the first 15 months  
 C) Payment of a late charge on an account payable to a supplier  
 D) Acquiring a new loan that will be repaid in one lump sum 24 months from now  
 E) Purchasing inventory using credit offered by a supplier

**47)** The cash flow to stockholders must be positive when:

47) \_\_\_\_\_\_

A) the dividends paid are less than the amount of net new equity raised.   
 B) the net sale of common stock exceeds the amount of dividends paid.  
 C) no income is distributed but new shares of stock are sold.  
 D) the cash flow from assets is positive and exceeds the cash flow to creditors.  
 E) both the cash flow to assets and the cash flow to creditors are positive.

**48)** Cash flow from assets:

48) \_\_\_\_\_\_

A) equals net income plus noncash items.   
 B) can be positive, negative, or equal to zero.  
 C) equals operating cash flow minus net capital spending.  
 D) equals the addition to retained earnings.  
 E) equals operating cash flow minus the cash flow to creditors.

**49)** Net capital spending is equal to the:

49) \_\_\_\_\_\_

A) net change in total assets plus depreciation.   
 B) net change in fixed assets plus depreciation.  
 C) net income plus depreciation.  
 D) difference between the market and book values of the total assets.  
 E) change in total assets.

**50)** Cash flow to stockholders is defined as:

50) \_\_\_\_\_\_

A) cash dividends paid.   
 B) repurchases of equity less new equity sold minus cash dividends paid.  
 C) cash flow from financing less cash flow to creditors.  
 D) cash dividends paid plus repurchases of equity minus new equity financing.  
 E) cash flow from assets plus cash flow to creditors.

**51)** Free cash flow refers to:

51) \_\_\_\_\_\_

A) the money generated from the sale of new shares of stock.   
 B) operating cash flow.  
 C) the cash generated by decreasing net working capital.  
 D) cash that the firm can distribute to creditors and stockholders.  
 E) the net income of a firm after taxes have been paid.

**52)** The cash flow of the firm must be equal to the:

52) \_\_\_\_\_\_

A) cash flow to stockholders minus the cash flow to creditors.   
 B) cash flow to creditors minus the cash flow to stockholders.  
 C) cash flow to governments plus the cash flow to stockholders.  
 D) cash flow to stockholders plus the cash flow to creditors.  
 E) aftertax operating cash flow.

**53)** \_\_\_\_\_\_\_\_ is the cash flow resulting from a firm’s ongoing, normal business activities.

53) \_\_\_\_\_\_

A) Operating cash flow   
 B) Net capital spending  
 C) Additions to net working capital  
 D) Free cash flow  
 E) Cash flow to investors

**54)** Capital spending is equal to:

54) \_\_\_\_\_\_

A) ending net fixed assets minus beginning net fixed assets.   
 B) ending net fixed assets minus beginning net fixed assets plus depreciation.  
 C) ending total assets minus beginning total assets.  
 D) ending total assets minus beginning total assets plus depreciation.  
 E) beginning total assets plus asset purchases minus asset sales.

**55)** Operating cash flow is defined as:

55) \_\_\_\_\_\_

A) Pretax income − Taxes.   
 B) Net income − Dividends.  
 C) EBIT + Depreciation − Taxes.  
 D) Pretax income + Depreciation.  
 E) Cash flow to investors + Taxes.

**56)** Payments to creditors that include both interest and repayment of principal are referred to as:

56) \_\_\_\_\_\_

A) the cash flow to stockholders.   
 B) deferred tax payments.  
 C) debt service payments.  
 D) operating cash flow.  
 E) net working capital payments.

**57)** In the accounting statement of cash flows, \_\_\_\_\_\_\_\_ is calculated by adding back noncash expenses to net income, and then adjusting for changes in current assets and current liabilities.

57) \_\_\_\_\_\_

A) cash flow from investing activities   
 B) cash flow from financing activities  
 C) net working capital  
 D) cash flow from operations  
 E) cash flow to investors

**58)** The accounting statement of cash flows reports the cash flows from:

58) \_\_\_\_\_\_

A) operations, investing activities, and financing activities.   
 B) operations, investing activities, and divesting activities.  
 C) internal activities, external activities, and financing activities.  
 D) balance sheet accounts only.  
 E) income statement accounts only.

**59)** In the accounting statement of cash flows, interest expense is:

59) \_\_\_\_\_\_

A) ignored completely.   
 B) included as a financing activity.  
 C) included both as an operating and as a financing activity.  
 D) included as an investing activity.  
 E) included in operations.

**60)** One of the reasons why cash flow analysis is popular is because:

60) \_\_\_\_\_\_

A) cash flows are more subjective than net income.   
 B) deferred taxes require future cash payment.  
 C) cash flows are strictly defined by Generally Accepted Accounting Principles (GAAP).  
 D) it is difficult to manipulate, or spin the cash flows.  
 E) operating cash flows are found on the income statement.

**61)** Tejado Supply has total equity of $1,830, fixed assets of $2,170, long-term debt of $740, and short-term debt of $430. What is the amount of Tejado’s current assets?

61) \_\_\_\_\_\_

A) $400   
 B) $830  
 C) $340  
 D) $660  
 E) $1,090

**62)** Olmos Packaging has equipment with a book value of $3,560 that could be sold today for $3,900. Its inventory is valued at $1,780 and could be sold immediately to a competitor at a discount of 25 percent. The firm has $260 in cash and customers owe the firm $950, of which 98 percent is collectible. What is the current market value of the firm's assets?

62) \_\_\_\_\_\_

A) $6,086   
 B) $5,536  
 C) $6,426  
 D) $6,316  
 E) $5,946

**63)** Hudson Enterprises spent $6,400 to purchase equipment three years ago. This equipment is currently valued at $4,600 on today’s balance sheet but could actually be sold for $5,100. Net working capital is $800 and long-term debt is $3,700. Assuming the equipment is the firm’s only fixed asset, what is the book value of shareholders’ equity?

63) \_\_\_\_\_\_

A) $1,700   
 B) $3,500  
 C) $2,200  
 D) $100  
 E) $600

**64)** Soto Marketing has sales of $760,000 and costs of $630,000. Interest expense is $21,000 and depreciation is $48,000. The tax rate is 23 percent. What is the net income?

64) \_\_\_\_\_\_

A) $83,930   
 B) $61,000  
 C) $46,970  
 D) $63,140  
 E) $115,970

**65)** Arroyo Industries has revenues of $64,480, interest expense of $1,740, depreciation of $3,960, cost of goods sold of $25,840, dividends paid of $5,200, and administrative expenses of $7,040. The combined federal and state income tax rate is 22 percent. What is the addition to retained earnings?

65) \_\_\_\_\_\_

A) $18,091   
 B) $20,700  
 C) $16,359  
 D) $15,002  
 E) $20,202

**66)** Yang Services has annual revenue of $37,800, cost of goods sold of $23,200, and administrative expenses of $6,300. The firm paid $700 in dividends, $280 in interest, and has a total tax rate of 21 percent. The firm will add $2,810 to retained earnings. What is the depreciation expense?

66) \_\_\_\_\_\_

A) $2,300   
 B) $3,709  
 C) $2,640  
 D) $780  
 E) $3,577

**67)** Margolin & Li has total revenues of $4,315, selling and administrative expenses of $611, depreciation of $309, cost of goods sold of $2,403, taxes of $178, dividends of $80, and interest expense of $168. What is the amount of the noncash items?

