Question #1 of 92

The cash conversion cycle is the:

A) length of time it takes to sell inventory.

B) sum of the time it takes to sell inventory and collect on accounts receivable, less the time it takes to pay for credit purchases.

C) sum of the time it takes to sell inventory and the time it takes to collect accounts receivable.

Question #2 of 92

A firm's financial statements reflect the following:

EBIT	$2,000,000
Sales	$16,000,000
Interest expense	$900,000
Total assets	$12,300,000
Equity	$7,000,000
Effective tax rate	35%
Dividend payout rate	28%

Based on this information, what is the firm's sustainable growth rate?

A) 10.63%.

B) 8.82%.

C) 7.35%.

Question #3 of 92

What type of ratio is revenue divided by average working capital and what type of ratio is average total assets divided by average total equity?

	Revenue / Average working capital	Average total assets / Average total equity
A)	Activity ratio	Solvency ratio
B)	Profitability ratio	Solvency ratio
C)	Activity ratio	Liquidity ratio

Question #4 of 92

An analyst has gathered the following information about a firm:

- Net sales of $500,000.
- Cost of goods sold = $250,000.
- EBIT of $150,000.
- EAT of $90,000.

What is this firm's operating profit margin?

A) 50%.

B) 18%.

C) 30%.

Question #5 of 92

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	(150)
Total Assets	2750
Liabilities and Equity	
Accounts Payable	300
Short-Term Debt	130
Long-Term Debt	700
Common Stock	1000
Retained Earnings	620
Total Liab. and Stockholder's equity	2750

Income Statement

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

What is the receivables collection period?

A) 243.

B) 183.

C) 365.

Question #6 of 92

During 2007, Brownfield Incorporated purchased $140 million of inventory. For the year just ended, Brownfield reported cost of goods sold of $130 million. Inventory at year-end was $45 million. Calculate inventory turnover for the year.

A) 3.25.

B) 3.71.

C) 2.89.

Question #7 of 92

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	(150)
Total Assets	2750
Liabilities and Equity	
Accounts Payable	300
Short-Term Debt	130
Long-Term Debt	700
Common Equity	1000
Retained Earnings	620
Total Liab. and Stockholder's equity	2750

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

What is the ROE?

A) 9.3%.

B) 9.9%.

C) 10.7%.

Question #8 of 92

An analyst calculates the following data for three firms in an industry over the most recent 40 quarters:

	Sales		Net income	
	Mean	**Std Dev**	**Mean**	**Std Dev**
Jerome	1,200,000	400,000	120,000	80,000
Lawrence	3,500,000	700,000	400,000	300,000
Morris	6,400,000	1,600,000	800,000	400,000

Based only on these data, the analyst should conclude that, relative to the other two firms:

A) Morris has the greatest uncertainty about its sales.

B) Lawrence has the greatest uncertainty about its net income.

C) Jerome has the least uncertainty about its net income.

Question #9 of 92

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

Balance Sheet

Assets	*Year 2006*	*Year 2007*
Cash	200	450
Accounts Receivable	600	660
Inventory	500	550
Total CA	1300	1660
Plant, prop. equip	1000	1580
Total Assets	2600	3240
Liabilities		
Accounts Payable	500	550
Long term debt	700	1052
Total liabilities	1200	1602
Equity		
Common Stock	400	538
Retained Earnings	1000	1100
Total Liabilities & Equity	2600	3240

Income Statement

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

Which of the following is *closest* to the company's return on equity (ROE)?

A) 0.62.

B) 1.83.

C) 0.29.

Question #10 of 92

An analyst has gathered the following information about a company:

- Cost of goods sold = 65% of sales.
- Inventory of $450,000.
- Sales of $1 million.

What is the value of this firm's average inventory processing period using a 365-day year?

A) 252.7 days.

B) 0.7 days.

C) 1.4 days.

Question #11 of 92

An analyst has gathered the following data about a company:

- Average receivables collection period of 37 days.
- Average payables payment period of 30 days.
- Average inventory processing period of 46 days.

What is their cash conversion cycle?

A) 113 days.

B) 53 days.

C) 45 days.

