

Reading 25: Understanding Balance Sheets

Question #1 of 38

Question ID: 414251

GTO Corporation purchased all of the common stock of Charger Company for \$4 million. At the time, Charger reported total assets of \$3 million and total liabilities of \$1 million. At the acquisition date, the fair value of Charger's assets was \$3.5 million and the fair value of Charger's liabilities was \$1.3 million. What amount of goodwill should GTO report as a result of the acquisition and is it necessary for GTO to amortize the goodwill?

<u>Goodwill</u>	<u>Amortization required</u>
A) \$2.2 million	No
B) \$1.8 million	Yes
C) \$1.8 million	No

Question #2 of 38

Question ID: 414243

Firebird Company reported the following financial information at the end of 2007:

	<i>in millions</i>
Merchandise inventory	\$240
Minority interest	70
Cash and equivalents	275
Accounts receivable	1,150
Accounts payable	225
Property & equipment	2,160
Accrued expenses	830
Current portion of long-term debt	120
Long-term debt	1,570
Retained earnings	4,230

Calculate Firebird's current assets and working capital.

<u>Current assets</u>	<u>Working capital</u>
A) \$1,665 million	\$490 million
B) \$1,665 million	\$420 million
C) \$1,735 million	\$490 million

Question #3 of 38

Question ID: 498754

A firm's balance sheet prepared under IFRS is *least likely* to include:

- A) market value of inventory.
 - B) market value of the firm's equity.
 - C) fair value of firm PPE.
-

Question #4 of 38

Question ID: 743318

A company that reports under IFRS has developed a new product which required research costs of \$2 million and development costs of \$3 million. The maximum amount the company can record as the value of the new product on its balance sheet is:

- A) zero.
 - B) \$5 million.
 - C) \$3 million.
-

Question #5 of 38

Question ID: 414255

Earlier this year, Slayton Corporation repurchased 5% of its total shares outstanding. At the time, the book value of Slayton shares exceeded their market value. The shares are expected to be reissued in the future when the market price of Slayton's stock increases. Do Slayton's repurchased shares continue to have voting rights and to pay cash dividends?

- | | <u>Voting rights</u> | <u>Cash dividends</u>
<u>paid</u> |
|--------|----------------------|--------------------------------------|
| A) No | No | Yes |
| B) No | No | No |
| C) Yes | Yes | No |
-

Question #6 of 38

Question ID: 414266

Balance sheet data for two comparable firms are presented below:

	<u>Amplus, Inc.</u>	<u>Brevis, Inc.</u>
Cash and equivalents	3,800	500
Accounts receivable	2,400	700
Inventories	5,800	1,100
Current assets	12,000	2,300
Land	400	100
Property, plant and	24,600	6,400

equipment

Noncurrent assets	25,000	6,500
-------------------	--------	-------

Total assets	37,000	8,800
---------------------	---------------	--------------

Accounts payable	1,800	400
------------------	-------	-----

Unearned revenue	600	100
------------------	-----	-----

Current liabilities	2,400	500
---------------------	-------	-----

Long-term borrowing	9,600	3,300
---------------------	-------	-------

Total liabilities	12,000	3,800
-------------------	--------	-------

Common stock	1,500	300
--------------	-------	-----

Retained earnings	23,500	4,700
-------------------	--------	-------

Total equity	25,000	5,000
--------------	--------	-------

Total liabilities and equity	37,000	8,800
-------------------------------------	---------------	--------------

Based on common-size analysis of the two firms' balance sheets, Amplus Company:

- A) has a greater investment in working capital than Brevis Company.
- B) uses relatively more fixed assets than Brevis Company.
- C) is more financially leveraged than Brevis Company.

Question #7 of 38

Question ID: 414257

Carpenter Corporation reported the following statement of shareholders' equity as of December 31, 2006:

Common stock at par	\$600,000
Additional paid-in-capital	900,000
Treasury stock	(200,000)
Retained earnings	10,500,000
Accumulated other comprehensive income	<u>450,000</u>
	\$12,250,000

During 2007, Carpenter:

- earned net income of \$1,700,000.
- declared dividends of \$300,000. \$75,000 of the dividends remain unpaid.
- purchased held-to-maturity securities for \$100,000. The securities have a fair value of \$110,000 at year-end.
- purchased available-for-sale securities for \$250,000. The securities have a fair value of \$225,000 at year-end.
- translated the financial statements of a foreign subsidiary and calculated a \$90,000 unrealized gain.
- purchased treasury stock for \$75,000. The stock was valued at \$60,000 when issued.

