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

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
1)** All account values on the \_\_\_\_\_\_\_\_ are expressed as a percentage of total assets.

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

A) pro forma balance sheet   
 B) common-size income statement  
 C) statement of cash flows  
 D) pro forma income statement  
 E) common-size balance sheet

**2)** Assume you need to compare a firm’s costs with those of its competitors, all of which are significantly larger than the firm you are analyzing. Preparing \_\_\_\_\_\_\_\_ would be the best way to compare costs across the industry.

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

A) pro forma balance sheets   
 B) common-size income statements  
 C) statements of cash flows  
 D) pro forma income statements  
 E) common-size balance sheets

**3)** The term “income from operations” is synonymous with:

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

A) TTM.   
 B) EBIT.  
 C) LTM.  
 D) EBITDA.  
 E) EPS.

**4)** \_\_\_\_\_\_\_\_ are an effective way to measure a firm’s ability to pay its bills over the short run without undue stress.

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

A) Asset management ratios   
 B) Long-term solvency measures  
 C) Liquidity measures  
 D) Profitability ratios  
 E) Market value ratios

**5)** The current ratio equals:

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

A) current assets minus current liabilities.   
 B) current assets divided by current liabilities.  
 C) current liabilities minus inventory, divided by current assets.  
 D) cash on hand divided by current liabilities.  
 E) current liabilities divided by current assets.

**6)** The quick ratio equals:

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

A) current assets divided by current liabilities.   
 B) cash on hand plus current liabilities, divided by current assets.  
 C) current liabilities divided by current assets, plus inventory.  
 D) current assets minus inventory, divided by current liabilities.  
 E) current assets minus inventory minus current liabilities.

**7)** \_\_\_\_\_\_\_\_ ratios measure a firm’s use of financial leverage.

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

A) Asset management   
 B) Long-term solvency  
 C) Short-term solvency  
 D) Profitability  
 E) Market value

**8)** The debt-equity ratio equals:

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

A) total equity divided by long-term debt.   
 B) total equity divided by total debt.  
 C) total debt divided by total equity.  
 D) long-term debt divided by total equity.  
 E) total assets minus total debt, divided by total equity.

**9)** The equity multiplier equals:

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

A) total equity divided by total assets.   
 B) total equity plus total debt.  
 C) total assets minus total equity, divided by total assets.  
 D) total assets plus total equity, divided by total debt.  
 E) total assets divided by total equity.

**10)** \_\_\_\_\_\_\_\_ ratios measure how efficiently a firm uses its assets to generate sales.

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

A) Asset management   
 B) Long-term solvency  
 C) Short-term solvency  
 D) Profitability  
 E) Market value

**11)** The inventory turnover ratio equals:

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

A) sales divided by inventory.   
 B) inventory times total sales.  
 C) cost of goods sold divided by inventory.  
 D) inventory divided by cost of goods sold.  
 E) inventory divided by sales.

**12)** Days’ sales in inventory equals:

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

A) inventory turnover plus 365 days.   
 B) inventory turnover times 365 days.  
 C) inventory divided by cost of goods sold, times 365 days.  
 D) 365 days divided by the inventory.  
 E) 365 days divided by the inventory turnover.

**13)** The receivables turnover ratio equals:

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

A) sales plus accounts receivable.   
 B) sales divided by accounts receivable.  
 C) sales minus accounts receivable, divided by sales.  
 D) accounts receivable times sales.  
 E) accounts receivable divided by sales.

**14)** The total asset turnover ratio reveals the amount of:

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

A) total assets needed for every $1 of sales.   
 B) sales generated by every $1 in total assets.  
 C) fixed assets required for every $1 of sales.  
 D) net income generated by every $1 in total assets.  
 E) net income that can be generated by every $1 of fixed assets.

**15)** \_\_\_\_\_\_\_\_ ratios reveal how efficiently a firm’s management uses the firm’s assets and equity to generate net income.

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

A) Asset management   
 B) Long-term solvency  
 C) Short-term solvency  
 D) Profitability  
 E) Market value

**16)** Net income divided by sales is called:

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

A) net profit margin.   
 B) return on assets.  
 C) return on equity.  
 D) asset turnover.  
 E) earnings before interest and taxes.

**17)** The measure called \_\_\_\_\_\_\_ reveals the amount of net income generated from every dollar invested in total assets.

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

A) net profit margin   
 B) return on assets  
 C) return on equity  
 D) asset turnover  
 E) earnings before interest and taxes

**18)** The accounting profit per dollar of book equity is called the:

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

A) net profit margin.   
 B) price-earnings ratio.  
 C) return on equity.  
 D) equity turnover.  
 E) market profit-to-book ratio.

**19)** The \_\_\_\_\_\_\_\_ shows the amount that investors are willing to pay for each dollar of annual earnings.

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

A) return on assets   
 B) return on equity  
 C) debt-equity ratio  
 D) price-earnings ratio  
 E) DuPont identity

**20)** The market-to-book ratio equals:

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

A) market price per share divided by the par value per share.   
 B) net income per share divided by the market price per share.  
 C) market price per share divided by the net income per share.  
 D) market price per share divided by the dividends per share.  
 E) market value per share divided by the book value per share.

**21)** Regarding ratio analysis, which one of the following statements is correct?

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

A) A single ratio is often computed differently by different individuals.   
 B) No ratio can address the problem of size differences among firms.  
 C) Only a very limited number of ratios can be used for analytical purposes.  
 D) Every ratio is an income statement entry divided by a balance sheet item.  
 E) Ratios cannot be used for comparison purposes over periods of time.

**22)** The \_\_\_\_\_\_\_\_ is considered to be a liquidity ratio.

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

A) quick ratio   
 B) cash coverage ratio  
 C) total debt ratio  
 D) EV multiple  
 E) times interest earned ratio

**23)** An increase in \_\_\_\_\_\_\_\_ will increase a firm’s current ratio, but will not affect its quick ratio.

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

A) accounts payable   
 B) cash  
 C) inventory  
 D) accounts receivable  
 E) fixed assets

**24)** When granting credit to its customers, a supplier that requires payment within ten days should be most concerned with which one of the following ratios?

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

A) Current   
 B) Cash  
 C) Debt-equity  
 D) Quick  
 E) Total debt

**25)** Assume a firm has a total debt ratio of .36. An analyst would be justified in concluding that the firm has 36 cents in debt for every:

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

A) $1 in total equity.   
 B) $.64 in total assets.  
 C) $1 in current assets.  
 D) $.64 in total equity.  
 E) $1 in fixed assets.

**26)** The long-term debt ratio is probably of most interest to a firm's:

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

A) credit customers.   
 B) employees.  
 C) suppliers.  
 D) mortgage holder.  
 E) stockholders.

**27)** A bank is evaluating whether to lend money to a firm for a ten-year term. Of the following choices, the bank would most likely prefer the firm have a debt ratio of \_\_\_\_\_\_\_\_, and a times interest earned ratio of \_\_\_\_\_\_\_\_.

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

A) .50; .75   
 B) .50; 1.00  
 C) .45; 1.75  
 D) .40; .75  
 E) .40; 1.75

**28)** From a cash flow position, which one of the following ratios best measures a firm's ability to pay the interest on its debts?

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

A) Times interest earned ratio   
 B) Cash coverage ratio  
 C) Cash ratio  
 D) Quick ratio  
 E) Interval measure

**29)** The greater the inventory turnover value, the:

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

A) less time inventory remains on hand before being sold.   
 B) higher the inventory as a percentage of total assets.  
 C) longer it takes a firm to sell its inventory.  
 D) greater the amount of inventory held by a firm.  
 E) greater the selection of goods available for sale.

**30)** Assume a firm has a receivables turnover value of 10. Which one of the following statements is correct?

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

A) It takes the firm 10 days to collect payment from its customers.   
 B) It takes the firm 36.5 days to sell its inventory and collect the payment from the sale.  
 C) It takes the firm an average of 36.5 days to sell its items.  
 D) The firm collects its credit sales in an average of 36.5 days.  
 E) The firm has ten times more in accounts receivable than it does in cash.