Question #12 of 92

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	(150)
Total Assets	2750
Liabilities and Equity	
Accounts Payable	300
Short-Term Debt	130
Long-Term Debt	700
Common Stock	1000
Retained Earnings	620
Total Liab. and Stockholder's equity	2750

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

What is the receivables turnover ratio?

A) 0.5.

B) 2.0.

C) 1.0.

Question #13 of 92

To calculate the cash ratio, the total of cash and marketable securities is divided by:

A) total assets.

B) current liabilities.

C) total liabilities.

Question #14 of 92

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	500	550
Total CA	1300	1660
Plant, prop. equip	1000	1250
Total Assets	2600	2910
Liabilities		
Accounts Payable	500	550
Long term debt	700	700
Total liabilities	1200	1652
Equity		
Common Stock	400	400
Retained Earnings	1260	1260
Total Liabilities & Equity	2600	2910

Income Statement

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

What is the operating profit margin?

A) 0.45.

B) 0.50.

C) 0.67.

Question #15 of 92

Would an increase in net profit margin or in the firm's dividend payout ratio increase a firm's sustainable growth rate?

	Net profit margin	Dividend payout ratio
A)	Yes	No
B)	No	No
C)	Yes	Yes

Question #16 of 92

McQueen Corporation prepared the following common-size income statement for the year ended December 31, 20X7:

Sales	100%
Cost of goods sold	60%
Gross profit	40%

For 20X7, McQueen sold 250 million units at a sales price of $1 each. For 20X8, McQueen has decided to reduce its sales price by 10%. McQueen believes the price cut will double unit sales. The cost of each unit sold is expected to remain the same. Calculate the change in McQueen's expected gross profit for 20X8 assuming the price cut doubles sales.

A) $80 million increase.

B) $50 million increase.

C) $150 million increase.

Question #17 of 92

Selected financial information gathered from the Matador Corporation follows:

	2007	2006	2005
Average debt	$792,000	$800,000	$820,000
Average equity	$215,000	$294,000	$364,000
Return on assets	5.9%	6.6%	7.2%
Quick ratio	0.3	0.5	0.6
Sales	$1,650,000	$1,452,000	$1,304,000
Cost of goods sold	$1,345,000	$1,176,000	$1,043,000

Using only the data presented, which of the following statements is *most correct*?

A) Gross profit margin has improved.

B) Return on equity has improved.

C) Leverage has declined.

Question #18 of 92

Given the following information about a firm:

- Net Sales = $1,000.
- Cost of Goods Sold = $600.
- Operating Expenses = $200.
- Interest Expenses = $50.
- Tax Rate = 34%.

What are the gross and operating profit margins?

	Gross Profit Margin	Operating Profit Margin
A)	40%	10%
B)	40%	20%
C)	20%	15%

Question #19 of 92

Which ratio is used to measure a company's internal liquidity?

A) Interest coverage.

B) Total asset turnover.

C) Current ratio.

Question #20 of 92

Comparing a company's ratios with those of its competitors is *best* described as:

A) cross-sectional analysis.

B) longitudinal analysis.

C) common-size analysis.

Question #21 of 92

Eagle Manufacturing Company reported the following selected financial information for 2007:

Accounts payable turnover	5.0
Cost of goods sold	$30 million
Average inventory	$3 million
Average receivables	$8 million
Total liabilities	$35 million
Interest expense	$2 million
Cash conversion cycle	13.5 days

Assuming 365 days in the calendar year, calculate Eagle's sales for the year.

A) $52.3 million.

B) $57.8 million.

C) $58.4 million.

Question #22 of 92

Use the following data from Delta's common size financial statement to answer the question:

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

What is Delta's after-tax return on equity?

A) 18.0%.

B) 5.0%.

C) 9.6%.

Question #23 of 92

In preparing a forecast of future financial performance, which of the following *best* describes sensitivity analysis and scenario analysis, respectively?

Description #1 – A computer generated analysis based on developing probability distributions of key variables that are used to drive the potential outcomes.

Description #2 – The process of analyzing the impact of future events by considering multiple key variables.

Description #3 – A technique whereby key financial variables are changed one at a time and a range of possible outcomes are observed. Also known as "what-if" analysis.

