

Module 11 – Financial Accounting for MBAs, 4th edition, by Easton, Wild, Halsey, and McAnally

Solutions to Practice Quiz

LO: 2

1.

Answer: d

(\$ 000s)	2007
Net sales	\$ 3,837,332
Cost of goods sold	1,285,506
Gross profit	2,551,826
Stores & distribution expense	1,377,602
Marketing, general and administrative expense	433,619
Other operating income, net	(7,675)
Operating income.....	748,280
Interest income	(6,674)
Income before income taxes.....	754,954
Provision for income taxes.....	295,942
Net income.....	<u>\$ 459,012</u>

LO: 2

2.

Answer: a

(\$ millions)	2007
Revenue..... (\$30,848 x 1.124)	\$ 34,673
Cost of Goods Sold..... (\$34,673 x 75.0%)	<u>26,005</u>
Gross Profit..... (\$34,673 x 25.0%)	8,668
Selling, general and administrative expense (\$34,673 x 19.7%)	<u>6,831</u>
Operating income.....	1,838
Net Interest income..... (no change)	<u>(77)</u>
Earnings from continuing operations before income tax	1,915
Income tax expense..... (1,915 x 33.8%)	<u>647</u>
Net earnings.....	<u>\$ 1,268</u>

LO: 2

3.

Answer: d

Recall that:

Net operating working capital turnover = Sales / Net operating working capital

Long-term operating asset turnover = Sales / Long-term operating assets

Forecasted net operating working capital	Forecasted long-term operating assets
\$6,051 million / 2.38 = \$2,542 million	\$6,051 million / 6.99 = \$866 million

LO: 2

4.

Answer: b

Recall that:

Net operating working capital turnover = Sales / Net operating working capital

Net operating long-term asset turnover = Sales / Net operating long-term assets

Forecasted net operating working capital = $\$15,389 / 3.44 = \$4,474$ million, Forecasted net long-term operating assets = $\$15,389 / 6.94 = \$2,217$ million.

LO: 2, 3

5.

Answer: a

(\$ millions)		2006
Sales	(\$4,701 x 1.216)	\$ 5,716
Cost of Goods Sold and occupancy costs	(\$5,716 x 64.9%)	<u>3,710</u>
Gross Profit	(\$5,716 x 35.1%)	2,006
Direct store expenses	(\$5,716 x 26.0%)	1,486
General and administrative exp.	(\$5,716 x 3.4%)	194
Pre-opening and relocation costs	(\$5,716 x 0.8%)	<u>46</u>
Operating income.....		280
Interest expense	(no change)	2
Investment and other income	(no change)	<u>(10)</u>
Income before tax		288
Provision for income taxes.....	(\$288 x 42.6%)	<u>123</u>
Net income		<u>\$ 165</u>

5. Continued

(\$ millions)	2006
Cash and equivalents	(computed*) \$ 212
Trade accounts receivable.....	(\$5,716 / 70.16) 81
Merchandise inventories.....	(\$3,710 / 17.54) 212
Prepaid expenses and other.....	(no change) 86
Total Current Assets	591
PPE (net)	(\$5,716 / 4.46) 1,283
Goodwill and other intangible assets.....	(no change) 161
Total Assets	\$ 2,035
Current installments of long-term debt.....	(no change) \$ 6
Trade accounts payable	(\$3,710 / 29.63) 125
Accrued payroll, bonus and benefits.....	(\$5,716 / 37.02) 154
Dividends payable.....	((\$165 x 40.2%) / 3.22) 21
Other current liabilities	(no change) 165
Total Current liabilities	471
Long-term debt.....	(computed**) 7
Deferred rent and other	(no change) 93
Total liabilities	571
Common Stock	(no change) 875
Accum. Other comp. income	(no change) 4
Retained earnings.....	(computed***) 585
Stockholders' Equity	1,464
Total Liabilities and Equity	\$ 2,035

* Total Liabilities and Equity - non-cash assets

** Beginning Long-term debt \$13 - beginning Current installments of long-term debt \$6

*** Beginning Retained earnings \$486 + Net income \$165 - Dividends \$ 66 (\$165 x 40.2%)

LO: 2, 3, 4

6.