67) \_\_\_\_\_\_

A) $481   
 B) $477  
 C) $248  
 D) $309  
 E) $567

**68)** Mahesri Excavations added $411 to retained earnings last year on sales of $24,646. The administrative expenses were $4,370, depreciation was $812, dividends paid were $285, and the interest expense was $103. What was the cost of goods sold if the total tax rate was 23 percent?

68) \_\_\_\_\_\_

A) $20,225   
 B) $24,385  
 C) $18,457  
 D) $14,815  
 E) $21,393

**69)** Gupta Global has operating income of $68,200, interest expense of $210, dividends paid of $320, depreciation of $12,400, other income of $2,100, common stock of $48,500 with a par value of $1 per share, and retained earnings of $29,700. What is the earnings per share if the tax rate is 21 percent?

69) \_\_\_\_\_\_

A) $1.14   
 B) $1.21  
 C) $.82  
 D) $.96  
 E) $1.33

**70)** Given the personal income tax rates as shown, what is the average tax rate for an individual with taxable income of $96,000?

|  |  |
| --- | --- |
| **Taxable Income** | **Tax Rate** |
| **$0 − 9,950** | 10% |
| **9,950 − 40,525** | 12 |
| **40,525 − 86,375** | 22 |
| **86,375 − 164,925** | 24 |

70) \_\_\_\_\_\_

A) 24.00%   
 B) 2.41%  
 C) 11.38%  
 D) 17.77%  
 E) 21.00%

**71)** Rahman Motors is a sole proprietorship that earned $156,000 in taxable income. Given the personal income tax rates shown below, what is the total tax?

|  |  |
| --- | --- |
| **Taxable Income** | **Tax Rate** |
| **$0 − 9,950** | 10% |
| **9,950 − 40,525** | 12 |
| **40,525 − 86,375** | 22 |
| **86,375 − 164,925** | 24 |

71) \_\_\_\_\_\_

A) $16,710.00   
 B) $37,440.00  
 C) $25,326.50  
 D) $32,760.00  
 E) $31,461.00

**72)** Hasan Restaurant Group is a sole proprietorship that has taxable income of $147,200. Based on the partial individual tax schedule shown below, how much additional tax will be owed if the taxable income increases by $12,800? Assume this is the sole source of income for the owner.

|  |  |
| --- | --- |
| **Taxable Income** | **Tax Rate** |
| **$0 − 9,950** | 10% |
| **9,950 − 40,525** | 12 |
| **40,525 − 86,375** | 22 |
| **86,375 − 164,925** | 24 |

72) \_\_\_\_\_\_

A) $3,072.00   
 B) $2,816.00  
 C) $2,688.00  
 D) $1,338.50  
 E) $1,536.00

**73)** Assume Kiolbassa Books paid $368,060 in taxes on taxable income of $1,673,000 last year. This year, the firm paid $401,545 in taxes on taxable income of $1,818,586. Assume the tax rates were the same for both years. What are the marginal and average tax rates for this year?

73) \_\_\_\_\_\_

A) 21%; 21%   
 B) 22%; 21%  
 C) 23%; 22%  
 D) 22%; 22%  
 E) 23%; 21%

**74)** A firm has $1,120 in inventory, $2,780 in fixed assets, $1,470 in accounts receivable, $930 in accounts payable, and $540 in cash. What is the amount of the net working capital?

74) \_\_\_\_\_\_

A) $4,980   
 B) $2,200  
 C) $3,130  
 D) $4,060  
 E) $5,910

**75)** A firm has $760 in inventory, $2,740 in fixed assets, $930 in accounts receivable, $480 in accounts payable, $270 in long-term debt, and $120 in cash. What is the amount of the net working capital?

75) \_\_\_\_\_\_

A) $3,800   
 B) $1,810  
 C) $1,330  
 D) $2,290  
 E) $4,550

**76)** At the end of the year, Kiehnau Kicks had $11,400 in inventory, $23,470 in fixed assets, $13,240 in accounts receivable, $9,760 in accounts payable, $5,350 in long-term debt, and $4,820 in cash. How much net working capital did the firm have?

76) \_\_\_\_\_\_

A) $19,700   
 B) $37,820  
 C) $29,460  
 D) $39,220  
 E) $52,930

**77)** At the beginning of the year, a firm had total assets of $51,400, fixed assets of $32,800, and current liabilities of $13,280. At the end of the year, the current assets are $14,800, the fixed assets are $34,100, and the current liabilities are $14,210. What is the change in net working capital for the year?

77) \_\_\_\_\_\_

A) −$18,930   
 B) −$6,950  
 C) $11,470  
 D) −$4,730  
 E) $9,110

**78)** Wilson Corporation started the year with $280 in cash, $924 in inventory, $361 in accounts payable, $1,687 in equipment, and $414 in accounts receivable. At year's end, the firm had $311 in cash, $1,594 in equipment, $1,003 in inventory, $426 in accounts receivable, and $398 in accounts payable. What was the change in net working capital during the year?

78) \_\_\_\_\_\_

A) −$860   
 B) $191  
 C) $85  
 D) −$94  
 E) −$206

**79)** Gonzalez Awnings has net fixed assets of $38,215, long-term debt of $22,400, cash of $560, accounts payable of $4,611, inventory of $11,408, and accounts receivable of $3,462. How much net working capital does the firm have?

79) \_\_\_\_\_\_

A) $11,634   
 B) $26,634  
 C) $13,117  
 D) $10,819  
 E) $14,736

**80)** A firm with no debt has total sales of $22,980, costs of $14,715, and depreciation of $6,045. The combined federal and state tax rate is 23 percent. What is the operating cash flow?

80) \_\_\_\_\_\_

A) $1,465.20   
 B) $2,410.80  
 C) $8,340.00  
 D) $7,754.40  
 E) $9,019.80

**81)** McSherry Interiors has beginning net fixed assets of $234,100 and ending net fixed assets of $243,600. Assets valued at $42,500 were sold during the year. Depreciation was $62,500. What is the amount of net capital spending?

81) \_\_\_\_\_\_

A) −$42,500   
 B) $9,500  
 C) $72,000  
 D) $53,000  
 E) $29,500

**82)** At the beginning of the year, long-term debt of a firm was $2,400 and total debt was $3,150. At the end of the year, long-term debt is $2,800 and total debt is $4,370. The interest paid was $40. What is the amount of the cash flow to creditors?

82) \_\_\_\_\_\_

A) $440   
 B) −$40  
 C) $1,260  
 D) $1,180  
 E) −$360

**83)** Walker Custom Boots has beginning long-term debt of $840 and ending long-term debt of $790. The beginning and ending total debt balances are $1,220 and $1,360, respectively. The interest paid is $30. What is the amount of the cash flow to creditors?

83) \_\_\_\_\_\_

A) $80   
 B) −$110  
 C) $110  
 D) $20  
 E) −$80

**84)** For the year, Andrus Event Management had net income of $8,110. The firm paid out 30 percent of the net income to its shareholders as dividends and also paid $210 in interest. During the year, the company repurchased $500 worth of common stock and borrowed $250. What is the cash flow to stockholders?

84) \_\_\_\_\_\_

A) $2,933   
 B) $1,893  
 C) $1,933  
 D) $2,433  
 E) $2,893

**85)** Zhao Pediatrics has operating cash flow of $11,618. Depreciation is $2,345 and interest paid is $395. A net total of $485 was paid on long-term debt. The firm spent $6,180 on fixed assets and decreased net working capital by $420. What is the cash flow of the firm?