	Sensitivity analysis	Scenario analysis
A)	Description #3	Description #2
B)	Description #2	Description #3
C)	Description #3	Description #1

Question #24 of 92

Using the following data, find the return on equity (ROE).

Net Income	Total Assets	Sales	Equity
$2	$10	$10	$8

A) 100%.

B) 25%.

C) 20%.

Question #25 of 92

A company has a receivables turnover of 10, an inventory turnover of 5, and a payables turnover of 12. The company's cash conversion cycle is *closest to*:

A) 30 days.

B) 79 days.

C) 37 days.

Question #26 of 92

In the year 20X4, a company had a net profit margin of 18%, total asset turnover of 1.75, and a financial leverage multiplier of 1.5. If the company's net profit margin declines to 10% in 20X5, what total asset turnover would be needed in order to maintain the same return on equity as in 20X4, assuming there is no change in the financial leverage multiplier?

A) 3.15.

B) 1.85.

C) 2.50.

Question #27 of 92

Lightfoot Shoe Company reported sales of $100 million for the year ended 20X7. Lightfoot expects sales to increase 10% in 20X8. Cost of goods sold is expected to remain constant at 40% of sales and Lightfoot would like to have an average of 73 days of inventory on hand in 20X8. Forecast Lightfoot's average inventory for 20X8 assuming a 365 day year.

A) $8.0 million.

B) $8.8 million.

C) $22.0 million.

Question #28 of 92

The traditional DuPont equation shows ROE equal to:

A) EBIT/sales × sales/assets × assets/equity × (1 – tax rate).

B) net income/assets × sales/equity × assets/sales.

C) net income/sales × sales/assets × assets/equity.

Question #29 of 92

With other variables remaining constant, if profit margin rises, ROE will:

A) remain the same.

B) fall.

C) increase.

Question #30 of 92

Statement #1 – As compared to the price-to-earnings ratio, the price-to-cash flow ratio is easier to manipulate because management can easily control the timing of the cash flows.

Statement #2 – A firm with earnings per share of $2 is more profitable than a firm with earnings per share of $1.

With respect to these statements:

A) only one is correct.

B) both are correct.

C) both are incorrect.

Question #31 of 92

What would be the impact on a firm's return on assets ratio (ROA) of the following independent transactions, assuming ROA is less than one?

Transaction #1 – A firm owned investment securities that were classified as available-for-sale and there was a recent decrease in the fair value of these securities.

Transaction #2 – A firm owned investment securities that were classified as trading securities and there was recent increase in the fair value of the securities.

	Transaction #1	Transaction #2
A)	Higher	Lower
B)	Lower	Higher
C)	Higher	Higher

Question #32 of 92

The following footnote appeared in Crabtree Company's 20X7 annual report:

> *"On December 31, 20X7, Crabtree recognized a restructuring charge of $20 million, of which $5 million was for severance pay for employees who will be terminated in 20X8 and $15 million was for land that became permanently impaired in 20X7."*

Based only on these changes, Crabtree's net profit margin and fixed asset turnover ratio (using year-end financial statement values) in 20X8 as compared to 20X7 will be:

	Net profit margin	Fixed asset turnover
A)	Higher	Unchanged
B)	Lower	Higher

C) Higher Higher

Question #33 of 92

An analyst gathered the following data about a company:

- Current liabilities are $300.
- Total debt is $900.
- Working capital is $200.
- Capital expenditures are $250.
- Total assets are $2,000.
- Cash flow from operations is $400.

If the company would like a current ratio of 2, they could:

A) increase current assets by 100 or decrease current liabilities by 50.

B) decrease current assets by 100 or increase current liabilities by 50.

C) increase current assets by 100 or increase current liabilities by 50.

Question #34 of 92

A firm's financial statements reflect the following:

Net profit margin	15%
Sales	$10,000,000
Interest payments	$1,200,000
Avg. assets	$15,000,000
Equity	$11,000,000
Avg. working capital	$800,000
Dividend payout rate	35%

Which of the following is the *closest* estimate of the firm's sustainable growth rate?

A) 8%.

B) 9%.

C) 10%.

Question #35 of 92

Which of the following ratios is NOT part of the original DuPont system?