Answer: c

Abercrombie & Fitch Forecasted Income Statement

(\$ 000s)		2007
Net sales	(\$2,784,711 x 1.378)	\$ 3,837,332
Cost of goods sold	(\$3,837,332 x 33.5%)	1,285,506
Gross profit	(\$3,837,332 x 66.5%)	2,551,826
Stores & distribution expense	(\$3,837,332 x 35.9%)	1,377,602
Marketing, general and administrative expense	(\$3,837,332 x 11.3%)	433,619
Other operating income, net	(\$3,837,332 x -0.2%)	(7,675)
Operating income.....		748,280
Interest income	(no change)	(6,674)
Income before income taxes.....		754,954
Provision for income taxes.....	(754,954 x 39.2%)	295,942
Net income.....		\$ 459,012

6. *Continued***Abercrombie & Fitch Forecasted Balance Sheet**

(\$ 000s)	2007
Cash and equivalents..... (computed*)	\$ 146,780
Marketable securities (no change)	411,167
Receivables..... (\$3,837,332 / 66.53)	57,678
Inventories..... (\$1,285,506 / 2.57)	500,197
Deferred income taxes..... (no change)	29,654
Other current assets..... (no change)	51,185
Total current assets.....	1,049,881
Property and equipment, net..... (\$3,837,332 / 3.42)	1,122,027
Other assets..... (no change)	29,031
Total assets.....	<u>\$ 2,347,719</u>
Accounts payable..... (\$1,285,506 / 10.78)	\$ 119,249
Outstanding checks..... (no change)	58,741
Accrued expenses..... (\$3,837,332 / 12.95)	296,319
Deferred lease credits (no change)	31,727
Income taxes payable (\$295,942 x 46.2%)	136,725
Total current liabilities	642,761
Deferred income taxes..... (no change)	38,496
Deferred lease credits (no change)	191,225
Other liabilities..... (no change)	73,326
Total liabilities.....	945,808
Common stock..... (no change)	1,033
Paid-in capital..... (no change)	161,678
Retained earnings..... (computed**)	1,764,585
Accum. other comprehensive income (no change)	(796)
Deferred compensation..... (no change)	26,206
Treasury stock..... (no change)	(550,795)
Stockholders' equity	1,401,911
Total liabilities and equity	<u>\$ 2,347,719</u>

* Total assets \$2,347,719 – Noncash assets \$2,200,939 = Cash \$146,780

** Beginning Retained earnings \$1,357,791 + Net income \$459,012 – Dividends \$52,218

6. *Continued*

Abercrombie & Fitch Statement of Cash Flows

(\$ thousands)	2007
Operating activities	
Net income	\$ 459,012
Depreciation..... (from E11-21)	147,262
Receivables (\$813,603 x 18.1%)	(15,823)
Inventories (\$41,855 - \$57,678)	(137,661)
Accounts Payable (\$362,536 - \$500,197)	32,677
Accrued Expenses (\$119,249 - \$86,572)	81,285
Income taxes payable (\$296,319 - \$215,034)	37,245
Income taxes payable (\$136,725 - \$99,480)	<u>37,245</u>
Net cash flow from operating activities	603,997
Investing activities	
Property and Equipment, net (computed*)	<u>(455,686)</u>
Net cash flow from investing activities	(455,686)
Financing activities	
Dividends	<u>(52,218)</u>
Net cash flows from financing activities	(52,218)
Net change in cash	96,093
Beginning cash	<u>50,687</u>
Ending cash	\$ <u>146,780</u>

* Beginning PPE \$813,603 - Ending PPE \$1,122,027 - Depreciation \$147,262

LO: 2, 3, 4

7.