85) \_\_\_\_\_\_

A) $5,858   
 B) $8,203  
 C) $9,228  
 D) $5,018  
 E) $7,363

**86)** Trevino Pet Care has total revenues of $3,811, costs of $2,902, depreciation of $315, interest expense of $168, and taxes of $89. At the beginning of the year, the firm had current assets of $2,150, total assets of $4,908, and total liabilities of $1,964. At the end of the year, the current assets are $2,202, total assets are $5,103, and total liabilities are $1,952. What is the amount of net capital spending for the year?

86) \_\_\_\_\_\_

A) −$182   
 B) $133  
 C) $458  
 D) $510  
 E) $285

**87)** Grimaldi, Incorporated, has total revenue of $4,116, depreciation of $319, selling and administrative expenses of $554, interest expense of $162, dividends of $75, cost of goods sold of $2,354, and taxes of $186. What is the operating cash flow?

87) \_\_\_\_\_\_

A) $1,118   
 B) $795  
 C) $1,147  
 D) $1,022  
 E) $720

**88)** Reed & Barr has interest expense of $168, total revenues of $38,411, costs of $28,515, depreciation of $306, and taxes of $1,979. The beginning balance sheet has total assets of $48,354, net fixed assets of $31,202, current liabilities of $14,207, and total liabilities of $29,407. The ending balance sheet shows total assets of $49,305, net fixed assets of $33,406, current liabilities of $17,318, and total liabilities of $30,404. What is the annual cash flow of the firm?

88) \_\_\_\_\_\_

A) $9,771   
 B) −$2,160  
 C) $15,168  
 D) $8,474  
 E) $2,857

**89)** Batiste Corporation had taxable income of $1,630 and a tax rate of 23 percent for the year. The firm neither issued nor repurchased shares of stock but did decrease its retained earnings by $310. What is the cash flow to stockholders?

89) \_\_\_\_\_\_

A) $1,749.50   
 B) $535.50  
 C) $959.50  
 D) $1,242.50  
 E) $1,565.10

**90)** Goodwin Transport paid $85 in dividends and $110 in interest expense during a given year. During that same year, the firm issued $40 in new equity shares, issued new debt of $65, and repaid $23 of old debt. What is the cash flow to creditors for that year?

90) \_\_\_\_\_\_

A) $152   
 B) $146  
 C) $237  
 D) $68  
 E) $46

**91)** At the beginning of this year, Basit Framing had net fixed assets of $21,506 and total assets of $32,687. At year’s end, net fixed assets are $20,492 and total assets are $32,915. The annual depreciation expense is $1,520. What is net capital spending for this year?

91) \_\_\_\_\_\_

A) −$850   
 B) $506  
 C) −$1,292  
 D) −$2,534  
 E) $1,748

**92)** For the year, Gripka Fashion has depreciation of $2,058, dividends paid of $125, interest expense of $382, an addition to retained earnings of $3,408, and an increase in common stock of $2,500. The total tax rate is 21 percent. What is the operating cash flow?

92) \_\_\_\_\_\_

A) $6,460   
 B) $5,973  
 C) $5,325  
 D) $5,735  
 E) $6,408

**93)** Kotara Equipment has the following financial information:

|  |  |  |
| --- | --- | --- |
|  | **Current Year** | **Prior Year** |
| **Revenues** | $ 48,915 | $ 43,610 |
| **Administrative expenses** | 12,106 | 11,602 |
| **Interest expense** | 816 | 468 |
| **Cost of goods sold** | 29,715 | 26,309 |
| **Depreciation** | 1,408 | 1,387 |
| **Net fixed assets** | 32,711 | 31,984 |
| **Current liabilities** | 14,652 | 14,625 |
| **Common stock** | 15,000 | 14,000 |
| **Current assets** | 16,506 | 14,687 |
| **Long-term debt** | 12,200 | ? |
| **Retained earnings** | 7,365 | 4,246 |
| **Dividends paid** | 290 | 275 |

What is the cash flow of the firm for the current year if the tax rate is 22 percent?

93) \_\_\_\_\_\_

A) $1,885   
 B) $1,042  
 C) $2,297  
 D) $2,096  
 E) $2,517

**94)** For a given year, Goolsby Travel paid $318 in interest, $460 in dividends, and $368 in taxes. The firm had a net income of $1,220, depreciation of $1,560, an increase in net working capital of $220, an increase in net fixed assets of $950, and a decrease in long-term debt of $260. There were no changes in the equity accounts other than the change in retained earnings. What is the annual cash flow of the firm?

94) \_\_\_\_\_\_

A) $3,148   
 B) $1,610  
 C) $2,780  
 D) $1,038  
 E) $50

**95)** Ortegon Service Corporation has beginning current liabilities of $14,602 and total liabilities of $35,418. At the end of the year, the current liabilities are $15,311 and the total liabilities are $37,604. During the year, the firm paid $680 in dividends and $1,320 in interest. What is the cash flow to creditors?

95) \_\_\_\_\_\_

A) $3,230   
 B) $2,797  
 C) $3,135  
 D) −$157  
 E) −$267

**96)** During the year, Dharia’s repaid $12,500 in long-term debt, borrowed $8,400, paid $611 in interest and $740 in dividends, and had an operating cash flow of $16,207. The firm acquired $33,500 in new fixed assets and sold $8,400 of old assets. Net working capital declined by $1,592 during the year. What is the annual cash flow to stockholders?

96) \_\_\_\_\_\_

A) $1,200   
 B) −$2,590  
 C) −$8,828  
 D) −$12,012  
 E) $2,800

**97)** Last year, Perez Professional Group had annual revenue of $87,200, depreciation of $11,600, cost of goods sold of $54,700, and administrative expenses of $8,300. The firm paid $3,200 in dividends and paid taxes of $2,646. What was the operating cash flow?

97) \_\_\_\_\_\_

A) $21,500   
 B) $18,300  
 C) $23,100  
 D) $21,554  
 E) $23,700

**98)** Last year, Amargol Media had a cash flow to creditors of $2,840 and a cash flow to stockholders of $1,630. The firm spent a net of $1,420 on fixed assets and reduced net working capital by $330. What was the operating cash flow?

98) \_\_\_\_\_\_

A) $6,190   
 B) $5,560  
 C) $3,500  
 D) $1,320  
 E) $4,901

**99)** Good & Well increased its cash by $418 this year. The firm's statement of cash flows shows total cash flow from financing activities of $246 and total cash flow from investing activities of −$184. What is the total cash flow from operations on this accounting statement?

99) \_\_\_\_\_\_

A) $480   
 B) $356  
 C) $427  
 D) $367  
 E) $391

**100)** Hildebrand Farms has net sales of $48,920, depreciation of $711, cost of goods sold of $31,890, administrative costs of $11,210, interest expense of $680, dividends paid of $450, and taxes of $974. What is the cash flow from operations as it will appear on the accounting statement of cash flows if the firm spent $274 on net working capital?

100) \_\_\_\_\_\_

A) $3,892   
 B) $3,056  
 C) $4,066  
 D) $3,667  
 E) $3,391

**101)** A firm has common stock of $86, paid-in surplus of $230, total liabilities of $390, current assets of $350, and net fixed assets of $560. What is the amount of the shareholders' equity?