**31)** A firm with a capital intensity ratio of .98 has $.98 in:

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

A) total debt for every $1 in equity.   
 B) equity for every $1 in total debt.  
 C) sales for every $1 in total assets.  
 D) total assets for every $1 in sales.  
 E) long-term assets for every $1 in short-term assets.

**32)** Float Swimwear generates six cents of net income for every $1 in equity. Thus, Float has a(n) \_\_\_\_\_\_\_\_ of 6 percent.

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

A) return on assets   
 B) net profit margin  
 C) return on equity  
 D) EV multiple  
 E) price-earnings ratio

**33)** Assume a firm’s return on assets and return on equity are both 15 percent. An analyst would be justified in concluding that the firm:

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

A) has no debt of any kind.   
 B) is using its assets as efficiently as possible.  
 C) pays all its earnings out in dividends.  
 D) also has a current ratio of 15.  
 E) has an equity multiplier of 2.

**34)** If stockholders want to know how much profit the firm is making on their entire investment in that firm, the stockholders should refer to the:

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

A) net profit margin.   
 B) return on assets.  
 C) return on equity.  
 D) equity multiplier.  
 E) earnings per share.

**35)** Assume Puffy’s Pastries increases its operating efficiency by lowering its costs, but holds its sales constant. As a result, given all else constant, the:

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

A) return on equity will increase.   
 B) return on assets will decrease.  
 C) net profit margin will decline.  
 D) total debt ratio will decrease.  
 E) price-earnings ratio will increase.

**36)** Alpha Corporation owns only fully depreciated equipment. Beta Corporation owns only new equipment, which will be depreciated over ten years. If Alpha and Beta have the same sales, costs, tax rate, and enterprise value, then:

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

A) Alpha will have the lower net profit margin.   
 B) Alpha will have the lower return on equity.  
 C) Beta will have the higher net income.  
 D) Alpha and Beta will have the same EV multiple.  
 E) Beta will have the lower EV multiple.

**37)** Last year, Seo & Stewart had a price-earnings ratio of 12 and earnings per share of $.97. This year, the price-earnings ratio is 16 and the earnings per share is $.97. Based on this information, it can be stated with certainty that:

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

A) the price per share decreased.   
 B) the earnings per share decreased.  
 C) investors are paying a lower price per share this year as compared to last year.  
 D) investors are receiving a higher rate of return this year.  
 E) the investors' outlook for the firm has improved.

**38)** Anand, Incorporated, has a price-earnings ratio of 16. Burleson, Incorporated, has a price-earnings ratio of 19. Thus, you can state with certainty that one share of Burleson stock:

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

A) has a higher market price than one share of Anand stock.   
 B) has a higher market price per dollar of earnings than does one share of Anand stock.  
 C) sells at a lower price per share than one share of Anand stock.  
 D) represents a larger percentage of firm ownership than does one share of Anand stock.  
 E) earns a greater net profit per share than does one share of Anand stock.

**39)** Which one of the following circumstances is most apt to cause a profitable, stable firm to have a higher than average price-earnings ratio?

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

A) Slow industry outlook   
 B) Very low current earnings  
 C) Low market share  
 D) Low prospect of firm growth  
 E) Low investor opinion of firm

**40)** Riaz Restaurant Group has a market-to-book ratio of 3.4. The book value per share is $34 and earnings per share are $1.36. Holding the market-to-book ratio and earnings per share constant, a $1 increase in the book value per share will:

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

A) decrease the price-earnings ratio.   
 B) decrease the EV multiple.  
 C) decrease the market price per share.  
 D) increase the price-earnings ratio.  
 E) increase the return on equity.

**41)** Which one of the following sets of ratios would generally be of the most interest to stockholders?

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

A) Return on assets and net profit margin   
 B) Quick ratio and times interest earned  
 C) Price-earnings ratio and debt-equity ratio  
 D) Return on equity and price-earnings ratio  
 E) Cash coverage ratio and equity multiplier

**42)** If a firm decreases its operating costs, all else constant, the:

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

A) net profit margin will decrease.   
 B) return on assets will decrease.  
 C) total asset turnover rate will increase.  
 D) cash coverage ratio will decrease.  
 E) price-earnings ratio will decrease.

**43)** A public firm’s market capitalization equals the:

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

A) total book value of assets less the book value of debt.   
 B) par value of common equity.  
 C) price per share multiplied by number of shares outstanding.  
 D) stock price per share multiplied by the number of shares authorized.  
 E) maximum value an acquirer would pay for the firm in an acquisition.

**44)** Enterprise value equals the:

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

A) market value of interest-bearing debt plus the market value of equity minus cash.   
 B) book values of debt and assets, other than cash.  
 C) market value of equity plus the book value of total debt minus cash.  
 D) book value of debt plus the market value of equity.  
 E) book values of debt and equity less cash.

**45)** Assume you want to acquire a firm and pay off all of its debt. The total amount of funds you require is called the:

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

A) market value of total assets.   
 B) book value of equity.  
 C) return on assets.  
 D) market value of equity.  
 E) enterprise value.

**46)** A firm with a high level of growth opportunities is most apt to have a:

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

A) high PE ratio and a high EV multiple.   
 B) high cash ratio and a low EV multiple.  
 C) high PE ratio and a low EV multiple.  
 D) low PE ratio and a high EV multiple.  
 E) low cash ratio and a low PE ratio.

**47)** The equity multiplier measures:

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

A) financial leverage.   
 B) returns to stockholders.  
 C) operating efficiency.  
 D) management efficiency.  
 E) asset use efficiency.

**48)** The return on equity equals:

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

A) ROA × Equity multiplier.   
 B) Net profit margin × ROA.  
 C) Net profit margin × ROA × Total asset turnover.  
 D) ROA × Net income/Total assets.  
 E) ROA × Debt-equity ratio.

**49)** The DuPont identity can be computed as:

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

A) Net income × Net Profit margin × (1 + Debt-equity ratio).   
 B) Net profit margin × 1/Capital intensity ratio × (1 + Debt-equity ratio).  
 C) Net income × Total asset turnover × Equity multiplier.  
 D) Net profit margin × Total asset turnover × Debt-equity ratio.  
 E) Return on equity × Net profit margin × Total asset turnover.

**50)** The \_\_\_\_\_\_\_\_ reveals the efficiency with which a firm employs its assets.

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

A) net profit margin   
 B) return on equity  
 C) equity multiplier  
 D) P/E ratio  
 E) total asset turnover

**51)** The process of evaluating a firm using its financial statements is simplified when the firm:

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

A) is a conglomerate.   
 B) is global in nature.  
 C) uses the same accounting procedures as other firms in its industry.  
 D) has a different fiscal year than other firms in its industry.  
 E) tends to have one-time events such as asset sales and property acquisitions.

**52)** The most effective method of directly evaluating the financial performance of a firm is to compare the financial ratios of the firm to:

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

A) the firm's ratios from prior time periods and to the ratios of firms with similar operations.   
 B) the average ratios of all firms within the same country over a period of time.  
 C) those of other firms located in the same geographic area that are similarly sized.  
 D) the average ratios of the firm's international peer group.  
 E) those of the largest conglomerate that has operations in the same industry as the firm.

**53)** When comparing the financial statements of one firm with those of another firm, the *least* number of issues will arise if the two firms:

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

A) are in different lines of business.   
 B) have geographically diverse operations.  
 C) use different methods of depreciation.  
 D) are both classified as conglomerates.  
 E) have the same fiscal year-end.

**54)** In the financial planning model, the external financing needed (EFN) as shown on a pro forma balance sheet is equal to the changes in assets:

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

A) plus the changes in liabilities minus the changes in equity.   
 B) minus the changes in both liabilities and equity.  
 C) minus the changes in liabilities only.  
 D) plus the changes in both liabilities and equity.  
 E) minus the change in retained earnings.

