

Module 4 – Financial Accounting for MBAs, 4<sup>th</sup> edition by Easton, Halsey, Wild & McAnally

Practice Quiz

1. Following is the balance sheet for **Target Corporation**. Identify and compute its fiscal year-end 2006 net operating assets.

(\$ millions)	January 28, 2006	January 29, 2005
<b>Assets</b>		
Cash and cash equivalents . . . . .	\$ 1,648	\$ 2,245
Accounts receivable, net . . . . .	5,666	5,069
Inventory . . . . .	5,838	5,384
Other current assets . . . . .	1,253	1,224
<b>Total current assets . . . . .</b>	<b>14,405</b>	<b>13,922</b>
<b>Property and equipment</b>		
Land . . . . .	4,449	3,804
Buildings and improvements . . . . .	14,174	12,518
Fixtures and equipment . . . . .	3,219	2,990
Computer hardware and software . . . . .	2,214	1,998
Construction-in-progress . . . . .	1,158	962
Accumulated depreciation . . . . .	(6,176)	(5,412)
<b>Property and equipment, net . . . . .</b>	<b>19,038</b>	<b>16,860</b>
Other noncurrent assets . . . . .	1,552	1,511
<b>Total assets . . . . .</b>	<b>\$34,995</b>	<b>\$32,293</b>
<b>Liabilities and shareholders' investment</b>		
Accounts payable . . . . .	\$ 6,268	\$ 5,779
Accrued liabilities . . . . .	2,193	1,633
Income taxes payable . . . . .	374	304
Current portion of long-term debt and notes payable . . . . .	753	504
<b>Total current liabilities . . . . .</b>	<b>9,588</b>	<b>8,220</b>
Long-term debt . . . . .	9,119	9,034
Deferred income taxes and other . . . . .	851	973
Other noncurrent liabilities . . . . .	1,232	1,037
<b>Shareholders' investment</b>		
Common stock . . . . .	73	74
Additional paid-in-capital . . . . .	2,121	1,810
Retained earnings . . . . .	12,013	11,148
Accumulated other comprehensive income . . . . .	(2)	(3)
<b>Total shareholders' investment . . . . .</b>	<b>14,205</b>	<b>13,029</b>
<b>Total liabilities and shareholders' investment . . . . .</b>	<b>\$34,995</b>	<b>\$32,293</b>

- a. \$24,077 million  
 b. \$25,407 million  
 c. \$4,334 million  
 d. \$14,205 million

2. Following is the income statement for **Target Corporation**. Assume that the combined federal and state statutory tax rate is 38.3%. Compute NOPAT for Target for 2006. (*Hint: Treat Target's credit card revenues and related expenses as operating.*)

(\$ millions)	2006
Sales .....	\$51,271
Net credit card revenues .....	1,349
Total revenues .....	52,620
Cost of sales .....	34,927
Selling, general and administrative expenses .....	11,185
Credit card expenses .....	776
Depreciation and amortization .....	1,409
Earnings from continuing operations before interest expense and income taxes .....	4,323
Net interest expense .....	463
Earnings from continuing operations before income taxes .....	3,860
Provision for income taxes .....	1,452
Net earnings .....	<u>\$ 2,408</u>

- a. \$2,408 million  
 b. \$3,860 million  
 c. \$2,871 million  
 d. \$2,694 million
3. Selected balance sheet and income statement information for **Target Corporation**, a department store retailer, follows.

Company (\$ millions)	Ticker	2006 Revenues	2006 NOPAT	2006 Net Operating Assets	2005 Net Operating Assets
Target Corp. ....	TGT	\$52,620	\$2,693	\$24,077	\$22,567

Compute its 2006 return on net operating assets (RNOA).

- a. 45.76%  
 b. 5.12%  
 c. 11.18%  
 d. 11.55%

4. Selected balance sheet and income statement information from **Verizon** follows.

(\$ millions)	2005	2004
Current assets .....	\$ 16,448	\$ 19,479
Current liabilities.....	25,063	23,129
Total liabilities .....	101,696	103,345
Equity .....	66,434	62,613
Earnings before interest and taxes.....	12,787	12,496
Interest expense.....	2,180	2,384
Net cash flow from operating activities .....	22,012	21,820

Compute the current ratio for 2005.