A) Debt to total capital.

B) Asset turnover.

C) Equity multiplier.

Question #36 of 92

The *main difference* between the current ratio and the quick ratio is that the quick ratio excludes:

A) cost of goods sold.

B) inventory.

C) assets.

Question #37 of 92

An analyst has gathered the following information about a firm:

- Quick ratio of 0.25.
- Cash ratio of 0.20.
- $2 million in marketable securities.
- $10 million in cash.

What is their receivables balance?

A) 3 million.

B) 2 million.

C) 5 million.

Question #38 of 92

If a firm has a net profit margin of 0.05, an asset turnover of 1.465, and a leverage ratio of 1.66, what is the firm's ROE?

A) 5.87%.

B) 3.18%.

C) 12.16%.

Question #39 of 92

If the inventory turnover ratio is 7, what is the average number of days the inventory is in stock?

A) 52 days.

B) 70 days.

C) 25 days.

Question #40 of 92

Goldstar Manufacturing has an accounts receivable turnover of 10.5 times, an inventory turnover of 4 times, and payables turnover of 8 times. What is Goldstar's cash conversion cycle?

A) 6.50 days.

B) 171.64 days.

C) 80.38 days.

Question #41 of 92

Which of the following ratios would NOT be used to evaluate how efficiently management is utilizing the firm's assets?

A) Payables turnover.

B) Fixed asset turnover.

C) Gross profit margin.

Question #42 of 92

An analysis of the industry reveals that firms have been paying out 45% of their earnings in dividends, asset turnover = 1.2; asset-to-equity (A/E) = 1.1 and profit margins are 8%. What is the industry's projected growth rate?

A) 4.95%.

B) 5.81%.

C) 4.55%.

Question #43 of 92

An analyst has gathered the following data about a company:

- Average receivables collection period of 95 days.
- Average inventory processing period of 183 days.
- A payables payment period of 274 days.

What is their cash conversion cycle?

A) 4 days.

B) 186 days.

C) -4 days.

Question #44 of 92

Which of the following items is NOT in the numerator of the quick ratio?

A) Cash.

B) Inventory.

C) Receivables.

Question #45 of 92

What is a company's equity if their return on equity (ROE) is 12%, and their net income is $10 million?

A) $1,200,000.

B) $120,000,000.

C) $83,333,333.

Question #46 of 92

Common size income statements express all income statement items as a percentage of:

A) net income.

B) sales.

C) assets.

Question #47 of 92

Companies are required to report segment data under:

A) IFRS but not U.S. GAAP.

B) U.S. GAAP but not IFRS.

C) both IFRS and U.S. GAAP.

Question #48 of 92

Which of the following is *least likely* a routinely used operating profitability ratio?

A) Sales/Total Assets.

B) Gross profit/net sales.

C) Net income/net sales.

Question #49 of 92

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	(150)
Total Assets	2750
Liabilities and Equity	
Accounts Payable	300
Short-Term Debt	130
Long-Term Debt	700
Common Stock	1000
Retained Earnings	620
Total Liab. and Stockholder's equity	2750

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

Determine the current ratio and the cash ratio.

Current Ratio	Cash Ratio

A)	2.67	1.07
B)	1.98	1.86
C)	4.65	0.93

Question #50 of 92

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	(150)
Total Assets	2750
Liabilities and Equity	
Accounts Payable	300
Short-Term Debt	130
Long-Term Debt	700
Common Stock	1000
Retained Earnings	620
Total Liab. and Stockholder's equity	2750

Income Statement

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

What is the current ratio?

A) 0.22.

B) 4.65.

C) 2.67.

Question #51 of 92

Which of the following statements *best* describes vertical common-size analysis and horizontal common-size analysis?

Statement #1 – Each line item is expressed as a percentage of its base-year amount.

Statement #2 – Each line item of the income statement is expressed as a percentage of revenue and each line item of the balance sheet is expressed as a percentage of ending total assets.

Statement #3 – Each line item is expressed as a percentage of the prior year's amount.