**55)** \_\_\_\_\_\_\_\_ is *least* likely to vary directly with sales.

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

A) Notes payable   
 B) Inventory  
 C) Cost of goods sold  
 D) Accounts payable  
 E) Accounts receivable

**56)** \_\_\_\_\_\_\_\_ statements are projected future financial statements.

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

A) Composite   
 B) Pro forma  
 C) Reconciled  
 D) Aggregated  
 E) Comparative

**57)** The projected addition to retained earnings can be calculated as:

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

A) PM *×* Δ Sales.   
 B) PM *×* Δ Sales *×* (1 − Dividend payout ratio).  
 C) PM *×* Projected sales × (1 −Dividend payout ratio).  
 D) Projected sales × (1 − Dividend payout ratio).  
 E) PM × Projected sales.

**58)** The maximum rate at which a firm can grow without issuing new equity, and while maintaining a constant debt-equity ratio, is best defined by its:

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

A) rate of return on assets.   
 B) internal rate of growth.  
 C) average historical rate of growth.  
 D) rate of return on equity.  
 E) sustainable rate of growth.

**59)** The sustainable growth rate will be equivalent to the internal growth rate when, and only when:

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

A) a firm has no debt.   
 B) the growth rate is positive.  
 C) the plowback ratio is positive but less than 1.  
 D) a firm has a debt-equity ratio equal to 1.  
 E) the retention ratio is equal to 1.

**60)** The sustainable growth rate:

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

A) assumes there is no external financing of any kind.   
 B) is normally higher than the internal growth rate.  
 C) assumes the debt-equity ratio is variable.  
 D) is based on receiving additional external equity financing.  
 E) assumes the dividend payout ratio is equal to zero.

**61)** If a firm bases its growth projection on the rate of sustainable growth, shows positive net income, and has a dividend payout ratio of 30 percent, then the:

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

A) fixed assets will have to increase at the sustainable growth rate, even if the firm is currently operating at only 78 percent of capacity.   
 B) number of common shares outstanding will increase at the same rate of growth.  
 C) debt-equity ratio will have to increase.  
 D) debt-equity ratio will remain constant while retained earnings increase.  
 E) fixed assets, debt-equity ratio, and number of common shares outstanding will all increase.

**62)** Paulhill Organic Produce wants to maintain its current dividend policy, which is a payout ratio of 25 percent. The firm does not want to increase its equity financing but is willing to maintain its current debt-equity ratio. Given these requirements, the maximum rate at which Paulhill can grow is equal to:

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

A) 25 percent of the internal rate of growth.   
 B) 75 percent of the internal rate of growth.  
 C) the internal rate of growth.  
 D) the sustainable rate of growth.  
 E) 75 percent of the sustainable rate of growth.

**63)** The value of the variable “*b*” as used in the internal growth rate formula equals:

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

A) 1 + Growth rate.   
 B) Total dividends/Net income.  
 C) 1 − Dividend payout ratio.  
 D) Net income/Total sales.  
 E) 1 − PE ratio.

**64)** One way to increase a firm’s sustainable rate of growth is to:

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

A) decrease the debt-equity ratio.   
 B) decrease the net profit margin.  
 C) increase the dividend payout ratio.  
 D) increase the capital intensity ratio.  
 E) increase the total asset turnover.

**65)** Financial planning models are most likely to omit:

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

A) the changes in net working capital required for additional sales.   
 B) the increases in costs required to increase sales.  
 C) any change in retained earnings due to changes in the income statement.  
 D) the timing, risk, and size of the cash flows.  
 E) any additions that might be needed to fixed assets.

**66)** Burds Feed Store has sales of $22,400, net income of $3,600, net fixed assets of $18,700, inventory of $2,800, and total current assets of $6,300. What is the common-size statement value of inventory?

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

A) 10.07%   
 B) 13.67%  
 C) 11.20%  
 D) 12.50%  
 E) 9.84%

**67)** Viqar’s has sales of $41,700, net income of $3,950, total assets of $22,100, and total equity of $11,800. Interest expense is $600. What is the common-size statement value of the interest expense?

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

A) 1.52%   
 B) 1.44%  
 C) 15.19%  
 D) 2.71%  
 E) 5.08%

**68)** Proctor Systems has sales of $91,300, net income of $7,800, costs of $47,600, and depreciation expense of $7,500. What is the common-size statement value of EBIT?

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

A) 76.05%   
 B) 23.95%  
 C) 39.65%  
 D) 16.76%  
 E) 47.86%

**69)** Park Media has cash of $218, accounts receivable of $457, accounts payable of $398, and inventory of $647. What is the value of the quick ratio?

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

A) .55   
 B) 1.05  
 C) 1.70  
 D) 1.32  
 E) 1.52

**70)** Blue Sky has a debt-equity ratio of .56. What is the equity multiplier?

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

A) 1.56   
 B) .44  
 C) 2.27  
 D) 1.76  
 E) 1.44

**71)** Shepherd Management has total debt of $6,800 and a debt-equity ratio of .36. What is the value of the total assets?

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

A) $18,889   
 B) $24,480  
 C) $23,520  
 D) $25,689  
 E) $25,360

**72)** Moorhead Consulting has sales of $684,000, costs of $437,000, interest paid of $13,800, total assets of $712,000, and depreciation expense of $109,400. The tax rate is 21 percent and the equity multiplier is 1.6. What is the return on equity?

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

A) 21.30%   
 B) 23.92%  
 C) 20.06%  
 D) 19.48%  
 E) 21.98%

**73)** Mora-Ramos Brands paid $11,310 in interest and $16,500 in dividends last year. The times interest earned ratio is 2.9, the depreciation expense is $7,900, and the tax rate is 21 percent. What is the value of the cash coverage ratio?

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

A) 3.71   
 B) 2.58  
 C) 3.60  
 D) 2.78  
 E) 3.10

**74)** Ceramic Coast has sales of $312,800, cost of goods sold of $218,400, inventory of $46,300, and accounts receivable of $62,700. How many days, on average, does it take the firm to both sell its inventory and collect payment on the sale?

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

A) 142.10   
 B) 96.37  
 C) 178.21  
 D) 150.54  
 E) 124.03

**75)** Plateau Partners has accounts receivable of $760,000, inventory of $550,000, sales of $ 4,370,000, and cost of goods sold of $ 1,950,000. How many days, on average, does it take the firm to sell its inventory?

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

A) 8   
 B) 2  
 C) 807  
 D) 103  
 E) 29

**76)** Hendrickson, Incorporated, has net working capital of $43,800, net fixed assets of $232,400, net income of $43,900, and current liabilities of $51,300. The tax rate is 21 percent and the net profit margin is 9.3 percent. How many dollars of sales are generated from every $1 in total assets?

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

A) $1.44   
 B) $1.32  
 C) $1.73  
 D) $.97  
 E) $1.06

**77)** Lakhani Consulting has sales of $418,000, total equity of $224,400, a tax rate of 23 percent, a debt-equity ratio of .37, and a net profit margin of 5.1 percent. What is the return on assets?

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

A) 6.93%   
 B) 9.50%  
 C) 11.08%  
 D) 7.13%  
 E) 13.13%

**78)** Guillory Group has sales of $363,000, total assets of $323,500, and a net profit margin of 14.6 percent. The firm has a total debt ratio of 54 percent. What is the return on equity?

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

A) 28.45%   
 B) 35.61%  
 C) 23.29%  
 D) 31.74%  
 E) 7.88%

**79)** May & Gray has $876,400 in sales with a net profit margin of 3.8 percent. There are 32,500 shares of stock outstanding at a market price per share of $21.60. What is the price-earnings ratio?