Answer: c

Best Buy Income Statement

(\$ millions)	2007
Revenue..... (\$30,848 x 1.124)	\$ 34,673
Cost of Goods Sold..... (\$34,673 x 75.0%)	<u>26,005</u>
Gross Profit..... (\$34,673 x 25.0%)	8,668
Selling, general & administrative expense..... (\$34,673 x 19.7%)	<u>6,830</u>
Operating income.....	1,838
Net interest income..... (no change)	<u>77</u>
Earnings before tax.....	1,915
Income tax expense..... (\$1,915 x 33.8%)	<u>647</u>
Net earnings.....	\$ <u><u>1,268</u></u>

7. Continued

Best Buy Balance Sheet

(\$ millions)		2007
Cash and equivalents	(Computed *)	\$ 1,186
Short-term investments.....	(no change)	3,051
Receivables	(34,673 / 60.96)	569
Merchandise inventories.....	(26,005 / 6.93)	3,753
Other current assets	(no change)	409
Total Current Assets		8,968
Net property and equipment	(34,673 / 11.38)	3,048
Goodwill	(no change)	557
Trade name.....	(no change)	44
Long-term investments	(no change)	218
Other assets.....	(no change)	348
Total Assets		\$ 13,183
Accounts Payable	(26,005 / 7.15)	\$ 3,637
Unredeemed gift card liabilities.....	(no change)	469
Accrued compensation and accrued liabilities.....	(34,673 / 25.04)	1,385
Accrued income taxes	(647 x 121.0%)	783
Current portion of long-term debt..	(Given)	16
Total Current Liabilities		6,290
Long-term liabilities.....	(no change)	373
Long-term debt.....	(prior year CMLTD)	162
Total liabilities		6,825
Common Stock	(no change)	49
Additional paid-in capital	(no change)	643
Retained earnings.....	(computed **)	5,405
Accumulated other comprehensive income	(no change)	261
Stockholders' Equity		6,358
Total Liabilities and Equity		\$ 13,183

* Total assets less non-cash assets

** Beginning Retained earnings \$4,304 + Net income \$1,268 - Dividends \$167

7. *Continued*

Best Buy Statement of Cash Flows

(\$ millions)	2007
Net earnings..... (from E11-23)	\$ 1,268
Depreciation..... (2,712 x 18.5%)	502
Receivables (506 - 569)	(63)
Merchandise inventories..... (3,338 - 3,753)	(415)
Accounts Payable (3,637 - 3,234)	403
Accrued Expenses (1,385 - 1,232)	153
Income taxes payable..... (783 - 703)	<u>80</u>
Net cash flow from operating activities	1,928
PPE (net) (computed***)	<u>(838)</u>
Net cash flow from investing activities	(838)
Long-term debt..... (prior year CMLTD)	(418)
Dividends (1,264 x 13.2%)	<u>(167)</u>
Net cash flows from financing activities	(585)
Net change in cash	505
Beginning cash	681
Ending cash	<u>\$ 1,186</u>

*** Beginning PPE \$2,712 – Ending PPE \$3,048 – Depreciation \$502

LO: 6

8.

Answer: a

\$ millions	2005	Forecast Horizon	
		2006 Est.	2007 Est.
Sales*	\$38,826	\$44,068 (\$38,826 x 1.135)	\$50,017 (\$44,068 x 1.135)
NOPAT**	\$ 8,333	\$ 9,457 (\$44,068 x 21.46%)	\$10,734 (\$50,017 x 21.46%)

* Sales = Prior year sales x (1+ Growth of 13.5%)

** NOPAT = Sales x NOPM (21.46%)

LO: 6

9.

Answer: b

\$ millions	2006	Forecast Horizon	
		2007 Est.	2008 Est.
Sales*	\$14,380	\$17,529 (\$14,380 * 1.219)	\$21,368 (\$17,529 * 1.219)
NOA***	\$19,960	\$24,346 (\$17,529 / 0.72)	\$29,678 (\$21,368 / 0.72)

* Sales = Prior year sales x (1+ Growth of 21.90%)

*** NOA = Sales / NOAT (0.72)