	Vertical analysis	Horizontal analysis
A)	Statement #2	Statement #1
B)	Statement #1	Statement #2
C)	Statement #2	Statement #3

Question #52 of 92

Johnson Corp. had the following financial results for the fiscal 2004 year:

Current ratio	2.00
Quick ratio	1.25
Current liabilities	$100,000
Inventory turnover	12
Gross profit %	25

The only current assets are cash, accounts receivable, and inventory. The balance in these accounts has remained constant throughout the year. Johnson's net sales for 2004 were:

A) $900,000.

B) $300,000.

C) $1,200,000.

Question #53 of 92

A firm has a cash conversion cycle of 80 days. The firm's payables turnover goes from 11 to 12, what happens to the firm's cash conversion cycle? It:

A) lengthens.

B) may shorten or lengthen.

C) shortens.

Question #54 of 92

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	500	550
Total CA	1300	1660
Plant, prop. equip	1000	1250
Total Assets	2600	2,910
Liabilities		
Accounts Payable	500	550
Long term debt	700	1102
Total liabilities	1200	1652
Equity		
Common Stock	400	538
Retained Earnings	1000	720
Total Liabilities & Equity	2600	2,910

Income Statement

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

What is the average receivables collection period?

A) 60.6 days.

B) 76.7 days.

C) 80.3 days.

Question #55 of 92

Which of the following is a measure of a firm's liquidity?

A) Cash Ratio.

B) Equity Turnover.

C) Net Profit Margin.

Question #56 of 92

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	500	550
Total CA	1600	1660
Plant, prop. equip	1000	1250
Total Assets	2600	2910
Liabilities		
Accounts Payable	500	550
Long term debt	700	1102
Total liabilities	1200	1652
Equity		
Common Stock	400	538
Retained Earnings	1000	720
Total Liabilities & Equity	2600	2910

Income Statement

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

What is the quick ratio for 2004?

A) 2.018.

B) 0.331.

C) 3.018.

Question #57 of 92

Kellen Harris is a credit analyst with the First National Bank. Harris has been asked to evaluate Longhorn Supply Company's cash needs. Harris began by calculating Longhorn's turnover ratios for 2007. After a discussion with Longhorn's management, Harris decides to adjust the turnover ratios for 2008 as follows:

	2007 Actual Turnover	Expected Increase / (Decrease)
Accounts receivable	5.0	10%
Fixed asset	3.0	7%
Accounts payable	6.0	(20%)
Inventory	4.0	(5%)
Equity	5.5	—
Total asset	2.3	8%

Longhorn's expected cash conversion cycle for 2008, based on the expected changes in turnover and assuming a 365 day year, is *closest* to:

A) 46 days.

B) 86 days.

C) 82 days.

Question #58 of 92

A firm's financial statements reflect the following:

Current liabilities	$4,000,000
Cash	$400,000
Inventory	$1,200,000
Accounts receivable	$800,000
Short-term investments	$2,000,000
Long-term investments	$800,000
Accounts payable	$2,500,000

What are the firm's current ratio, quick ratio, and cash ratio?

	Current Ratio	Quick Ratio	Cash Ratio
A)	1.1	0.6	0.8
B)	1.1	0.8	0.6
C)	0.8	0.6	1.1

Question #59 of 92

Wells Incorporated reported the following common size data for the year ended December 31, 20X7:

Income Statement	%
Sales	100.0
Cost of goods sold	58.2
Operating expenses	30.2
Interest expense	0.7
Income tax	5.7
Net income	5.2

Balance sheet	%		%
Cash	4.8	Accounts payable	15.0
Accounts receivable	14.9	Accrued liabilities	13.8
Inventory	49.4	Long-term debt	23.2
Net fixed assets	30.9	Common equity	48.0
Total assets	100.00	Total liabilities & equity	100.0

For 20X6, Wells reported sales of $183,100,000 and for 20X7, sales of $215,600,000. At the end of 20X6, Wells' total assets were $75,900,000 and common equity was $37,800,000. At the end of 20X7, total assets were $95,300,000. Calculate Wells' current ratio and return on equity ratio for 20X7.

	Current ratio	Return on equity
A)	4.6	25.2%
B)	2.4	26.8%
C)	2.4	26.4%

Question #60 of 92

Given the following information about a firm what is its return on equity (ROE)?