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

A) 23.40   
 B) 22.60  
 C) 19.21  
 D) 21.08  
 E) 18.47

**80)** New Metals has depreciation expense of $28,300, interest expense of $11,400, EBIT of $62,700, a price-earnings ratio of 8.6, a net profit margin of 7.2 percent, a tax rate of 21 percent, and 37,500 shares of stock outstanding. What is the market price per share?

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

A) $13.48   
 B) $7.09  
 C) $9.29  
 D) $12.48  
 E) $10.92

**81)** A firm has 12,000 shares of stock outstanding, sales of $638,100, a net profit margin of 8.2 percent, a tax rate of 21 percent, a price-earnings ratio of 11.3, and a book value per share of $7.98. What is the market-to-book ratio?

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

A) 6.08   
 B) 5.42  
 C) 5.16  
 D) 6.17  
 E) 6.90

**82)** Bastek, Incorporated, has 17,500 shares of stock outstanding along with $408,000 of interest-bearing debt. The market and book values of the debt are the same. The firm has sales of $697,000 and a net profit margin of 6.8 percent. The tax rate is 21 percent, the debt-equity ratio is 40 percent, and the price-earnings ratio is 11.8. The firm has $130,000 of current assets of which $41,200 is cash. What is the enterprise value multiple?

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

A) $1,106,308   
 B) $994,520  
 C) $830,479  
 D) $1,018,097  
 E) $926,073

**83)** Morales Corporation has sales of $317,000, a net profit margin of 8.6 percent, an equity multiplier of 1.8, and total debt of $144,400. What is the return on equity?

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

A) 15.48%   
 B) 14.46%  
 C) 7.05%  
 D) 15.10%  
 E) 11.25%

**84)** Kwok Electronics has the following balance sheet values: inventory $70,500; accounts receivable $50,700; accounts payable $58,900; cash $32,300, notes payable $20,000, long-term debt $134,700, and net fixed assets $504,500. What is the current ratio?

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

A) 1.95   
 B) .95  
 C) 2.11  
 D) 1.98  
 E) .98

**85)** Morgan Furniture has total revenues of $684,350, costs of goods sold of $472,500, net income of $11,520, and average inventory of $91,600. What is the days' sales in inventory?

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

A) 69.84 days   
 B) 70.76 days  
 C) 71.51 days  
 D) 5.16 days  
 E) 4.08 days

**86)** Gonzalez Brothers has current assets of $26,900, net working capital of $8,200, long-term debt of $21,500, and total equity of $57,800. What is the equity multiplier?

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

A) 1.70   
 B) 1.59  
 C) 1.66  
 D) 1.80  
 E) 1.99

**87)** Hettrick Inspections has net sales of $642,100, depreciation expense of $138,400, interest expense of $15,600, cost of goods sold of $409,800, and taxes of $16,400. What is the cash coverage ratio?

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

A) 11.06   
 B) 6.02  
 C) 13.79  
 D) 14.89  
 E) 8.78

**88)** Fahy Foods has net income of $39,900, net sales of $318,600, total assets of $663,000, common stock of $106,800 with a par value of $1 per share, and retained earnings of $224,400. The stock has a market value of $5.45 per share. What is the price-earnings ratio?

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

A) 17.12   
 B) 19.94  
 C) 12.82  
 D) 14.59  
 E) 16.64

**89)** Gondi Irrigation paid dividends of $3,300 and total equity of $39,450. The debt-equity ratio is 1 and the plowback ratio is 40 percent. What is the return on assets?

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

A) 6.24%   
 B) 6.09%  
 C) 7.23%  
 D) 6.97%  
 E) 5.72%

**90)** Torres Flooring has total assets of $48,700, net working capital of $1,100, and retained earnings of $21,200. The firm has 12,500 shares of stock outstanding with a par value of $1 per share and a market value of $7.10 per share. The stock was originally issued to the firm's founders at par value. What is the market-to-book ratio?

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

A) 3.19   
 B) 2.22  
 C) 2.78  
 D) 3.03  
 E) 2.63

**91)** Audacious Coffee has sales of $318,200, net income of $41,400, current assets of $118,400, net fixed assets of $238,300, net working capital of $18,900, and long-term debt of $175,000. What is the equity multiplier?

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

A) 1.71   
 B) 4.34  
 C) 1.44  
 D) 3.82  
 E) 2.92

**92)** Vaz & Diaz Financial Services has an enterprise value ratio of 9.8, a net profit margin of 6.5 percent, sales of $946,200, costs of $631,400, depreciation expense of $17,900, interest expense of $4,500, and a total tax rate of 23 percent. What is the value of the enterprise?

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

A) $3,102,900   
 B) $3,085,040  
 C) $2,748,300  
 D) $3,206,780  
 E) $2,918,640

**93)** Merritt Stoneworks is all-equity financed and has net sales of $217,800, taxable income of $32,600, a return on assets of 11.5 percent, a tax rate of 21 percent, and total debt of $63,700. What are the values for the three components of the DuPont identity?

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

A) 11.82%; .9725; 1.3975   
 B) 11.82%; 1.0282; 1.3975  
 C) 11.82%; .9725; .7156  
 D) 10.24%; 1.0282; .7156  
 E) 10.24%; 1.0282; 1.3975

**94)** Audino Audio has a return on equity of 16.2 percent, a debt-equity ratio of 44 percent, a capital intensity ratio of 1.08, a current ratio of 1.25, and current assets of $138,000. What is the net profit margin?

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

A) 12.15%   
 B) 9.72%  
 C) 7.48%  
 D) 15.19%  
 E) 13.69%

**95)** Table Top Floral has total sales of $642,100, EBIT of $93,900, net income of $50,800, current assets of $153,500, total assets of $658,000, current liabilities of $78,900, and total liabilities of $213,600. What are the values of the three components of the DuPont identity?

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

A) 7.91%; 1.02; 1.48   
 B) 8.57%; 1.02; .68  
 C) 7.91%; .98; 1.48  
 D) 11.43%; .98; .68  
 E) 11.43%; 1.02; 1.48

**96)** Crampton Machine has net income of $29,600, a total asset turnover of 1.4, total assets of $318,600, and a debt-equity ratio of .35. What is the return on equity?

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

A) 16.72%   
 B) 8.40%  
 C) 12.54%  
 D) 14.67%  
 E) 17.56%

**97)** Gbenda Corporation has sales of $91,200, net income of $18,240, dividends paid of $3,830, total assets of $456,000, and total liabilities of $182,400. Assume that all costs and assets change spontaneously with sales. The tax rate and dividend payout ratios remain constant. If the firm’s managers project a firm growth rate of 10 percent for next year, what will be the amount of external financing needed to support this level of growth? Assume the firm is currently operating at full capacity.

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

A) $65,664   
 B) $25,536  
 C) $45,600  
 D) $41,387  
 E) $29,749

**98)** Freeze Ice Creams has total assets of $591,600, current liabilities of $49,700, dividends paid of $12,000, net sales of $68,400, and net income of $55,400. Assume that all costs, assets, and current liabilities change spontaneously with sales. The tax rate and dividend payout ratios remain constant. If the firm's managers project a firm growth rate of 6 percent for next year, what will be the amount of external financing needed to support this level of growth? Assume the firm is currently operating at full capacity.

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

A) $3,200   
 B) −$13,490  
 C) −$17,520  
 D) $15,640  
 E) $16,380

**99)** Willard Windows has total sales of $387,200 on total assets of $429,600, current liabilities of $45,000, and $24,000 of dividends paid on net income of $57,700. Assume that all costs, assets, and current liabilities change spontaneously with sales. The tax rate and dividend payout ratios remain constant. If the firm's managers project a firm growth rate of 12 percent for next year, what will be the amount of external financing needed to support this level of growth? Assume the firm is currently operating at full capacity.