- a. 0.16
  - b. 0.66
  - c. 1.29
  - d. 1.52
5. Selected fiscal year balance sheet and income statement information for the computer chip maker, **Intel**, follows (\$ millions).

Company	Ticker	2005 Sales	2005 Net Income	2005 Net Operating Profit After Tax	2005 Net Operating Assets	2004 Net Operating Assets	2005 Stockholders' Equity	2004 Stockholders' Equity
Intel.....	INTC	\$38,826	\$8,664	\$8,487	\$28,481	\$27,499	\$36,182	\$38,579

Compute the 2005 return on equity (ROE).

- a. 23.95%
- b. 22.70%
- c. 23.18%
- d. 23.46%

6. Selected balance sheet and income statement information from **Staples, Inc.** follows (\$ millions).

Company	Ticker	2006 Sales	2006 Net Income	2006 Net Operating Profit After Tax	2006 Net Operating Assets	2005 Net Operating Assets	2006 Stockholders' Equity	2005 Stockholders' Equity
Staples . . . .	SPLS	\$16,079	\$834	\$832	\$4,367	\$4,202	\$4,425	\$4,115

Compute the 2006 return on equity (ROE).

- a. 5.21%
- b. 19.10%
- c. 19.53%
- d. 18.85%

7. Selected balance sheet and income statement information from **Verizon Communications, Inc.**, for 2003 through 2005 follows (\$ millions).

	Total Current Assets	Total Current Liabilities	Pretax Income	Interest Expense	Total Liabilities	Stockholders' Equity
2003 . . . .	\$18,293	\$26,570	\$ 6,344	\$2,797	\$108,154	\$57,814
2004 . . . .	19,479	23,129	12,521	2,384	103,345	62,613
2005 . . . .	16,448	25,063	13,652	2,180	74,942	66,434

Compute times interest earned for 2005.

- a. 7.26
- b. 6.26
- c. 5.26
- d. 4.26

8. Selected balance sheet and income statement information from **Abercrombie & Fitch** and **TJX Companies**, clothing retailers in the high-end and value-priced segments, respectively, follows.

Company (\$ millions)	Ticker	2006 Sales	2006 NOPAT	2006 Net Operating Assets	2005 Net Operating Assets
Abercrombie & Fitch . . .	ANF	\$ 2,784.7	\$324.7	\$ 615.6	\$ 700.5
TJX Companies . . . . .	TJX	16,057.9	708.5	2,701.5	2,508.5

Compute the 2006 return on net operating assets (RNOA) for both companies.

- a. ANF 52.75%, TJX 26.23%
- b. ANF 49.34%, TJX 27.20%
- c. ANF 22.11%, TJX 16.82%
- d. ANF 36.33%, TJX 21.76%

9. Selected balance sheet and income statement information for the clothing retailers, **Abercrombie & Fitch** and **The GAP, Inc.**, follows.

Company (\$ millions)	Ticker	2006 Sales	2006 NOPAT	2006 Net Operating Assets	2005 Net Operating Assets
Abercrombie & Fitch . . .	ANF	\$ 2,785	\$ 324.7	\$ 615.7	\$ 700.5
The GAP . . . . .	GPS	16,023	1,047.7	4,986.0	6,005.0

Compute the 2006 net operating profit margin (NOPM) for each company.

- a. ANF 52.74%, GPS 21.01%
- b. ANF 27.33%, GPS 19.17%
- c. ANF 18.14%, GPS 8.23%
- d. ANF 11.66%, GPS 6.54%

10. Selected balance sheet and income statement information for the drug retailers **CVS Corporation** and **Walgreen Company** follows.

Company (\$ millions)	Ticker	2006 Sales	2006 NOPAT	2006 Net Operating Assets	2005 Net Operating Assets
CVS Corp. ....	CVS	\$37,006	\$1,292	\$10,520	\$9,829
Walgreen Company ...	WAG	42,202	1,539	8,395	6,888

Compute the 2006 net operating asset turnover (NOAT) for each company.

- a. CVS 3.64, WAG 5.52
- b. CVS 3.52, WAG 5.03
- c. CVS 12.70, WAG 20.14
- d. CVS 3.49, WAG 3.65