- An asset turnover of 1.2.
- An after tax profit margin of 10%.
- A financial leverage multiplier of 1.5.

A) 0.12.

B) 0.18.

C) 0.09.

Question #61 of 92

A company must report separate financial information for any segment of their business which:

A) is more than 20% of a firm's revenues.

B) accounts for more than 10% of the firm's assets and has risk and return characteristics distinguishable from the company's other lines of business.

C) is located in a country other than the firm's home country.

Question #62 of 92

As of December 31, 2007, Manhattan Corporation had a quick ratio of 2.0, current assets of $15 million, trade payables of $2.5 million, and receivables of $3 million, and inventory of $6 million. How much were Manhattan's current liabilities?

A) $7.5 million.

B) $12.0 million.

C) $4.5 million.

Question #63 of 92

Are the quick ratio and the debt-to-capital ratio used primarily to assess a company's ability to meet short-term obligations?

	Quick ratio	Debt-to-capital ratio
A)	Yes	Yes
B)	No	Yes
C)	Yes	No

Question #64 of 92

Pastel Company operates in the following lines of business which management believes have distinguishable return and risk characteristics:

	Revenues	Assets
Food	500	2,000
Beverages	1,300	6,000
Entertainment	2,500	10,000
Lodging	5,000	20,000
Services	22,000	28,000
International	700	3,000
Totals	32,000	69,000

For which of these lines is Pastel required to report segment data?

A) International only.

B) Entertainment, Lodging, and Services.

C) Services and International.

Question #65 of 92

Earnings before interest and taxes (EBIT) is also known as:

A) earnings before income taxes.

B) operating profit.

C) gross profit.

Question #66 of 92

When the return on equity equation (ROE) is decomposed using the original DuPont system, what three ratios comprise the components of ROE?

A) Net profit margin, asset turnover, asset multiplier.

B) Net profit margin, asset turnover, equity multiplier.

C) Gross profit margin, asset turnover, equity multiplier.

Question #67 of 92

The latest balance sheet for XYZ, Inc. appears below:

	12/31/20X4	12/31/20X3
Assets		
Cash	2,098	410
Accounts receivable	4,570	4,900
Inventory	4,752	4,500
Prepaid SGA	877	908
Total current assets	12,297	10,718
Land	0	4,000
Property, Plant & Equipment	11,000	11,000
Accumulated Depreciation	(5,862)	(5,200)
Total Assets	17,435	20,518
Liabilities and Equity		
Accounts Payable	4,651	5,140
Wages Payable	2,984	2,890
Dividends Payable	100	100
Total current liabilities	7,735	8,130
Long term Debt	1,346	7,388
Common Stock	4,000	4,000
Retained Earnings	4,354	1,000
Total Liabilities and Equity	17,435	20,518

At the end of 20X4, what were XYZ's current and quick ratios?

	Current ratio	Quick ratio
A)	1.48	0.86
B)	1.59	0.86
C)	1.59	1.59

Question #68 of 92

Given the following income statement:

Net Sales	200
Cost of Goods Sold	55
Gross Profit	145
Operating Expenses	30
Operating Profit (EBIT)	115
Interest	15
Earnings Before Taxes (EBT)	100
Taxes	40
Earnings After Taxes (EAT)	60

What are the interest coverage ratio and the net profit margin?

	Interest Coverage Ratio	Net Profit Margin
A)	0.57	0.56
B)	7.67	0.30
C)	2.63	0.30

Question #69 of 92

Paragon Company's operating profits are $100,000, interest expense is $25,000, and earnings before taxes are $75,000. What is Paragon's interest coverage ratio?

A) 4 times.

B) 1 time.

C) 3 times.

Question #70 of 92

How would the collection of accounts receivable *most likely* affect the current and cash ratios?

	Current ratio	Cash ratio
A)	No effect	No effect
B)	Increase	Increase
C)	No effect	Increase

Question #71 of 92

Which of the following reasons is *least likely* a valid limitation of ratio analysis?

A) Calculation of ratios involves a large degree of subjectivity.

B) Determining the target or comparison value for a ratio is difficult.

C) It is difficult to find comparable industry ratios.