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

A) $11,706   
 B) $14,350  
 C) $9,911  
 D) $5,667  
 E) $8,408

**100)** For the year just ended, Shriftman Fabrics reported total sales of $12,000, costs of 8,952, total assets of $27,200, total liabilities of $7,400, and total equity of $19,800. The company does not pay dividends. Assume that all costs and assets change spontaneously with sales. The tax rate and dividend payout ratios remain constant. Next year’s revenue is expected to be $14,820. What will be the amount of external financing needed to support this increase in sales? Assume the firm is currently operating at full capacity.

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

A) $2,628   
 B) $29,828  
 C) $10,028  
 D) $33,592  
 E) $3,344

**101)** Truong Bakery has net sales of $642,100, net income of $50,800, dividends paid of $12,700, total assets of $658,000, and total equity of $444,400. What is the internal growth rate?

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

A) 5.83%   
 B) 6.24%  
 C) 6.15%  
 D) 5.18%  
 E) 7.70%

**102)** Adeoya Corporation reported $703,000 in sales and $140,600 in net income. The company paid $56,240 in dividends and ended the year with $1,304,000 in total assets. Assume the dividend payout ratio will be constant. At what annual rate can the company grow without having to raise external funds? The company is operating at full capacity.

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

A) 6.9%   
 B) 4.5%  
 C) 11.0%  
 D) 27.5%  
 E) 47.8%

**103)** Mauve Inns has total assets of $913,600, total debt of $424,500, net sales of $848,600, and net income of $94,000. The tax rate is 21 percent and the dividend payout ratio is 30 percent. What is the firm's sustainable growth rate?

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

A) 13.97%   
 B) 14.46%  
 C) 15.54%  
 D) 12.63%  
 E) 14.91%

**104)** Flash eBikes has a net profit margin of 6.2 percent and a dividend payout ratio of 40 percent. The capital intensity is 1.08 and the debt-equity ratio is .54. What is the sustainable rate of growth?

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

A) 6.30%   
 B) 5.53%  
 C) 5.60%  
 D) 6.41%  
 E) 5.89%

**105)** A firm has sales of $1,080, net income of $212, net fixed assets of $516, and current assets of $272. The firm has $87 in inventory. What is the common-size balance sheet value of inventory?

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

A) 11.04%   
 B) 31.99%  
 C) 8.06%  
 D) 41.04%  
 E) 16.86%

**106)** A firm has total debt of $1,430 and a debt–equity ratio of .28. What is the value of the total assets?

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

A) $1,830.40   
 B) $6,537.14  
 C) $5,107.14  
 D) $2,800.00  
 E) $4,004.00

**107)** A firm has sales of $4,770, costs of $2,570, interest paid of $172, and depreciation of $479. The tax rate is 35 percent. What is the cash coverage ratio?

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

A) 16.91 times   
 B) 10.01 times  
 C) 8.64 times  
 D) 5.85 times  
 E) 12.79 times

**108)** Mario's Home Systems has sales of $2,850, costs of goods sold of $2,190, inventory of $510, and accounts receivable of $433. How many days, on average, does it take Mario's to sell its inventory?

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

A) 83.84 days   
 B) 55.45 days  
 C) 85.00 days  
 D) 72.17 days  
 E) 65.32 days

**109)** A firm has net working capital of $480, net fixed assets of $2,226, sales of $5,900, and current liabilities of $790. How many dollars worth of sales are generated from every $1 in total assets?

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

A) $1.69   
 B) $2.65  
 C) $2.18  
 D) $1.96  
 E) $1.65

**110)** Lee Sun's has sales of $3,600, total assets of $3,300, and a profit margin of 6 percent. The firm has a total debt ratio of 42 percent. What is the return on equity?

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

A) 5.14 percent   
 B) 6.55 percent  
 C) 6.00 percent  
 D) 8.86 percent  
 E) 11.29 percent

**111)** Jupiter Explorers has $5,600 in sales. The profit margin is 3 percent. There are 4,000 shares of stock outstanding, with a price of $1.20 per share. What is the company's price–earnings ratio?

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

A) 14.29 times   
 B) 28.57 times  
 C) 28.00 times  
 D) 6.12 times  
 E) 5.04 times

**112)** Samuelson's has a debt–equity ratio of 21 percent, sales of $5,500, net income of $900, and total debt of $4,700. What is the return on equity?

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

A) 2.10%   
 B) 19.15%  
 C) 3.32%  
 D) 4.02%  
 E) 16.36%

**113)** A firm has a return on equity of 20 percent. The total asset turnover is 2.8 and the profit margin is 7 percent. The total equity is $6,000. What is the net income?

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

A) $1,200   
 B) $429  
 C) $420  
 D) $3,360  
 E) $1,176

**114)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Windswept, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 9,950 |
| **Cost of goods sold** | 8,060 |
| **Depreciation** | 495 |
| **Earnings before interest and taxes** | $ 1,395 |
| **Interest paid** | 116 |
| **Taxable income** | $ 1,279 |
| **Taxes** | 448 |
| **Net income** | $ 831 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Windswept, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 290 | $ 320 | **Accounts payable** | $ 1,610 | $ 1,535 |
| **Accounts receivable** | 1,120 | 1,020 | **Long-term debt** | 1,160 | 1,360 |
| **Inventory** | 1,990 | 1,785 | **Common stock** | 3,460 | 3,430 |
| **Total** | $ 3,400 | $ 3,125 | **Retained earnings** | 700 | 950 |
| **Net fixed assets** | 3,530 | 4,150 |  |  |  |
| **Total assets** | $ 6,930 | $ 7,275 | **Total liability & equity** | $ 6,930 | $ 7,275 |

What is the quick ratio for 2017?

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

A) 1.83 times   
 B) 2.04 times  
 C) .87 times  
 D) 1.16 times  
 E) .86 times

**115)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Windswept, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 8,850 |
| **Cost of goods sold** | 7,440 |
| **Depreciation** | 420 |
| **Earnings before interest and taxes** | $ 990 |
| **Interest paid** | 92 |
| **Taxable income** | $ 898 |
| **Taxes** | 314 |
| **Net income** | $ 584 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Windswept, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 160 | $ 190 | **Accounts payable** | $ 1,110 | $ 1,235 |
| **Accounts receivable** | 860 | 760 | **Long-term debt** | 1,050 | 1,275 |
| **Inventory** | 1,610 | 1,580 | **Common stock** | 3,240 | 2,950 |
| **Total** | $ 2,630 | $ 2,530 | **Retained earnings** | 540 | 790 |
| **Net fixed assets** | 3,310 | 3,720 |  |  |  |
| **Total assets** | $ 5,940 | $ 6,250 | **Total liability & equity** | $ 5,940 | $ 6,250 |

What is the days' sales in receivables for 2017?

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

A) 30.92 days   
 B) 31.34 days  
 C) 60.59 days  
 D) 44.38 days  
 E) 33.41 days

**116)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Windswept, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 9,350 |
| **Cost of goods sold** | 7,330 |
| **Depreciation** | 435 |
| **Earnings before interest and taxes** | $ 1,585 |
| **Interest paid** | 86 |
| **Taxable income** | $ 1,499 |
| **Taxes** | 525 |
| **Net income** | $ 974 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Windswept, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 140 | $ 170 | **Accounts payable** | $ 1,060 | $ 1,175 |
| **Accounts receivable** | 840 | 740 | **Long-term debt** | 990 | 1,270 |
| **Inventory** | 1,570 | 1,555 | **Common stock** | 3,230 | 2,920 |
| **Total** | $ 2,550 | $ 2,465 | **Retained earnings** | 560 | 810 |
| **Net fixed assets** | 3,290 | 3,710 |  |  |  |
| **Total assets** | $ 5,840 | $ 6,175 | **Total liability & equity** | $ 5,840 | $ 6,175 |

What is the fixed asset turnover for 2017?