Calculate Carpenter's retained earnings and accumulated other comprehensive income as of December 31, 2007.

Retained earnings

Accumulated other

comprehensive income

- A) \$11,900,000 \$65,000
- B) \$12,125,000 \$515,000
- C) \$11,900,000 \$515,000

Question #8 of 38

Question ID: 414269

Given the following income statement and balance sheet for a company:

Balance Sheet

Assets	Year 2003	Year 2004
Cash	500	450
Accounts Receivable	600	660
Inventory	<u>500</u>	<u>550</u>
Total CA	1600	1660
Plant, prop. equip	<u>1000</u>	<u>1250</u>
Total Assets	2600	2910
<i>Liabilities</i>		
Accounts Payable	500	550
Long term debt	<u>700</u>	<u>1002</u>
Total liabilities	1200	1552
<i>Equity</i>		
Common Stock	400	538
Retained Earnings	<u>1000</u>	<u>820</u>
Total Liabilities & Equity	2600	2910

Income Statement

Sales	3000
Cost of Goods Sold	<u>(1000)</u>
Gross Profit	2000
SG&A	(500)
Interest Expense	<u>(151)</u>
EBT	1349
Taxes (30%)	<u>(405)</u>
Net Income	944

What is the current ratio for 2004?

- A) 0.331.
- B) 3.018.
- C) 2.018.

Question #9 of 38

Question ID: 414259

Which of the following transactions is *most likely* to be recognized on a firm's statement of changes in equity?

- A) Buying a machine from an equipment dealer.
- B) Declaring a dividend on common shares.
- C) Investing cash in an exchange-traded fund.

Question #10 of 38

Question ID: 414267

Common size balance sheets express all balance sheet items as a percentage of:

- A) sales.
- B) equity.
- C) assets.

Question #11 of 38

Question ID: 496417

Selected balance sheet data for Parker Company are as follows:

Current assets	3,000
Long-lived assets	7,000
Total assets	10,000
Current liabilities	2,000
Long-term liabilities	4,000
Total liabilities	6,000
Shareholders' equity	4,000

On a common-size balance sheet, Parker's current liabilities would be stated as:

- A) 33%.
- B) 20%.
- C) 67%.

Question #12 of 38

Question ID: 414256

Ascot Corporation has 4 million shares of common stock authorized, 2.4 million shares of common stock issued, and 1.8 million shares of common stock outstanding. How many shares of treasury stock does Ascot own and is the treasury stock reported as an asset in Ascot's balance sheet?

Treasury shares Reported as an asset

- A) 600,000 No
- B) 1.6 million No
- C) 600,000 Yes

Question #13 of 38

Question ID: 414238

A liquidity-based balance sheet, on which assets and liabilities are not classified as current or non-current, is permitted under:

- A) IFRS only.
- B) Both IFRS and U.S. GAAP.
- C) U.S. GAAP only.

Question #14 of 38

Question ID: 434279

Consider the following statements.

Statement #1: Par value is a nominal dollar value assigned to shares of stock in a corporation's charter.

Statement #2: The par value of common stock represents the amount the corporation received when the stock was issued.

With respect to these statements:

- A) both statements are correct.
- B) only statement #2 is correct.
- C) only statement #1 is correct.

Question #15 of 38

Question ID: 414235

Duster Company reported the following financial information at the end of 2007:

	<i>in millions</i>
Unearned revenue	\$240
Common stock at par	30
Capital in excess of par	440
Accounts payable	1,150
Treasury stock	2,000
Retained earnings	5,160
Accrued expenses	830

Accumulated other comprehensive loss	210
Long-term debt	1,570

Calculate Duster's liabilities and stockholders' equity as of December 31, 2007.

<u>Liabilities</u>	<u>Stockholders'</u>
	<u>equity</u>

- A) \$3,790 million \$7,420 million
- B) \$3,550 million \$7,840 million
- C) \$3,790 million \$3,420 million

Question #16 of 38

Question ID: 414254

Current assets that arise from the accrual process *most likely* include:

- A) accounts receivable.
- B) cash equivalents.
- C) marketable securities.