Question #72 of 92

The following data applies to the XTC Company:

- Sales = $1,000,000.
- Receivables = $260,000.
- Payables = $600,000.
- Purchases = $800,000.
- COGS = $800,000.
- Inventory = $400,000.
- Net Income = $50,000.
- Total Assets = $800,000.
- Debt/Equity = 200%.

What is the average collection period, the average inventory processing period, and the payables payment period for XTC Company?

	Average Collection Period	Average Inventory Processing Period	Payables Payments Period
A)	95 days	183 days	274 days
B)	55 days	195 days	231 days
C)	45 days	45 days	132 days

Question #73 of 92

Given the following information about a company:

- Receivables turnover = 10 times.
- Payables turnover = 12 times.
- Inventory turnover = 8 times.

What are the average receivables collection period, the average payables payment period, and the average inventory processing period respectively?

Average Receivables Collection Period	Average Payables Payment Period	Average Inventory Processing Period

A)	37	30	52
B)	37	30	46
C)	37	45	46

Question #74 of 92

Comparative income statements for E Company and G Company for the year ended December 31 show the following (in $ millions):

	E Company	***G Company***
Sales	70	90
Cost of Goods Sold	(30)	(40)
Gross Profit	40	50
Sales and Administration	(5)	(15)
Depreciation	(5)	(10)
Operating Profit	30	25
Interest Expense	(20)	(5)
Earnings Before Taxes	10	20
Income Taxes	(4)	(8)
Earnings after Taxes	6	12

The financial risk of E Company, as measured by the interest coverage ratio, is:

A) higher than G Company's because its interest coverage ratio is less than G Company's, but at least one-third of G Company's.

B) lower than G Company's because its interest coverage ratio is at least three times G Company's.

C) higher than G Company's because its interest coverage ratio is less than one-third of G Company's.

Question #75 of 92

Adams Co.'s common sized balance sheet shows that:

- Current Liabilities = 20%
- Equity = 45%
- Current Assets = 45%
- Total Assets = $2,000

What are Adams' long-term debt to equity ratio and working capital?

	Debt to Equity	Working Capital
A)	0.78	$250

B) 1.22 $500

C) 0.78 $500

Question #76 of 92

Given the following income statement:

Net Sales	200
Cost of Goods Sold	55
Gross Profit	145
Operating Expenses	30
Operating Profit (EBIT)	115
Interest	15
Earnings Before Taxes (EBT)	100
Taxes	40
Earnings After Taxes (EAT)	60

What are the gross profit margin and operating profit margin?

	Gross Profit Margin	Operating Profit Margin
A)	0.379	0.725
B)	0.725	0.575
C)	2.630	1.226

Question #77 of 92

Income Statements for Royal, Inc. for the years ended December 31, 20X0 and December 31, 20X1 were as follows (in $ millions):

	20X0	**20X1**
Sales	78	82
Cost of Goods Sold	(47)	(48)
Gross Profit	31	34
Sales and Administration	(13)	(14)
Operating Profit (EBIT)	18	20
Interest Expense	(6)	(10)
Earnings Before Taxes	12	10
Income Taxes	(5)	(4)
Earnings after Taxes	7	6

Analysis of these statements for trends in operating profitability reveals that, with respect to Royal's gross profit margin and net profit margin:

A) gross profit margin decreased but net profit margin increased in 20X1.

B) gross profit margin increased in 20X1 but net profit margin decreased.

C) both gross profit margin and net profit margin increased in 20X1.

Question #78 of 92

An analyst has gathered the following information about a company.

- The total asset turnover is 1.2.
- The after-tax profit margin is 10%.
- The financial leverage multiplier is 1.5.

Given this information, the company's return on equity is:

A) 12%.

B) 9%.

C) 18%.

Question #79 of 92

Are the following ratios *best* classified as profitability ratios?

Ratio #1 – Cash plus short-term marketable investments plus receivables divided by average daily cash expenditures.

Ratio #2 – Earnings before interest and taxes divided by average total assets.

A) Neither of the ratios is a profitability ratio.

B) Only one of the ratios is a profitability ratio.

C) Both of the ratios are profitability ratios.