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

A) 1.51 times   
 B) 2.52 times  
 C) .40 times  
 D) 3.79 times  
 E) 2.23 times

**117)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Windswept, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 10,800 |
| **Cost of goods sold** | 7,950 |
| **Depreciation** | 420 |
| **Earnings before interest and taxes** | $ 2,430 |
| **Interest paid** | 100 |
| **Taxable income** | $ 2,330 |
| **Taxes** | 816 |
| **Net income** | $ 1,514 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Windswept, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 280 | $ 310 | **Accounts payable** | $ 1,790 | $ 1,842 |
| **Accounts receivable** | 1,110 | 1,010 | **Long-term debt** | 1,070 | 1,353 |
| **Inventory** | 2,000 | 1,745 | **Common stock** | 3,360 | 3,030 |
| **Total** | $ 3,390 | $ 3,065 | **Retained earnings** | 650 | 900 |
| **Net fixed assets** | 3,480 | 4,060 |  |  |  |
| **Total assets** | $ 6,870 | $ 7,125 | **Total liability & equity** | $ 6,870 | $ 7,125 |

What is the equity multiplier for 2017?

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

A) 2.35 times   
 B) 1.34 times  
 C) 2.75 times  
 D) 3.56 times  
 E) 1.81 times

**118)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Windswept, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 10,200 |
| **Cost of goods sold** | 8,050 |
| **Depreciation** | 420 |
| **Earnings before interest and taxes** | $ 1,730 |
| **Interest paid** | 104 |
| **Taxable income** | $ 1,626 |
| **Taxes** | 569 |
| **Net income** | $ 1,057 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Windswept, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 290 | $ 320 | **Accounts payable** | $ 1,690 | $ 1,902 |
| **Accounts receivable** | 1,150 | 1,050 | **Long-term debt** | 1,090 | 1,403 |
| **Inventory** | 1,820 | 1,785 | **Common stock** | 3,400 | 3,050 |
| **Total** | $ 3,260 | $ 3,155 | **Retained earnings** | 670 | 920 |
| **Net fixed assets** | 3,590 | 4,120 |  |  |  |
| **Total assets** | $ 6,850 | $ 7,275 | **Total liability & equity** | $ 6,850 | $ 7,275 |

What is the cash coverage ratio for 2017?

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

A) 3.08times   
 B) 20.67times  
 C) 6.72times  
 D) 4.37times  
 E) 16.63 times

**119)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Windswept, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 8,700 |
| **Cost of goods sold** | 7,340 |
| **Depreciation** | 405 |
| **Earnings before interest and taxes** | $ 955 |
| **Interest paid** | 82 |
| **Taxable income** | $ 873 |
| **Taxes** | 306 |
| **Net income** | $ 567 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Windswept, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 150 | $ 185 | **Accounts payable** | $ 1,180 | $ 1,260 |
| **Accounts receivable** | 920 | 730 | **Long-term debt** | 1,000 | 1,265 |
| **Inventory** | 1,520 | 1,550 | **Common stock** | 3,210 | 2,900 |
| **Total** | $ 2,590 | $ 2,465 | **Retained earnings** | 460 | 710 |
| **Net fixed assets** | 3,260 | 3,670 |  |  |  |
| **Total assets** | $ 5,850 | $ 6,135 | **Total liability & equity** | $ 5,850 | $ 6,135 |

What is the return on equity for 2017?

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

A) 19.55%   
 B) 32.93%  
 C) 15.71%  
 D) 26.45%  
 E) 18.56%

**120)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Windswept, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 10,350 |
| **Cost of goods sold** | 8,100 |
| **Depreciation** | 385 |
| **Earnings before interest and taxes** | $ 1,865 |
| **Interest paid** | 106 |
| **Taxable income** | $ 1,759 |
| **Taxes** | 528 |
| **Net income** | $ 1,231 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Windswept, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 310 | $ 335 | **Accounts payable** | $ 1,660 | $ 1,977 |
| **Accounts receivable** | 1,170 | 1,070 | **Long-term debt** | 1,100 | 1,288 |
| **Inventory** | 1,840 | 1,690 | **Common stock** | 3,420 | 3,060 |
| **Total** | $ 3,320 | $ 3,095 | **Retained earnings** | 680 | 930 |
| **Net fixed assets** | 3,540 | 4,160 |  |  |  |
| **Total assets** | $ 6,860 | $ 7,255 | **Total liability & equity** | $ 6,860 | $ 7,255 |

Windswept, Incorporated, has 580 million shares of stock outstanding. Its price–earnings ratio for 2017 is 16. What is the market price per share of stock?

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

A) $18.76   
 B) $33.96  
 C) $51.45  
 D) $21.22  
 E) $25.66

**121)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Windswept, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 9,500 |
| **Cost of goods sold** | 7,540 |
| **Depreciation** | 320 |
| **Earnings before interest and taxes** | $ 1,640 |
| **Interest paid** | 93 |
| **Taxable income** | $ 1,547 |
| **Taxes** | 464 |
| **Net income** | $ 1,083 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Windswept, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 270 | $ 285 | **Accounts payable** | $ 1,470 | $ 1,625 |
| **Accounts receivable** | 1,080 | 980 | **Long-term debt** | 1,160 | 1,430 |
| **Inventory** | 1,680 | 1,670 | **Common stock** | 3,340 | 3,040 |
| **Total** | $ 3,030 | $ 2,935 | **Retained earnings** | 490 | 740 |
| **Net fixed assets** | 3,430 | 3,900 |  |  |  |
| **Total assets** | $ 6,460 | $ 6,835 | **Total liability & equity** | $ 6,460 | $ 6,835 |

What were the total dividends paid for 2017?

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

A) $833 million   
 B) $250 million  
 C) $615 million  
 D) $455 million  
 E) $798 million

**122)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Bayside, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 6,270 |
| **Cost of goods sold** | 4,790 |
| **Depreciation** | 415 |
| **Earnings before interest and taxes** | $ 1,065 |
| **Interest paid** | 52 |
| **Taxable income** | $ 1,013 |
| **Taxes** | 355 |
| **Net income** | $ 658 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Bayside, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 165 | $ 270 | **Accounts payable** | $ 1,810 | $ 1,910 |
| **Accounts receivable** | 1,210 | 1,050 | **Long-term debt** | 920 | 720 |
| **Inventory** | 1,885 | 2,170 | **Common stock** | 3,460 | 3,390 |
| **Total** | $ 3,260 | $ 3,490 | **Retained earnings** | 990 | 1,240 |
| **Net fixed assets** | 3,920 | 3,770 |  |  |  |
| **Total assets** | $ 7,180 | $ 7,260 | **Total liability & equity** | $ 7,180 | $ 7,260 |

How many dollars of sales were generated from every dollar of fixed assets during 2017?

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

A) $.87   
 B) $1.66  
 C) $1.63  
 D) $.86  
 E) $1.60

**123)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Bayside, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 7,720 |
| **Cost of goods sold** | 4,790 |
| **Depreciation** | 410 |
| **Earnings before interest and taxes** | $ 2,520 |
| **Interest paid** | 52 |
| **Taxable income** | $ 2,468 |
| **Taxes** | 864 |
| **Net income** | $ 1,604 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Bayside, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 165 | $ 270 | **Accounts payable** | $ 1,815 | $ 2,270 |
| **Accounts receivable** | 1,210 | 1,050 | **Long-term debt** | 920 | 720 |
| **Inventory** | 1,900 | 2,180 | **Common stock** | 3,460 | 3,190 |
| **Total** | $ 3,275 | $ 3,500 | **Retained earnings** | 990 | 1,240 |
| **Net fixed assets** | 3,910 | 3,920 |  |  |  |
| **Total assets** | $ 7,185 | $ 7,420 | **Total liability & equity** | $ 7,185 | $ 7,420 |

What is the equity multiplier for 2017?