101) \_\_\_\_\_\_

A) $520   
 B) $170  
 C) $706  
 D) $510  
 E) $910

**102)** Recently, the owner of Martha's Wares encountered severe legal problems and is trying to sell her business. The company built a building at a cost of $1,250,000 that is currently appraised at $1,450,000. The equipment originally cost $730,000 and is currently valued at $477,000. The inventory is valued on the balance sheet at $420,000 but has a market value of only one-half of that amount. The owner expects to collect 97 percent of the $230,200 in accounts receivable. The firm has $10,600 in cash and owes a total of $1,450,000. The legal problems are personal and unrelated to the actual business. What is the market value of this firm?

102) \_\_\_\_\_\_

A) $1,781,094   
 B) $920,894  
 C) $1,130,894  
 D) $1,361,094  
 E) $687,000

**103)** Ivan's, Incorporated, paid $468 in dividends and $579 in interest this past year. Common stock increased by $189 and retained earnings decreased by $115. What is the net income for the year?

103) \_\_\_\_\_\_

A) $468   
 B) $768  
 C) $579  
 D) $932  
 E) $353

**104)** The tax rates for a particular year are shown below:

|  |  |
| --- | --- |
| **Taxable Income** | **Tax Rate** |
| **$0 − 50,000** | 15% |
| **50,001 − 75,000** | 25% |
| **75,001 − 100,000** | 34% |
| **100,001 − 335,000** | 39% |

What is the average tax rate for a firm with taxable income of $126,013?

104) \_\_\_\_\_\_

A) 39.00%   
 B) 28.20%  
 C) 25.71%  
 D) 20.00%  
 E) 36.61%

**105)** The tax rates are as shown below:

|  |  |
| --- | --- |
| **Taxable Income** | **Tax Rate** |
| **$0 − 50,000** | 15% |
| **50,001 − 75,000** | 25% |
| **75,001 − 100,000** | 34% |
| **100,001 − 335,000** | 39% |

Your firm currently has taxable income of $81,200. How much additional tax will you owe if you increase your taxable income by $22,400?

105) \_\_\_\_\_\_

A) $7,406   
 B) $7,796  
 C) $7,616  
 D) $8,736  
 E) $7,416

**106)** Your firm has net income of $259 on total sales of $1,100. Costs are $620 and depreciation is $110. The tax rate is 30 percent. The firm does not have interest expenses. What is the operating cash flow?

106) \_\_\_\_\_\_

A) $480   
 B) $259  
 C) $629  
 D) $370  
 E) $369

**107)** Teddy's Pillows had beginning net fixed assets of $475 and ending net fixed assets of $558. Assets valued at $323 were sold during the year. Depreciation was $50. What is the amount of net capital spending?

107) \_\_\_\_\_\_

A) $133   
 B) $285  
 C) $33  
 D) $83  
 E) $456

**108)** At the beginning of the year, a firm has current assets of $318 and current liabilities of $222. At the end of the year, the current assets are $473 and the current liabilities are $262. What is the change in net working capital?

108) \_\_\_\_\_\_

A) $0   
 B) –$115  
 C) $195  
 D) $115  
 E) $155

**109)** At the beginning of the year, long-term debt of a firm is $310 and total debt is $340. At the end of the year, long-term debt is $270 and total debt is $350. The interest paid is $36. What is the amount of the cash flow to creditors?

109) \_\_\_\_\_\_

A) $36   
 B) –$76  
 C) $76  
 D) $40  
 E) –$40

**110)** Peggy Grey's Cookies has net income of $380. The firm pays out 35 percent of the net income to its shareholders as dividends. During the year, the company sold $83 worth of common stock. What is the cash flow to stockholders?

110) \_\_\_\_\_\_

A) $247.00   
 B) $103.95  
 C) $216.00  
 D) $50.00  
 E) $133.00

**111)** A company has total equity of $1,905, net working capital of $155, long-term debt of $900, and current liabilities of $930. What is the company's net fixed assets?

111) \_\_\_\_\_\_

A) $3,735   
 B) $2,805  
 C) $1,085  
 D) $1,935  
 E) $2,650

**112)** Disturbed, Incorporated, had the following operating results for the past year: sales = $22,545; depreciation = $1,320; interest expense = $1,064; costs = $16,495. The tax rate for the year was 40 percent. What was the company's operating cash flow?

112) \_\_\_\_\_\_

A) $3,212   
 B) $3,666  
 C) $7,516  
 D) $4,584  
 E) $2,200

**113)** A company has net working capital of $1,807. If all its current assets were liquidated, the company would receive $5,741. What are the company's current liabilities?

113) \_\_\_\_\_\_

A) $4,838   
 B) $7,548  
 C) $3,774  
 D) $7,203  
 E) $3,934

**114)** You are examining a company's balance sheet and find that it has total assets of $20,864, a cash balance of $2,316, inventory of $5,041, current liabilities of $6,085 and accounts receivable of $2,831. What is the company's net working capital?

114) \_\_\_\_\_\_

A) $5,979   
 B) $1,787  
 C) $938  
 D) $14,779  
 E) $4,103

**115)** You find the following financial information about a company: net working capital = $1,275; fixed assets = $6,665; total assets = $8,830; and long-term debt = $4,801. What are the company's total liabilities?

115) \_\_\_\_\_\_

A) $8,530   
 B) $5,691  
 C) $1,811  
 D) $9,066  
 E) $6,076

**116)** You find the following financial information about a company: net working capital = $1,206; fixed assets = $7,617; total assets = $11,846; and long-term debt = $4,511. What is the company's total equity?

116) \_\_\_\_\_\_

A) $6,252   
 B) $8,899  
 C) $9,982  
 D) $4,229  
 E) $4,312

**117)** Hoodoo Voodoo Company has total assets of $65,850, net working capital of $20,125, owners' equity of $32,105, and long-term debt of $23,395. What is the company's current assets?

117) \_\_\_\_\_\_

A) $32,105   
 B) $45,725  
 C) $35,375  
 D) $55,500  
 E) $30,475

**118)** A company has net working capital of $2,204, current assets of $6,475, equity of $22,215, and long-term debt of $10,535. What is the company's net fixed assets?

118) \_\_\_\_\_\_

A) $39,225   
 B) $24,419  
 C) $26,275  
 D) $30,546  
 E) $28,479

**119)** Micro, Incorporated, started the year with net fixed assets of $74,800. At the end of the year, there was $96,000 in the same account, and the company's income statement showed depreciation expense of $12,890 for the year. What was the company's net capital spending for the year?

119) \_\_\_\_\_\_

A) $21,200   
 B) $34,090  
 C) $39,575  
 D) $41,985  
 E) $83,110

**120)** At the beginning of the year, Shinedown, Corporation, had a long-term debt balance of $47,630. During the year, the company repaid a long-term loan in the amount of $13,855. The company paid $5,460 in interest during the year, and opened a new long-term loan for $12,160. How much is the ending long-term debt account on the company's balance sheet?

120) \_\_\_\_\_\_

A) $49,325   
 B) $7,155  
 C) $54,330  
 D) $45,935  
 E) $51,395

**121)** At the beginning of the year, Nothing More, Corporation, had a long-term debt balance of $37,429. During the year, the company repaid a long-term loan in the amount of $10,139. The company paid $3,855 in interest during the year, and opened a new long-term loan for $8,945. What was the cash flow to creditors during the year?