Question #80 of 92

Using a 365-day year, if a firm has net annual sales of $250,000 and average receivables of $150,000, what is its *average* collection period?

A) 219.0 days.

B) 46.5 days.

C) 1.7 days.

Question #81 of 92

Regarding the use of financial ratios in the analysis of a firm's financial statements, it is *most accurate* to say that:

A) a range of target values for a ratio may be more appropriate than a single target value.

B) variations in accounting treatments have little effect on financial ratios.

C) many financial ratios are useful in isolation.

Question #82 of 92

Assume that Q-Tell Incorporated is in the communications industry, which has an average receivables turnover ratio of 16 times. If the Q-Tell's receivables turnover is less than that of the industry, Q-Tell's average receivables collection period is *most likely*:

A) 20 days.

B) 25 days.

C) 12 days.

Question #83 of 92

Which of the following ratios would *least likely* measure liquidity?

A) Quick ratio.

B) Return on assets (ROA).

C) Current ratio.

Question #84 of 92

Ratio analysis is most useful for comparing companies:

A) of different size in the same industry.

B) in different industries that use the same accounting standards.

C) that operate in multiple lines of business.

Question #85 of 92

An analyst has collected the following data about a firm:

- Receivables turnover = 20 times.
- Inventory turnover = 16 times.
- Payables turnover = 24 times.

What is the cash conversion cycle?

A) 56 days.

B) Not enough information is given.

C) 26 days.

Question #86 of 92

If a company has a net profit margin of 5%, an asset turnover ratio of 2.5 and a ROE of 18%, what is the equity multiplier?

A) 0.69.

B) 2.25.

C) 1.44.

Question #87 of 92

An analyst has collected the following data about a firm:

- Receivables turnover = 10 times.
- Inventory turnover = 8 times.
- Payables turnover = 12 times.

What is the average receivables collection period, the average inventory processing period, and the average payables payment period? (assume 360 days in a year)

	Receivables Collection Period	Inventory Processing Period	Payables Payment Period
A)	45 days	36 days	30 days
B)	30 days	30 days	60 days
C)	36 days	45 days	30 days

Question #88 of 92

Are the following statements about common-size financial statements correct or incorrect?

Statement #1 – Expressing financial information in a common-size format enables the analyst to make better comparisons between two firms of similar size that operate in different industries.

Statement #2 – Common-size financial statements can be used to highlight the structural changes in the firm's operating results and financial condition that have occurred over time.

With respect to these statements:

A) both are correct.

B) only one is correct:

C) both are incorrect.

Question #89 of 92

What is the net income of a firm that has a return on equity of 12%, a leverage ratio of 1.5, an asset turnover of 2, and revenue of $1 million?

A) $36,000.

B) $40,000.

C) $360,000.

Question #90 of 92

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	500	550
Total CA	1300	1660
Plant, prop. equip	1000	1250
Total Assets	2600	2910
Liabilities		
Accounts Payable	500	550
Long term debt	700	1102
Total liabilities	1200	1652
Equity		
Common Stock	400	538
Retained Earnings	1000	720
Total Liabilities & Equity	2600	2,910

Income Statement

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

What is the gross profit margin?

A) 0.666.

B) 0.472.

C) 0.333.

Question #91 of 92

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	(150)
Total Assets	2750
Liabilities and Equity	
Accounts Payable	300
Short-Term Debt	130
Long-Term Debt	700
Common Stock	1000
Retained Earnings	620
Total Liab. and Stockholder's equity	2750

Income Statement

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

What is the inventory turnover ratio?

A) 1.29.

B) 1.59.

C) 0.77.

Question #92 of 92

Summit Co. has provided the following information for its most recent reporting period:

	Beginning Figures	Ending Figures	Average Figures
Sales		$ 5,000,000	
EBIT		$ 800,000	
Interest Expense		$ 160,000	
Taxes		$ 256,000	
Assets	$ 3,500,000	$ 4,000,000	$ 3,750,000
Equity	$ 1,700,000	$ 2,000,000	$ 1,850,000

What is Summit Co.'s total asset turnover and return on equity?

	Total Asset Turnover	Return on Equity
A)	1.33	20.8%
B)	1.33	15.8%
C)	1.25	20.8%