Question #17 of 38

Question ID: 414234

Galaxy Corporation manufactures custom motorcycles. Galaxy finances the motorcycles over 36 months for customers who make a minimum down payment of 10%. Historically, Galaxy has experienced bad debt losses equal to 1% of sales. Galaxy also provides a 24 month unlimited warranty on all new motorcycles. In the past, warranty expense has averaged 3% of sales. Ignoring taxes, how does the recognition of bad debt expense and warranty expense at the time of sale affect Galaxy's liabilities?

<u>Bad debt expense</u>	<u>Warranty expense</u>
-------------------------	-------------------------

- A) No effect Increase
- B) Increase Increase
- C) No effect No effect

Question #18 of 38

Question ID: 414242

Peterson Painting Company is a commercial painting contractor. At the beginning of 20X7, Peterson's net working capital was \$350,000. The following transactions occurred during 20X7:

Performed services on credit	\$150,000
Purchased office equipment for cash	10,000
Recognized salaries expense	54,000
Purchased paint supplies on on credit	25,000

Consumed paint supplies	20,000
Paid salaries	50,000
Collected accounts receivable	157,000
Recognized straight-line depreciation expense	2,000
Paid accounts payable	15,000

Calculate Peterson's working capital at the end of 20X7 and the change in cash for the year 20X7.

	<u>Working capital</u>	<u>Change in cash</u>
A)	\$416,000	\$80,000
B)	\$414,000	\$82,000
C)	\$416,000	\$82,000

Question #19 of 38

Question ID: 414268

An analyst has gathered the following information about a company:

Balance Sheet

Assets

Cash	100
Accounts Receivable	750
Marketable Securities	300
Inventory	850
Property, Plant & Equip	900
Accumulated Depreciation	<u>(150)</u>
Total Assets	2750

Liabilities and Equity

Accounts Payable	300
Short-Term Debt	130
Long-Term Debt	700
Common Stock	1000
Retained Earnings	<u>620</u>
Total Liab. and Stockholder's equity	2750

Income Statement

Sales	1500
COGS	<u>1100</u>
Gross Profit	400
SG&A	150
Operating Profit	250
Interest Expense	25
Taxes	<u>75</u>
Net Income	150

What is the quick ratio?

- A) 0.62.
 - B) 1.53.
 - C) 2.67.
-

Question #20 of 38

Question ID: 414236

The balance sheet is *most likely* to provide an analyst with information about a firm's:

- A) internal controls.
 - B) operating profitability.
 - C) solvency.
-

Question #21 of 38

Question ID: 414239

Liquidity-based presentation of a balance sheet is *most likely* to be used by a:

- A) manufacturer.
 - B) retailer.
 - C) bank.
-

Question #22 of 38

Question ID: 414233

Which of the following characteristics are required for recognition of a balance sheet asset?

Characteristic #1: Future economic benefits to the firm are probable.

Characteristic #2: The asset is tangible and is obtained at a cost.

<u>Characteristic #1</u>	<u>Characteristic #2</u>
A) No	No
B) Yes	No
C) Yes	Yes

Question #23 of 38

Question ID: 414232

Two of the elements of a balance sheet are:

- A) assets and equity.

- B) income and liabilities.
- C) equity and cash flows.

Question #24 of 38

Question ID: 414241

One of a firm's assets is 270-day commercial paper that the firm intends to hold to maturity. One of its liabilities is a short position in a common stock, which the firm holds for trading purposes. How should this asset and this liability be classified on the firm's balance sheet?

- A) One should be classified as current and one should be classified as non-current.
- B) Both should be classified as current.
- C) Both should be classified as non-current.

Question #25 of 38

Question ID: 414245

According to International Financial Reporting Standards, how do cash dividends received from trading securities and available-for-sale securities affect net income?

	<u>Trading securities</u>	<u>Available-for-sale securities</u>
A) Increase	Increase	
B) Increase	No effect	
C) No effect	Increase	

Question #26 of 38

Question ID: 414247

Earlier this year, Ponca Corporation purchased non-dividend paying equity securities which it classified as trading securities. Information related to the securities follows:

Security	Cost	Fair value at year-end
X	\$400,000	\$435,000
Y	\$550,000	\$545,000

What amounts should Ponca report in its year-end income statement and balance sheet as a result of its investment in securities X and Y?

	<u>Income Statement</u>	<u>Balance Sheet</u>
A) \$30,000 unrealized gain		\$980,000
B) \$30,000 unrealized gain		\$950,000

C) No gain or loss \$980,000

Question #27 of 38

Question ID: 414260

The statement of changes in equity is *least likely* to provide information on the firm's:

- A) repayment of bond principal.
 - B) comprehensive income.
 - C) payment of dividends.
-

Question #28 of 38

Question ID: 414244

Do the following characteristics have to be met in order to classify a liability as current on the balance sheet?