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

A) 1.67times   
 B) .56times  
 C) 1.00times  
 D) 2.33 times  
 E) 2.20times

**124)** Use the following information to answer this question.

|  |  |
| --- | --- |
| Bayside, Incorporated | |
| 2017 Income Statement | |
| ($ in millions) | |
| **Net sales** | $ 5,840 |
| **Cost of goods sold** | 4,250 |
| **Depreciation** | 335 |
| **Earnings before interest and taxes** | $ 1,255 |
| **Interest paid** | 31 |
| **Taxable income** | $ 1,224 |
| **Taxes** | 367 |
| **Net income** | $ 857 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Bayside, Incorporated | | | | | |
| 2016 and 2017 Balance Sheets | | | | | |
| ($ in millions) | | | | | |
|  | **2016** | **2017** |  | **2016** | **2017** |
| **Cash** | $ 90 | $ 195 | **Accounts payable** | $ 1,435 | $ 1,405 |
| **Accounts receivable** | 960 | 800 | **Long-term debt** | 760 | 560 |
| **Inventory** | 1,605 | 1,990 | **Common stock** | 3,230 | 3,230 |
| **Total** | $ 2,655 | $ 2,985 | **Retained earnings** | 830 | 1,080 |
| **Net fixed assets** | 3,600 | 3,290 |  |  |  |
| **Total assets** | $ 6,255 | $ 6,275 | **Total liability & equity** | $ 6,255 | $ 6,275 |

What is the return on equity for 2017?

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

A) 21.11%   
 B) 19.88%  
 C) 28.40%  
 D) 20.50%  
 E) 13.66%

**125)** The Green Giant has a 7 percent profit margin and a 38 percent dividend payout ratio. The total asset turnover is 1.3 times and the equity multiplier is 1.4 times. What is the sustainable rate of growth?

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

A) 8.58%   
 B) 12.01%  
 C) 9.88%  
 D) 1.82%  
 E) 12.74%

**126)** A firm wants a sustainable growth rate of 2.83 percent while maintaining a dividend payout ratio of 21 percent and a profit margin of 5 percent. The firm has a capital intensity ratio of 2. What is the debt–equity ratio that is required to achieve the firm's desired rate of growth?

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

A) .79times   
 B) .61times  
 C) .17times  
 D) .39 times  
 E) .70times

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.  
127)** You are comparing the common-size financial statements for two firms in the same industry that have very similar operations. You note that their sales revenues are similar in dollar value but yet the common-size EBIT for one firm is 30 percent compared to only 26 percent for the other firm. What are some possible explanations for this difference given the strong similarities of the two firms?

**128)** Which is a more meaningful measure of profitability for a firm, return on assets or return on equity? Why?

**129)** A retail store has days' sales in inventory of 68 days and an average collection period of 32 days. The firm pays its suppliers in an average of 42 days. Taken together, what do these average values imply about the firm's operations and its cash flows?

**130)** Suppose a firm calculates its external financial need for a growth rate of ten percent and finds that the need is a negative value. What are the firm's options in this case?

**131)** New Tek has a sustainable growth rate of 11.2 percent. However, the firm's managers are determined that the firm should grow by at least 20 percent next year. What must the firm do if the managers are to reach their desired level of growth for the firm?

**132)** State the assumptions that underlie the internal growth rate and interpret what that rate means.

**Answer Key**Test name: Chapter 3

1) E

2) B

3) B

4) C

5) B

6) D

7) B

8) C

9) E

10) A

11) C

12) E

13) B

14) B

15) D

16) A

17) B

18) C

19) D

20) E

21) A

22) A

23) C

24) B

25) D

26) D

27) E

28) B

29) A

30) D

31) D

32) C

33) A

34) C

35) A

36) D

37) E

38) B

39) B

40) D

41) D

42) E

43) C

44) A

45) E

46) A

47) A

48) A

49) B

50) E

51) C

52) A

53) E

54) B

55) A

56) B

57) C

58) E

59) A

60) B

61) D

62) D

63) C

64) E

65) D

66) C

Common-size inventory = $2,800/($6,300 + 18,700)  
 Common-size inventory = .1120, or 11.20%

67) B

Common-size interest expense = $600/$41,700  
 Common-size interest expense = .0144, or 1.44%

68) C

Common-size EBIT = ($91,300 − 47,600 − 7,500)/$91,300  
 Common-size EBIT = .3965, or 39.65%

69) C

Quick ratio = ($218 + 457)/$398  
 Quick ratio = 1.70

70) A

EM = Total assets/Total equity  
 EM = Total equity/Total equity + Total debt/Total equity  
 EM = 1 + .56  
 EM = 1.56

71) D

Total equity = $6,800/.36  
 Total equity = $18,889  
   
 Total assets = $6,800 + 18,889  
 Total assets = $25,689

72) E

Net income = ($684,000 − 437,000 − 109,400 − 13,800)(1 − .21)  
 Net income = $97,802  
   
 Equity = $712,000/1.6  
 Equity = $445,000  
   
 ROE = $97,802/$445,000  
 ROE = .2198, or 21.98%

73) C

EBIT = 2.9($11,310)  
 EBIT = $32,799  
   
 Cash coverage ratio = ($32,799 + 7,900)/$11,310  
 Cash coverage ratio = 3.60

74) D

Days' sales in inventory = 365/($218,400/$46,300)  
 Days' sales in inventory = 77.38  
   
 Days' sales in receivables = 365/($312,800/$62,700)  
 Days' sales in receivables = 73.16  
   
 Total days' sales in inventory and receivables = 77.38 + 73.16  
 Total days' sales in inventory and receivables = 150.54

75) D

Days’ sales in inventory = 365/($1,950,000/$550,000)  
 Days' sales in inventory = 103

76) A

Total asset turnover = ($43,900/.093)/($43,800 + 51,300 + 232,400)  
 Total asset turnover = 1.44  
   
 Every $1 in total assets generates $1.44 in sales.

77) A

ROA = [.051($418,000)]/[(1 + .37)$224,400]  
 ROA = .0693, or 6.93%

78) B

ROE = [.146($363,000)]/[$323,500(1 − .54)]  
 ROE = .3561, or 35.61%

79) D

PE ratio = $21.60/{[.038($876,400)]/32,500}  
 PE ratio = 21.08

80) C

Market price per share = 8.6{[($62,700 − 11,400)(1 − .21)]/37,500}  
 Market price per share = $9.29

81) D

Market-to-book ratio = {11.3[.082($638,100)]/12,000}/$7.98  
 Market-to-book ratio = 6.17

82) E

Enterprise value = 11.8[.068($697,000)] + $408,000 − 41,200  
 Enterprise value = $926,073

83) D

Debt-equity ratio = 1.8 − 1  
 Debt-equity ratio = .8  
   
 Equity = $144,400/.8  
 Equity = $180,500  
   
 ROE = .086($317,000)/$180,500  
 ROE = .1510, or 15.10%

84) A

Current ratio = ($32,300 + 50,700 + 70,500)/($58,900 + 20,000)  
 Current ratio = 1.95

85) B

Days' sales in inventory = 365/($472,500/$91,600)  
 Days' sales in inventory = 70.76 days

86) A

Total assets = Total liabilities and equity = $26,900 − 8,200 + 21,500 + 57,800  
 Total assets = $98,000  
   
 Equity multiplier = $98,000/$57,800  
 Equity multiplier = 1.70

87) D

Cash coverage ratio = ($642,100 − 409,800)/$15,600  
 Cash coverage ratio = 14.89

88) D

PE ratio = $5.45/[$39,900/($106,800/$1)]  
 PE ratio = 14.59

89) D

A debt-equity ratio of 1 means that total debt equals total equity while a plowback ratio of 40 percent means that the dividends were 60 percent of net income.  
   