121) \_\_\_\_\_\_

A) $14,490   
 B) $5,049  
 C) $6,284  
 D) $1,194  
 E) $5,090

**122)** For the past year, Momsen, Limited, had sales of $46,967, interest expense of $4,088, cost of goods sold of $17,184, selling and administrative expense of $12,051, and depreciation of $6,850. If the tax rate was 35 percent, what was the company's net income?

122) \_\_\_\_\_\_

A) $4,416   
 B) $2,985  
 C) $12,249  
 D) $4,756  
 E) $6,794

**123)** For the past year, Kayla, Incorporated, has sales of $44,237, interest expense of $2,996, cost of goods sold of $14,734, selling and administrative expense of $10,721, and depreciation of $4,820. If the tax rate is 38 percent, what is the operating cash flow?

123) \_\_\_\_\_\_

A) $14,615   
 B) $11,619  
 C) $10,966  
 D) $6,799  
 E) $13,242

**124)** HUD, Company had a beginning retained earnings of $31,580. For the year, the company had net income of $8,115 and paid dividends of $3,405. The company also issued $5,755 in new stock during the year. What is the ending retained earnings balance?

124) \_\_\_\_\_\_

A) $37,335   
 B) $42,045  
 C) $30,535  
 D) $36,290  
 E) $34,985

**125)** At the beginning of the year, Vendors, Incorporated, had owners' equity of $48,290. During the year, net income was $4,750 and the company paid dividends of $3,490. The company also repurchased $7,190 in equity. What was the owners' equity account at the end of the year?

125) \_\_\_\_\_\_

A) $47,240   
 B) $42,360  
 C) $36,350  
 D) $41,100  
 E) $37,610

**126)** At the beginning of the year, Vendors, Incorporated, had owners' equity of $48,875. During the year, net income was $5,275 and the company paid dividends of $3,775. The company also repurchased $7,625 in equity. What was the cash flow to stockholders for the year?

126) \_\_\_\_\_\_

A) $11,400   
 B) $9,125  
 C) $3,850  
 D) −$3,850  
 E) −$11,400

**127)** Simon's Hot Chicken purchased its building seven years ago at a price of $142,225. The building could be sold for $181,625 today. The company spent $67,425 on other fixed assets that could be sold for $60,175. The company has accumulated depreciation of $83,125 on its fixed assets. Currently, the company has current liabilities of $38,250 and net working capital of $19,675. What is the ending book value of net fixed assets?

127) \_\_\_\_\_\_

A) $126,525   
 B) $171,400  
 C) $164,775  
 D) $158,675  
 E) $209,650

**128)** Last year, Bad Tattoo Company had additions to retained earnings of $4,950 on sales of $96,050. The company had costs of $76,050, dividends of $3,100, and interest expense of $2,200. If the tax rate was 38 percent, what the depreciation expense?

128) \_\_\_\_\_\_

A) $5,213   
 B) $4,816  
 C) $8,050  
 D) $12,800  
 E) $6,164

**129)** Thornton, Incorporated, had taxable income of $128,267 for the year. The company's marginal tax rate was 35 percent and its average tax rate was 24 percent. How much did the company have to pay in taxes for the year?

129) \_\_\_\_\_\_

A) $30,784   
 B) $27,839  
 C) $44,893  
 D) $29,197  
 E) $29,541

**130)** Red Barchetta Company paid $28,355 in dividends and $29,508 in interest over the past year. During the year, net working capital increased from $13,962 to $18,694. The company purchased $44,090 in fixed assets and had a depreciation expense of $17,660. During the year, the company issued $25,475 in new equity and paid off $21,665 in long-term debt. What was the company's cash flow from assets?

130) \_\_\_\_\_\_

A) $54,053   
 B) $54,450  
 C) $55,401  
 D) $53,074  
 E) $47,049

**131)** Evil Pop Company began the year with net fixed assets of $16,898 and had $17,987 in the account at the end of the year. During the year, the company paid $4,006 in interest and expensed $3,490 in depreciation. The company purchased $7,400 in fixed assets during the year. How much in fixed assets did the company sell during the year?

131) \_\_\_\_\_\_

A) $573   
 B) $8,587  
 C) $2,821  
 D) $3,271  
 E) $4,483

**132)** The Primus Corporation began the year with $7,316 in its long-term debt account and ended the year with $8,928 in long-term debt. The company paid $987 in interest during the year and issued $2,360 in new long-term debt. How much in long-term debt must the company have paid off during the year?

132) \_\_\_\_\_\_

A) −$625   
 B) −$1,612  
 C) $1,612  
 D) $511  
 E) $748

**133)** Rousey, Incorporated, had a cash flow to creditors of $17,145 and a cash flow to stockholders of $7,811 over the past year. The company also had net fixed assets of $49,805 at the beginning of the year and $57,250 at the end of the year. Additionally, the company had a depreciation expense of $12,348 and an operating cash flow of $51,404. What was the change in net working capital during the year?

133) \_\_\_\_\_\_

A) $5,930   
 B) $9,334  
 C) $7,445  
 D) $6,655  
 E) $5,223

**134)** A company is obligated to pay its creditors $6,280 at the end of the year. If the value of the company's assets equals $6,052 at that time, what is the value of shareholders' equity?

134) \_\_\_\_\_\_

A) $0   
 B) $228  
 C) −$228  
 D) −$114  
 E) $12,332

**135)** Maynard Enterprises paid $1,468 in dividends and $1,214 in interest over the past year. The common stock account increased by $1,344 and retained earnings decreased by $448. What was the company's net income?

135) \_\_\_\_\_\_

A) $1,916   
 B) $896  
 C) $2,364  
 D) $1,020  
 E) $1,792

**136)** Mariota Industries has sales of $287,600 and costs of $147,250. The company paid $22,150 in interest and $12,100 in dividends. It also increased retained earnings by $62,138 during the year. If the company's depreciation was $14,300, what was its average tax rate?

136) \_\_\_\_\_\_

A) 39.96%   
 B) 35.03%  
 C) 28.55%  
 D) 20.34%  
 E) 10.31%

**137)** During the past year, a company had cash flow to creditors, an operating cash flow, and net capital spending of $30,252, $68,391, and $29,440, respectively. The net working capital at the beginning of the year was $12,091 and it was $14,200 at the end of the year. What was the company's cash flow to stockholders during the year?

137) \_\_\_\_\_\_

A) $4,844   
 B) $2,109  
 C) $6,590  
 D) $8,699  
 E) $10,808

**138)** During the past year, a company had cash flow to stockholders, an operating cash flow, and net capital spending of $15,141, $35,288, and $14,740, respectively. The net working capital at the beginning of the year was $6,039 and it was $7,130 at the end of the year. What was the company's cash flow to creditors during the year?

138) \_\_\_\_\_\_

A) $4,316   
 B) $6,498  
 C) $1,091  
 D) $5,407  
 E) $2,570

**139)** Hurricane Industries had a net income of $138,850 and paid 40 percent of this amount to shareholders in dividends. During the year, the company sold $86,250 in new common stock. What was the company's cash flow to stockholders?

139) \_\_\_\_\_\_

A) $52,600   
 B) $55,540  
 C) −$30,710  
 D) $30,710  
 E) −$55,540

**140)** A company has $523 in inventory, $1,786 in net fixed assets, $210 in accounts receivable, $81 in cash, and $234 in accounts payable. What are the company's total current assets?