Characteristic #1 - Settlement is expected within one year or operating cycle, whichever is less.
Characteristic #2 - Settlement will require the use of cash within one year or operating cycle, whichever is greater.

	<u>Characteristic #1</u>	<u>Characteristic #2</u>
A) Yes	No	
B) No	Yes	
C) No	No	

Question #29 of 38

Question ID: 414240

Which of the following statements about a classified balance sheet is *least likely* accurate? A classified balance sheet:

- A) presents the net equity of each asset by subtracting its related liability.
 - B) groups accounts by subcategories.
 - C) distinguishes between current and noncurrent assets.
-

Question #30 of 38

Question ID: 414248

At the beginning of the year, Alpha Corporation purchased 10,000 shares of Beta Corporation for \$20 per share. During the year, Beta paid a \$2,000 cash dividend to Alpha. At the end of the year, Beta's stock was selling for \$22 per share. What amount should Alpha recognize in its year-end income statement if the investment is treated as an available-for-sale security and what amount should be recognized in the income statement if the investment is treated as a trading security?

	<u>Available-for-sale</u>	<u>Trading security</u>
A) \$2,000		\$22,000

- B)** \$2,000 \$20,000
- C)** \$0 \$22,000
-

Question #31 of 38

Question ID: 414250

Consider the following:

Statement #1 - Copyrights and patents are tangible assets that can be separately identified.

Statement #2 - Purchased copyrights and patents are amortized on a straight line basis over 30 years.

With respect to the statements about copyrights and patents acquired from an independent third party:

- A)** both are incorrect.
- B)** only statement #2 is incorrect.
- C)** only statement #1 is incorrect.
-

Question #32 of 38

Question ID: 414246

When the market value of an investment in a debt security is less than its carrying value, how should the investor report the investment on the balance sheet if the security is classified as held-to-maturity and what amount should be reported if the security is classified as available-for-sale?

<u>Held-to-maturity</u>	<u>Available-for-sale</u>
-------------------------	---------------------------

- | | |
|--------------------------|----------------|
| A) Amortized cost | Fair value |
| B) Amortized cost | Amortized cost |
| C) Fair value | Fair value |
-

Question #33 of 38

Question ID: 414252

On January 1, 20X7, Omega Corporation paid \$45,000 to renew its property insurance for 3 years. What amount of insurance expense should Omega report for the year-ended December 31, 20X7 and what is the balance of Omega's prepaid insurance account on December 31, 20X8?

<u>Insurance expense</u>	<u>Prepaid insurance</u>
--------------------------	--------------------------

- | | |
|--------------------|----------|
| A) \$45,000 | \$15,000 |
| B) \$15,000 | \$30,000 |
| C) \$15,000 | \$15,000 |
-

Question #34 of 38

Question ID: 414270

The following data is from Delta's common size financial statement:

Earnings after taxes	18%
Equity	40%
Current assets	60%
Current liabilities	30%
Sales	\$300
Total assets	\$1,400

What is Delta's total-liabilities-to-equity ratio?

- A) 1.0.
- B) 1.5.
- C) 2.0.

Question #35 of 38

Question ID: 414231

Resources controlled as a result of past transactions that are expected to provide future benefits are referred to as:

- A) assets.
- B) liabilities.
- C) equity.

Question #36 of 38

Question ID: 414249

According to the Financial Accounting Standards Board, what is the appropriate measurement basis for equipment used in the manufacturing process and inventory that is held for sale?

<u>Equipment</u>	<u>Inventory</u>
------------------	------------------

- | | |
|--------------------|-------------------------|
| A) Historical cost | Lower of cost or market |
| B) Historical cost | Historical cost |
| C) Fair value | Lower of cost or market |

Question #37 of 38

Question ID: 414237

A key limitation of balance sheets in financial analysis is that:

- A) different balance sheet items may be measured differently.
- B) liquidity and solvency ratios require information from other financial statements.

- C) some items are recognized when they are unlikely to reflect a flow of economic benefits.
-

Question #38 of 38

Question ID: 414230

Liabilities are *best* described as:

- A) resources that are expected to provide future benefits.
- B) residual ownership interest.
- C) obligations that are expected to require a future outflow of resources.