

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

Solutions to Practice Quiz

LO: 2

1.

Answer: a

(\$ millions)

$$\text{NOA 2006} = \$34,995 - \$6,268 - \$2,193 - \$374 - \$851 - \$1,232 = \$24,077$$

Note: In the absence of information about other current and long-term assets and liabilities, we assume that these are operating in nature.

LO: 2

2.

Answer: d

(\$ millions)

$$\text{NOPAT} = \$4,323 - (\$1,452 + [\$463 \times 0.383]) = \$2,694.$$

Alternatively, using the 38.3% statutory tax rate yields a tax rate on net operating profit = $(\$1,452 + [\$463 \times 0.383]) / \$4,323 = 37.7\%$.

$$\text{NOPAT} = \$4,323 \times (1 - 0.377) = \$2,693 \text{ (\$1 rounding difference)}$$

LO: 2

3.

Answer: d

(\$ millions)

$$\begin{aligned} \text{RNOA} &= \text{NOPAT} / \text{Average net operating assets (NOA)} \\ &= \$2,693 / [(\$24,077 + \$22,567)/2] = 11.55\% \end{aligned}$$

LO: 4

4.

Answer: b

$$\text{2005 current ratio: } \$16,448 / \$25,063 = 0.66$$

LO: 1

5.

Answer: c

$$\text{2005 ROE: } \$8,664 / [(\$36,182 + \$38,579) / 2] = 23.18\%$$

LO: 1

6.

Answer: c

$$\text{2006 ROE: } \$834 / [(\$4,425 + \$4,115)/2] = 19.53\%$$

LO: 4

7.

Answer: a

2005 times interest earned: $(\$13,652 + \$2,180) / \$2,180 = 7.26$

LO: 2

8.

Answer: b

ANF RNOA = $\$324.7 / [(\$615.6 + \$700.5) / 2] = 49.34\%$
TJX RNOA = $\$708.5 / [(\$2,701.5 + \$2,508.5) / 2] = 27.20\%$

LO: 2

9.

Answer: d

ANF NOPM = $\$324.7 / \$2,785 = 11.66\%$
GPS NOPM = $\$1,047.7 / \$16,023 = 6.54\%$

LO: 2

10.

Answer: a

CVS NOAT = $\$37,006 / [(\$10,520 + \$9,829) / 2] = 3.64$
WAG NOAT = $\$42,202 / [(\$8,395 + \$6,888) / 2] = 5.52$