140) \_\_\_\_\_\_

A) $1,048   
 B) $838  
 C) $604  
 D) $814  
 E) $2,600

**141)** A company has $1,406 in inventory, $4,863 in net fixed assets, $688 in accounts receivable, $314 in cash, $658 in accounts payable, $1,095 in long-term debt, and $5,458 in equity. What are the company's total assets?

141) \_\_\_\_\_\_

A) $12,729   
 B) $7,929  
 C) $8,260  
 D) $10,321  
 E) $7,271

**142)** A company has $1,280 in inventory, $4,701 in net fixed assets, $580 in accounts receivable, $242 in cash, $514 in accounts payable, and $5,296 in equity. What is the company's long-term debt?

142) \_\_\_\_\_\_

A) $1,441   
 B) $1,030  
 C) $993  
 D) $1,172  
 E) $1,507

**143)** Lola Corporation has shareholders' equity of $131,050. The company has a total debt of $122,875, of which 35 percent is payable in the next 12 months. The company also has net fixed assets of $196,840. What is the company's net working capital?

143) \_\_\_\_\_\_

A) $73,965   
 B) $8,175  
 C) $18,391  
 D) $15,068  
 E) $14,079

**144)** Smashed Pumpkins Company paid $216 in dividends and $638 in interest over the past year. The company increased retained earnings by $534 and had accounts payable of $714. Sales for the year were $16,615 and depreciation was $760. The tax rate was 35 percent. What was the company's EBIT?

144) \_\_\_\_\_\_

A) $1,792   
 B) $1,154  
 C) $2,063  
 D) $5,815  
 E) $1,460

**145)** Kerch Company had beginning net fixed assets of $216,454, ending net fixed assets of $211,631, and depreciation of $40,393. During the year, the company sold fixed assets with a book value of $7,882. How much did the company purchase in new fixed assets?

145) \_\_\_\_\_\_

A) $43,452   
 B) $32,511  
 C) $34,106  
 D) $35,570  
 E) $41,289

**146)** Adison Winery had beginning long-term debt of $41,436 and ending long-term debt of $46,883. The beginning and ending total debt balances were $51,283 and $56,480, respectively. The company paid interest of $4,471 during the year. What was the company's cash flow to creditors?

146) \_\_\_\_\_\_

A) −$976   
 B) $5,447  
 C) $9,668  
 D) $726  
 E) −$726

**147)** A company has net working capital of $843. Long-term debt is $4,402, total assets are $6,633, and fixed assets are $4,272. What is the amount of total liabilities?

147) \_\_\_\_\_\_

A) $8,674   
 B) $5,245  
 C) $5,920  
 D) $7,476  
 E) $5,790

**148)** Muffy's Muffins had net income of $2,465. The firm retains 60 percent of net income. During the year, the company sold $415 in common stock. What was the cash flow to shareholders?

148) \_\_\_\_\_\_

A) $571   
 B) $1,894  
 C) $1,064  
 D) $986  
 E) $1,401

**149)** A firm has $864 in inventory, $1,790 in fixed assets, $694 in accounts receivable, $438 in net working capital, and $243 in cash. What is the amount of current liabilities?

149) \_\_\_\_\_\_

A) $1,375   
 B) $926  
 C) $1,120  
 D) $1,363  
 E) $2,239

**150)** A balance sheet has total assets of $1,398, fixed assets of $981, long-term debt of $523, and short-term debt of $142. What is the net working capital?

150) \_\_\_\_\_\_

A) $875   
 B) $381  
 C) $275  
 D) $316  
 E) $417

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.  
151)** Define liquidity and explain what a firm would need to do to ensure all of the current assets displayed on its balance sheet are liquid.

**152)** Discuss the difference between book values and market values on the balance sheet and explain the best method for determining the value of a firm to its stockholders.

**153)** Note that in all of our computations to determine the cash flows of a firm, we never include the addition to retained earnings. Why not? Is this an oversight?

**154)** From a financial perspective, why is interest expense excluded from the operating cash flow?

**155)** Explain why the income statement is not a good representation of cash flow.

**156)** Depreciation is classified as a noncash item because no cash is spent when depreciation is recorded. Why are expenses that have been accrued, but not yet paid, not also considered to be noncash items and therefore excluded from operating cash flow just as depreciation is excluded?

**157)** Interpret, in words, what the cash flow of the firm represents by discussing operating cash flow, changes in net working capital, and additions to fixed assets.

**158)** Why is cash flow management important?

**Answer Key**Test name: Chapter 2

1) B

2) A

3) B

4) B

5) D

6) C

7) E

8) D

9) D

10) B

11) A

12) E

13) A

14) C

15) B

16) D

17) B

18) A

19) D

20) A

21) D

22) E

23) B

24) A

25) D

26) E

27) D

28) B

29) E

30) A

31) A

32) B

33) A

34) D

35) C

36) A

37) B

38) C

39) E

40) E

41) E

42) A

43) A

44) C

45) E

46) B

47) D

48) B

49) B

50) D

51) D

52) D

53) A

54) B

55) C

56) C

57) D

58) A

59) E

60) D

61) B

Current assets = $1,830 + 740 + 430 − 2,170  
 Current assets = $830

62) C

Market value of assets = $260 + .98($950) + (1 − .25)($1,780) + $3,900  
 Market value of assets = $6,426

63) A

Book value of equity = $800 + 4,600 − 3,700  
 Book value of equity = $1,700

64) C

Net income = ($760,000 − 630,000 − 48,000 − 21,000)(1 − .23)  
 Net income = $46,970

65) D

Net income = ($64,480 − 25,840 − 7,040 − 3,960 − 1,740)(1 − .22)  
 Net income = $20,202  
   
 Addition to retained earnings = $20,202 − 5,200  
 Addition to retained earnings = $15,002

66) E

Net income = $700 + 2,810  
 Net income = $3,510  
   
 Pretax income = $3,510/(1 − .21)  
 Pretax income = $4,443  
   
 Depreciation expense = $37,800 − 23,200 − 6,300 − 280 − 4,443  
 Depreciation expense = $3,577

67) D

Noncash items = Depreciation = $309

68) C

Net income = $285 + 411  
 Net income = $696  
   
 Pretax income = $696/(1 − .23)  
 Pretax income = $904  
   
 COGS = $24,646 − 4,370 − 812 − 103 − 904  
 COGS = $18,457

69) A

Net income = ($68,200 + 2,100 − 210)(1 − .21)  
 Net income = $55,371.10  
   
 EPS = $55,371.10/($48,500/$1)  
 EPS = $1.14

70) D

Tax = .10($9,950) + .12($40,525 − 9,950) + .22($86,375 − 40,525) + .24($96,000 − 86,375)  
 Tax = $17,061.00  
   
 Average tax rate = $17,061/$96,000  
 Average tax rate = .1777, or 17.77%

71) E

Tax = .10($9,950) + .12($40,525 − 9,950) + .22($86,375 − 40,525) + .24($156,000 − 86,375)  
 Tax = $31,461.00

72) A

Additional tax = .24($12,800)  
 Additional tax = $3,072.00

73) C

Marginal tax rate = ($401,545 − 368,060)/($1,818,586 − 1,673,000)  
 Marginal tax rate = .23, or 23%  
   
