

Module 1 – Financial Statement Analysis & Valuation, 2nd edition, by Easton, McAnally, Fairfield, Zhang, and Halsey

Solutions to Practice Quiz

1.

Answer: b

2.

Answer: a

Computation of dividends

Beginning retained earnings, 2005.....	\$8,223.9
+ Net income	1,351.4
– Cash dividends	_____ (?)
= Ending retained earnings, 2005.....	<u>\$8,968.1</u>

Thus, dividends were \$607.2 million for 2005.

3.

Answer: c

Using the accounting equation at the *beginning* of the year:

$$\text{Assets}(\$50,388 - \$400) = \text{Liabilities}(\$26,197) + \text{Equity}(\?)$$

Thus: Beginning Equity = \$23,791

Using the accounting equation at the *end* of the year:

$$\text{Assets}(\$50,388) = \text{Liabilities}(\$26,197 - \$100) + \text{Equity}(\?)$$

Thus: Ending Equity = \$24,291

4.

Answer: c

$$\text{ROE} = \text{Net income} / \text{Average stockholders' equity}$$
$$= \$564 \text{ million} / [(\$2,229 \text{ million} + \$2,090 \text{ million})/2] = \underline{26.1\%}$$

5.

Answer: a

Return on equity is net income divided by the average total stockholders' equity.

Nokia's ROE: $\text{€}3,582 / [(\text{€}14,576 + \text{€}14,871)/2] = \underline{24.3\%}$.

6.

Answer: b

(\$ millions)

Assets	=	Liabilities	+	Equity
\$15,470		<u>\$10,597</u>		\$4,873

Dell receives more of its financing from nonowners (\$10,597 million) versus owners (\$4,873 million). Its owner financing comprises 31.5% of its total financing (\$4,873 million/ \$15,470 million).

7.

Answer: d

(\$ millions)

Assets	=	Liabilities	+	Equity
\$315,920		\$304,269		<u>\$11,651</u>

Ford receives more of its financing from nonowners (\$304,269 million) versus owners (\$11,651 million). Its owner financing comprises 3.7% of its total financing (\$11,651 million/ \$315,920 million). The relatively low level of equity capital is primarily the result of the fact that Ford is actually a blend of two companies: the automotive manufacturing company and the financial subsidiary. The financial subsidiary has a balance sheet similar to that of a bank, that is, relatively little equity capital. The blend of these two operating entities results in a balance sheet that is more dependent on borrowed funds than would be the case if Ford consisted solely of the manufacturing company.

8.

Answer: d

ROA = Profit margin \times asset turnover. 2007 ROA = $26\% \times 1.2 = \underline{31.2\%}$.

9.

Answer: a

$$\begin{aligned}\text{Return on assets (ROA)} &= \text{Net income} / \text{Average assets} \\ &= \$800 / [(\$5,000 + \$6.500)/2] \\ &= \underline{13.9\%}\end{aligned}$$

10.

Answer: c

$$2007 \text{ ROE} = \$11,000 / [(\$31,000 + \$30,000)/2] = \underline{36.1\%}$$

$$2007 \text{ ROA} = \$11,000 / [(\$125,000 + \$105,000)/2] = \underline{9.6\%}$$