

Chapter 12– Financial Accounting, 2nd edition by Dyckman & Pfeiffer

Practice Quiz

Topic: Liquidity Ratios

LO: 3

1. Selected balance sheet and income statement information is presented for four companies within the same industry (in millions):

| | Company 1 | Company 2 | Company 3 | Company 4 |
|--|------------------|------------------|------------------|------------------|
| Current assets | \$1,892 | \$2,601 | \$3,987 | \$2,201 |
| Current liabilities | \$854 | \$2,887 | \$3,334 | \$1,453 |
| Total liabilities | \$3,891 | \$7,011 | \$6,533 | \$3,942 |
| Total liabilities and stockholders' equity | \$4,843 | \$13,460 | \$13,045 | \$6,566 |

Based on current ratio calculations for all companies, which company is more liquid?

- a. Company 1
- b. Company 2
- c. Company 3
- d. Company 4

Topic: Compute RNOA

LO: 1,2

2. Use the following selected balance sheet and income statement information for James Company (below in \$millions) to compute the return on net operating assets (RNOA) to the nearest hundredth of a percent.

| | | | |
|-----------------------------|------------------------------|-----------|------------------------------|
| Operating profit before tax | Average net operating Assets | Sales | Tax rate on operating profit |
| \$41,343 | \$265,376 | \$740,116 | 37.8% |

- a. 35.86%
- b. 37.80%
- c. 9.69%
- d. 15.58%

Topic: Solvency Ratios

LO: 3

3. Selected balance sheet and income statement information is presented for four companies within the same industry (in millions):

| | Company 1 | Company 2 | Company 3 | Company 4 |
|--|------------------|------------------|------------------|------------------|
| Current assets | \$927 | \$2,601 | \$3,987 | \$2,201 |
| Current liabilities | \$854 | \$2,887 | \$3,334 | \$1,453 |
| Total liabilities | \$3,891 | \$7,011 | \$6,533 | \$3,942 |
| Total liabilities and stockholders' equity | \$4,843 | \$13,460 | \$13,045 | \$6,566 |

Based on your calculations of the liabilities to equity ratio for all companies, which company is more solvent?

- a. Company 1
- b. Company 2
- c. Company 3
- d. Company 4

Topic: Times-Interest-Earned

LO: 3

4. Morgan Company has sales of \$1 million, tax rate of 40%, net operating profit margin before interest and taxes of 6% and total interest charges of \$10,000 per year. What is the Times-Interest-Earned ratio?

- a. 4.0
- b. 7.0
- c. 3.0
- d. 6.0

Topic: Common-Size Comparative Income Statement

LO: 3

5. Washington, Inc., reported the following amounts of net income (in thousands) from 2010 to 2012:

| | | |
|-------|-------|-------|
| 2012 | 2011 | 2010 |
| \$270 | \$180 | \$110 |

Based on this information, relative to the prior year, the percentage change in net income:

- a. Was the same in both 2011 and 2012.
- b. Was smaller in 2012 than in 2011.
- c. Was larger in 2012 than in 2011.
- d. Cannot be determined without knowing more information.

Topic: Discontinued Operations

LO: 3

6. All of the following are associated with the reporting for discontinued operations except:

- a. Net assets of discontinued operations are considered to be nonoperating.
- b. After-tax profits (losses) of discontinued operations are nonoperating.
- c. The ROE computation is affected by the reporting of discontinued operations.
- d. Discontinued operations are reported on a separate line below income from continuing operations.

Use the following information for Questions 7 – 9:

Below are data from the financial statements of Crystal Company (in \$millions).

Income statement data for 2010:

| | |
|--------------------|--------|
| Net income | \$ 390 |
| Net sales | 1,530 |
| Operating expenses | 440 |
| Cost of goods sold | 520 |

Balance sheet data:

| | |
|--------------------------------------|----------|
| Total equity, Dec. 31, 2009 | \$ 3,150 |
| Total equity, Dec. 31, 2010 | 3,650 |
| Operating assets, Dec. 31, 2009 | 2,760 |
| Operating assets, Dec. 31, 2010 | 2,240 |
| Operating liabilities, Dec. 31, 2009 | 1,100 |
| Operating liabilities, Dec. 31, 2010 | 1,300 |

Tax Rate 40%

Topic: Operating Income

LO: 1

7. What was Crystal's operating income?

- a. \$1,010.
- b. \$390.
- c. \$570.
- d. \$1,090

Topic: Return on Equity

LO: 1

8. What is Crystal's return on equity?

- a. 16.8%
- b. 25.5%
- c. 37.3%.
- d. 11.5%.

Topic: Return on Net Operating Assets

LO: 1

9. What is Crystal's return on net operating assets?

- a. 13.7%
- b. 26.3%
- c. 43.8%
- d. 22.8%

Topic: ROE Computation

LO: 1

10. Barton Company's 2010 balance sheet shows average shareholders' equity of \$4,435 million, net operating profit after tax of \$1,378 million, net income of \$1,015 million, and common shares issued of \$897 million. The company has no preferred shares issued. Barton's return on common equity for the year is:

- a. 22.9%
- b. 31.1%
- c. 437%
- d. 20.2%