 Average tax rate = $401,545/$1,818,586  
 Average tax rate = .22, or 22%

74) B

NWC = $540 + 1,470 + 1,120 − 930  
 NWC = $2,200

75) C

NWC = $120 + 930 + 760 − 480  
 NWC = $1,330

76) A

NWC = $4,820 + 13,240 + 11,400 − 9,760  
 NWC = $19,700

77) D

ΔNWC = ($14,800 − 14,210) − ($51,400 − 32,800 − 13,280)  
 ΔNWC = −$4,730

78) C

ΔNWC = ($311 + 426 + 1,003 − 398) − ($280 + 414 + 924 − 361)  
 ΔNWC = $85

79) D

NWC = $560 + 3,462 + 11,408 − 4,611  
 NWC = $10,819

80) D

EBIT = $22,980 − 14,715 − 6,045  
 EBIT = $2,220  
   
 Tax = $2,220(.23)  
 Tax = $510.60  
   
 OCF = $2,220 + 6,045 − 510.60  
 OCF = $7,754.40

81) C

Net capital spending = $243,600 − 234,100 + 62,500  
 Net capital spending = $72,000

82) E

CF(*B*) = $40 − ($2,800 − 2,400)  
 CF(*B*) = −$360

83) A

CF(*B*) = $30 − ($790 − 840)  
 CF(*B*) = $80

84) A

CF(*S*) = .30($8,110) − (−$500)  
 CF(*S*) = $2,933

85) A

CF(*A*) = $11,618 − 6,180 − (−$420)  
 CF(*A*) = $5,858

86) C

Net capital spending = ($5,103 − 2,202) − ($4,908 − 2,150) + $315  
 Net capital spending = $458

87) D

OCF = $4,116 − 2,354 − 554 − 186  
 OCF = $1,022

88) A

OCF = $38,411 − 28,515 − 1,979  
 OCF = $7,917  
   
 Net capital spending = $33,406 − 31,202 + 306  
 Net capital spending = $2,510  
   
 ΔNWC = ($49,305 − 33,406 − 17,318) − ($48,354 − 31,202 − 14,207)  
 ΔNWC = −$4,364  
   
 CF(*A*) = $7,917 − 2,510 − (−$4,364)  
 CF(*A*) = $9,771

89) E

Net income = $1,630(1 − .23)  
 Net income = $1,255.10  
   
 CF(*S*) = $1,255.10 − (−$310)  
 CF(*S*) = $1,565.10

90) D

CF(*B*) = $110 − ($65 − 23)  
 CF(*B*) = $68

91) B

Net capital spending = $20,492 − 21,506 + 1,520  
 Net capital spending = $506

92) B

Net income = $125 + 3,408  
 Net income = $3,533  
   
 Pre-tax income = $3,533/(1 − .21)  
 Pre-tax income = $4,472.15  
   
 EBIT = $4,472.15 + 382  
 EBIT = $4,854.15  
   
 OCF = $4,854.15 + 2,058 − ($4,472.15 − 3,533)  
 OCF = $5,973

93) D

Pretax income = $48,915 − 29,715 − 12,106 − 1,408 − 816  
 Pretax income = $4,870  
   
 Tax = .22($4,870)  
 Tax = $1,071  
   
 OCF = $48,915 − 29,715 − 12,106 − 1,071  
 OCF = $6,023  
   
 Net capital spending = $32,711 − 31,984 + 1,408  
 Net capital spending = $2,135  
   
 Change in NWC = ($16,506 − 14,652) − ($14,687 − 14,625)  
 Change in NWC = $1,792  
   
 Cash flow of the firm = $6,023 − 2,135 − 1,792  
 Cash flow of the firm = $2,096

94) D

CF(*B*) = $318 + 260  
 CF(*B*) = $578  
   
 CF(S) = $460  
   
 CF(A) = $578 + 460  
 CF(A) = $1,038

95) D

CFC = $1,320 − [($37,604 − 15,311) − ($35,418 − 14,602)]  
 CFC = −$157

96) D

Cash flow of the firm = $16,207 − 33,500 + 8,400 − (−$1,592)  
 Cash flow of the firm = −$7,301  
   
 CFC = $611 + 12,500 − 8,400  
 CFC = $4,711  
   
 CFS = −$7,301 − 4,711  
 CFS = −$12,012

97) D

OCF = $87,200 − 54,700 − 8,300 − 2,646  
 OCF = $21,554

98) B

CF(*A*) = $2,840 + 1,630  
 CF(*A*)= $4,470  
   
 $4,470 = OCF − $1,420 − (−$330)  
 OCF = $5,560

99) B

$418 = Total cash flow from operations − $184 + 246  
 Total cash flow from operations = $356

100) A

Cash flow from operations = $48,920 − 31,890 − 11,210 − 680 − 974 − 274  
 Cash flow from operations = $3,892  
   
 Note that the accounting statement of cash flows includes the interest expense as an operating activity.

101) A

Shareholders' equity = Current assets + Net fixed assets − Total liabilities.  
 Shareholders’ equity = $350 + 560 − 390 = $520

102) B

Market value = $1,450,000 (building) + 477,000 (equipment) + (.5 × 420,000) (inventory) + (.97 × 230,200) (accounts receivable) + 10,600 cash − 1,450,000 (amount owed)  
 Market value = $920,894

103) E

Net income = Dividends paid + Change in retained earnings  
 Net income = $468 + (− $115) = $353  
   
 In this case, the change in retained earnings was a negative value.

104) C

Taxes paid = .15($50,000) + .25($75,000 − 50,000) + .34($100,000 − 75,000) + .39($126,013 − 100,000)  
 Taxes paid = $32,395.07  
   
 Average tax rate = $32,395.07/$126,013  
 Average tax rate = .2571, or 25.71%

105) B

Taxes on $81,200 income = .15($50,000) + .25($75,000 − 50,000) + .34($81,200 − 75,000) = $15,858  
   
 New taxable income = $81,200 + 22,400 = $103,600  
   
 Taxes on $103,600 income = .15($50,000) + .25($75,000 − 50,000) + .34($100,000 − 75,000) + .39($103,600 − 100,000) = $23,654  
   
 Additional tax = $23,654 − 15,858 = ${{7796:#,###}

106) E

EBIT = $1,100 − 620 − 110 = $370 (Sales − Costs − Depreciation)  
   
 Taxes = .30 × $370 = $111 (Tax rate × EBIT)  
   
 OCF = $370 + 110 − 111 = $369 (EBIT + Depreciation − Taxes)

107) A

Net capital spending = $558 (ending net fixed assets) + 50 (Depreciation) − 475 (beginning net fixed assets)  
 Net capital spending = $133

108) D

Change in net working capital = ($473 − 262) − ($318 − 222) = $115

109) C

CFC = $36 − ($270 − 310) = $76

110) D

CFS = (.35 × $380) − $83 = $50.00

111) E

Total liabilities and equity = Total assets = $1,905 + 900 + 930 = $3,735  
   
 NWC = Current assets − Current liabilities  
 $155 = CA − $930  
 Current assets = $1,085  
   
 Net fixed assets = $3,735 − 1,085 = $2,650

112) D

EBIT = $22,545 − 16,495 − 1,320 = $4,730   
   
 EBT = $4,730 − 1,064 = $3,666   
   
 Taxes = $3,666(.40) = $1,466   
   
 OCF = $4,730 + 1,320 − 1,466 = $4,584

113) E

NWC = Current assets − Current liabilities  
   
 $1,807 = $5,741 − CL  
   
 CL = $3,934

114) E

NWC = Current assets − Current liabilities  
 NWC = ($2,316 + 2,831 + 5,041) − 6,085  
 NWC = $4,103