 ROA = ($3,300/.60)/($39,450 + 39,450)  
 ROA = .0697, or 6.97%

90) E

Market-to-book ratio = $7.10/{[$1(12,500) + $21,200]/12,500}  
 Market-to-book ratio = 2.63

91) B

Equity multiplier = ($118,400 + 238,300)/[$118,400 + 238,300 − ($118,400 − 18,900) − $175,000]  
 Equity multiplier = 4.34

92) B

Enterprise value = 9.8($946,200 − 631,400)  
 Enterprise value = $3,085,040

93) A

Net profit margin = $32,600(1 − .21)/$217,800  
 Net profit margin = .1182, or 11.82%  
   
 Total assets = $32,600(1 − .21)/.115  
 Total assets = $223,947.83  
   
 Total asset turnover = $217,800/$223,947.83  
 Total asset turnover = .9725  
   
 Equity multiplier = $223,947.83/($223,947.83 − 63,700)  
 Equity multiplier = 1.3975

94) A

Net profit margin = .162/[(1/1.08)(1 + .44)]  
 Net profit margin = .1215, or 12.15%

95) C

Net profit margin = $50,800/$642,100  
 Net profit margin = .0791, or 7.91%  
   
 Total asset turnover = $642,100/$658,000  
 Total asset turnover = .98  
   
 Equity multiplier = $658,000/($658,000 − 213,600)  
 Equity multiplier = 1.48

96) C

ROE = ($29,600/$318,600)(1 + .35)  
 ROE = .1254, or 12.54%

97) E

EFN = $456,000(.10) − $18,240(1.10)[1 − ($3,830/$18,240)]  
 EFN = $29,749

98) B

EFN = $591,600(.06) − $49,700(.06) − $55,400(1.06)[1 − ($12,000/$55,400)]  
 EFN = −$13,490

99) E

EFN = $429,600(.12) − $45,000(.12) − $57,700(1.12)[1 − ($24,000/$57,700)]  
 EFN = $8,408

100) A

EFN = ($27,200/$12,000)($14,820 − 12,000) − [($12,000 − 8,952)/$12,000]($14,820)  
 EFN = $2,628

101) C

Internal growth rate = {($50,800/$658,000)[1 − ($12,700/$50,800)]}/(1 − {($50,800/$658,000)[1 − ($12,700/$50,800)]})  
 Internal growth rate = .0615, or 6.15%

102) A

Internal growth rate = {($140,600/$1,304,000)[1 − ($56,240/$140,600)]}/(1 − {($140,600/$1,304,000)[1 − ($56,240/$140,600)]})  
 Internal growth rate = .069, or 6.9%

103) C

Sustainable growth rate = {[$94,000/($913,600 − 424,500)](1 − .30)}/(1 − {[$94,000/($913,600 − 424,500)](1 − .30)})  
 Sustainable growth rate = .1554, or 15.54%

104) C

ROE = .062(1/1.08)(1 + .54)  
 ROE = .088407  
   
 Sustainable growth rate = [.088407(1 −.40)]/{1 − [.088407(1 − .40)]}  
 Sustainable growth rate = .0560, or 5.60%

105) A

Total assets = $516 + 272 = $788  
   
 Common-size value of inventory = $87/$788 = .1104, or 11.04%

106) B

$1,430/Total equity = .28  
   
 Total equity = $5,107.14  
   
 Total assets = $1,430 + 5,107.14 = $6,537.14

107) E

EBIT = $4,770 − 2,570 − 479 = $1,721  
   
 Cash coverage ratio = ($1,721 + 479)/$172 = 12.79 times

108) C

Inventory turnover = $2,190/$510 = 4.2941  
   
 Days’ sales in inventory = 365 days/4.2941 = 85.00 days

109) A

Current assets = $480 + 790 = $1,270  
   
 Total asset turnover = $5,900/($1,270 + 2,226) = 1.69  
   
 Sales generated by $1 in total assets = $1 × 1.69 = $1.69

110) E

Net income = $3,600 × .06 = $216.00  
   
 Total debt ratio = .42 = ($3,300 − Total equity)/$3,300  
   
 Total equity = $1,914.00  
   
 Return on equity = $216.00/$1,914.00 = .1129, or 11.29%

111) B

Earnings per share = ($5,600 × .03)/4,000 = $.04200  
   
 Price–earnings ratio = $1.20/$.04200 = 28.57 times

112) D

Debt–equity ratio = .21 = $4,700/Total equity  
   
 Total equity = $22,380.95  
   
 Return on equity = $900/$22,380.95 = 0.0402, or 4.02%

113) A

Net income = .20 × $6,000 = $1,200

114) C

Quick ratio = ($3,125 − 1,785)/$1,535 = .87 times

115) B

Receivables turnover = $8,850/$760 = 11.6447 times  
   
 Days’ sales in receivables = 365 days/11.6447 = 31.34 days

116) B

Fixed asset turnover = $9,350/$3,710 = 2.52 times

117) E

Equity multiplier = $7,125/($3,030 + 900) = 1.81 times

118) B

Cash coverage ratio = ($1,730 + 420 )/$104 = 20.67 times

119) C

Return on equity = $567/($2,900 + 710) = 15.71%

120) B

Earnings per share = $1,231/580 = $2.122414  
   
 Price = $2.122414 × 16 = $33.96

121) A

Retention ratio = ($740 million − 490 million)/$1,083 million = .231  
   
 Dividends paid = (1 − .231) × $1,083 million = $833 million

122) B

Fixed asset turnover = $6,270/$3,770 = 1.66  
   
 Sales generated = $1 × 1.66 = $1.66

123) A

Equity multiplier = $7,420/($3,190 + 1,240) = 1.67 times

124) B

Return on equity = $857/($3,230 + 1,080) = .1988, or 19.88%

125) A

Return on equity = .07 × 1.30 × 1.40 = .127  
   
 Sustainable rate of growth = [.127 × (1 − .38)]/{1 − [.127 × (1 − .38)]} = .0858, or 8.58 percent

126) D

Sustainable growth rate = .0283 = [ROE × (1 − .21)]/{1 − [ROE × (1 − .21)]}  
   
 ROE = .03484  
   
 ROE = .03484 = .05 × (1/2) × Equity multiplier  
   
 Equity multiplier = 1.39  
   
 Debt–equity ratio = 1.39 − 1 = .39times

127) Some possible explanations are: (1) difference in the age of the fixed assets leading to differences in the depreciation expense, (2) different depreciation methods, (3) different inventory methods which affects the cost of goods sold, (4) different sales markets that allows the one firm to have a higher markup per item, (5) different markets that cause higher costs per unit sold, and (6) differing fiscal years.

128) Most would argue ROE since it measures returns relative to the amount shareholders have invested in the firm. In addition, since shareholder wealth maximization is a firm's primary goal, it makes more sense to look at this measure.

129) It takes a total of 100 days (= 68 + 32) to sell inventory and collect payment on the sale of that inventory. Meanwhile, 42 days after acquiring the inventory and prior to the inventory even being sold, the retailer must pay its suppliers. Thus, the firm must pay out cash 58 (= 100 − 42) days prior to receiving payment. This creates a negative cash flow which the firm must be able to finance.

130) With a negative external financing need, the firm can expect to have a surplus of funds given the projected rate of growth. The firm can use those funds to reduce current liabilities, reduce long-term debt, buy back common stock, increase dividends, or invest in assets and resources, as needed, to increase its growth rate.

131) One reason that causes firms to go out of business is the lack of external funding to support the growth of the firm. Understanding the implications of both the internal and sustainable growth rates can help management know when to limit firm growth such that the growth does not exceed the availability of the necessary financing to fund that growth. For the firm to achieve growth beyond the sustainable rate, the firm must increase its debt-equity ratio, obtain additional external equity financing, reduce its dividends, improve its profitability, or some combination of these actions.

132) The usual assumptions are: Costs, assets, and current accounts (excluding notes payable) increase proportionately with sales, the dividend payout ratio is fixed (or is given), and no new external financing will be raised. The internal growth rate is the maximum rate at which sales can increase given the stated assumptions while maintaining the funding required by that growth.