115) B

Current assets = $8,830 − 6,665 = $2,165  
   
 $1,275 = $2,165 − CL  
   
 CL = $890  
   
 Total liabilities = $890 + 4,801 = $5,691

116) E

Current assets = $11,846 − 7,617 = $4,229  
   
 $1,206 = $4,229 − CL  
   
 CL = $3,023  
   
 Total equity = $11,846 − 4,511 − 3,023 = $4,312

117) E

Current liabilities = $65,850 − 32,105 − 23,395 = $10,350  
   
 Current assets = $20,125 + 10,350 = $30,475

118) D

Current liabilities = $6,475 − 2,204 = $4,271  
   
 Total liabilities and equity = Total assets = $22,215 + 10,535 + 4,271 = $37,021  
   
 Net fixed assets = $37,021 − 6,475 = $30,546

119) B

Net capital spending = $96,000 − 74,800 + 12,890 = $34,090

120) D

Ending long-term debt = $47,630 + 12,160 − 13,855 = $45,935

121) B

Cash flow to creditors = $10,139 + 3,855 − 8,945 = $5,049

122) A

EBT = $46,967 − 17,184 − 12,051 − 6,850 − 4,088 = $6,794  
   
 Taxes = $6,794(.35) = $2,378  
   
 Net income = $6,794 − 2,378 = $4,416

123) A

EBIT = $44,237 − 14,734 − 10,721 − 4,820 = $13,962  
   
 EBT = $13,962 − 2,996 = $10,966  
   
 Taxes = $10,966(.38) = $4,167  
   
 OCF = $13,962 + 4,820 − 4,167 = $14,615

124) D

Retained earnings = $31,580 + (8,115 − 3,405) = $36,290

125) B

Ending owners' equity = $48,290 + 4,750 − 3,490 − 7,190 = $42,360

126) A

Cash flow to stockholders = $3,775 + 7,625 = $11,400

127) A

Net fixed assets = $142,225 + 67,425 − 83,125 = $126,525

128) B

EBIT = ($4,950 + 3,100)/(1 − .38) + 2,200 = $15,184  
   
 Depreciation = $96,050 − 76,050 − 15,184 = $4,816

129) A

Taxes = $128,267(.24) = $30,784

130) A

Cash flow from assets = ($29,508 + 21,665) + ($28,355 − 25,475) = $54,053

131) C

Net capital spending = $17,987 − 16,898 + 3,490 = $4,579  
   
 Fixed assets sold = $7,400 − 4,579 = $2,821

132) E

Net new borrowing = $8,928 − 7,316 = $1,612  
   
 Debt retired = $2,360 − 1,612 = $748

133) D

Cash flow from assets = $17,145 + 7,811 = $24,956  
   
 Net capital spending = $57,250 − 49,805 + 12,348 = $19,793  
   
 Change in net working capital = $51,404 − 19,793 − 24,956 = $6,655

134) A

Equity = Max[($6,052 − 6,280) , 0] = $0

135) D

Net income = $1,468 − 448 = $1,020

136) C

Net income = $12,100 + 62,138 = $74,238  
   
 EBT = $287,600 − 147,250 − 14,300 − 22,150 = $103,900  
   
 Taxes = $103,900 − 74,238 = $29,662  
   
 Average tax rate = $29,662/103,900 = .2855, or 28.55%

137) C

Change in NWC = $14,200 − 12,091 = $2,109  
   
 CFA = $68,391 − 29,440 − 2,109 = $36,842  
   
 Cash flow to stockholders = $36,842 − 30,252 = $6,590

138) A

Change in NWC = $7,130 − 6,039 = $1,091  
   
 CFA = $35,288 − 14,740 − 1,091 = $19,457  
   
 Cash flow to creditors = $19,457 − 15,141 = $4,316

139) C

Cash flow to stockholders = $138,850(.40) − 86,250 = −$30,710

140) D

Current assets = $81 + 210 + 523 = $814

141) E

Total assets = $314 + 688 + 1,406 + 4,863 = $7,271

142) C

Total assets = $242 + 580 + 1,280 + 4,701 = $6,803  
   
 Long-term debt = $6,803 − 514 − 5,296 = $993

143) E

Current liabilities = .35($122,875) = $43,006  
   
 Total L&E = Total assets = $122,875 + 131,050 = $253,925  
   
 Current assets = $253,925 − 196,840 = $57,085  
   
 Net working capital = $57,085 − 43,006 = $14,079

144) A

Net income = $216 + 534 = $750  
   
 EBT = $750/( 1 − .35) = $1,154  
   
 EBIT = $1,154 + 638 = $1,792

145) A

Net capital spending = $211,631 − 216,454 + 40,393 = $35,570  
   
 Fixed assets bought = $35,570 + 7,882 = $43,452

146) A

Cash flow to creditors = $4,471 − ($46,883 − 41,436) = −$976

147) C

Current assets = $6,633 − 4,272 = $2,361  
   
 Current liabilities = $2,361 − 843 = $1,518  
   
 Total liabilities = $1,518 + 4,402 = $5,920

148) A

Cash flow to stockholders = (1 − .60) × $2,465 − 415 = $571

149) D

Current liabilities = ($243 + 694 + 864) − $438 = $1,363

150) C

Net working capital = ($1,398 − 981) − $142 = $275

151) Liquid assets are those that can be sold quickly with little or no loss in value. To ensure the current assets are liquid, the firm needs to review its accounts receivable to ensure the accounts are collectible and also review its inventory to ensure it can be sold for at least its recorded book value.

152) The accounts on the balance sheet are generally carried at historical cost, not market values. Although the book value of current assets and current liabilities may closely approximate market values, the same cannot be said for the rest of the balance sheet accounts. Ultimately, stockholders should focus on the firm’s stock price, which is a market value measure, for the value of their investment in the firm.

153) The addition to retained earnings is not a cash flow; it is an accounting entry that links the income statement to the balance sheet and shows that the earnings of the firm accrue to stockholders.

154) Operating cash flow is designed to represent the cash flow a firm generates from its day-to-day operations. Interest expense arises from a financing decision and thus is considered in finance as a cash flow to creditors.

155) Most income statements contain some noncash items, such as depreciation, which reduce net income but do not affect the cash flows. More importantly, however, income statements are prepared using GAAP guidelines which record revenues and expenses as sales are completed, not when their corresponding cash flows occur.

156) Accrued expenses will appear in accounts payable and affect the change in net working capital. Via the change in net working capital, these unpaid expenses are subtracted from the operating cash flow to determine the cash flow of the firm. This method allows for the computation of the cash flows based solely on financial statement information which is generally easy to obtain. Depreciation, on the other hand, is the expensing of a fixed asset cost that was paid for when the asset was acquired.

157) Operating cash flow is the cash flow a firm generates from its day-to-day operations. In other words, it is the cash flow generated as a result of putting the firm’s assets to work. Changes in net working capital and fixed assets represent investments a firm needs for its operations. That is, a firm typically takes some of the cash flow it generates from using assets and reinvests it in new assets. Cash flow of the firm, then, is the cash flow a firm generates by employing its assets, net of any asset acquisitions.

158) Generally Accepted Accounting Principles (GAAP) allow significant subjective decisions to be made in many key areas. The use of cash flow as a metric to evaluate a company comes from the idea that there is less subjectivity involved and therefore, it is harder to spin the numbers.