AC210 Quiz Ratio Analysis Name___________________

Goal of firm

i. The primary goal of a publicly-owned firm interested in serving its stockholders should be to

a. Maximize expected total corporate profit.
b. Maximize expected EPS.
c. Minimize the chances of losses.
d. Maximize the stock price per share.
e. Maximize expected net income.

Net cash flow

i. Last year, Blanda Brothers had positive net cash flow, yet cash on the balance sheet decreased. Which of the following could explain the company's financial performance?

a. The company issued new common stock.
b. The company issued new long-term debt.
c. The company sold off some of its assets.
d. The company purchased a lot of new fixed assets.
e. The company eliminated its dividend.

Net cash flow and net income

i. Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?

a. The company's interest expense increased.
b. The company's depreciation and amortization expenses declined.
c. The company's operating income declined.
d. All of the statements above are correct.
e. None of the statements above is correct.

Current assets

i. Which of the following items is included as part of a company's current assets?

a. Accounts payable.
b. Inventory.
c. Accounts receivable.
d. Statements b and c are correct.
e. All of the statements above are correct.

Balance sheet

i. Below is the equity portion (in millions) of the year-end balance sheet that Glenn Technology has reported for the last two years:

	2002	2001

Preferred stock	$ 80	$ 80
Common stock	2,000	1,000
Retained earnings	2,000	2,340
Total equity	$4,080	$3,420

Glenn does not pay a dividend to its common stockholders. Which of the following statements is most correct?

a. Glenn issued preferred stock in both 2001 and 2002.
b. Glenn issued common stock in 2002.
c. Glenn had positive net income in both 2001 and 2002, but the company's net income in 2002 was lower than it was in 2001.
d. Statements b and c are correct.
e. None of the statements above is correct.

Changes in depreciation

i. Solo Company has been depreciating its fixed assets over 15 years. It is now clear that these assets will only last a total of 10 years. Solo's accountants have encouraged the firm to revise its annual depreciation to reflect this new information. Which of the following would occur as a result of this change?

a. The company's earnings per share would decrease.
b. The company's cash position would increase.
c. The company's EBIT would increase.
d. Statements a and b are correct.
e. All of the statements above are correct.

Effects of changes in financial leverage

i. The CFO of Mulroney Brothers has suggested that the company should issue $300 million worth of common stock and use the proceeds to reduce some of the company's outstanding debt. Assume that the company adopts this policy, and that total assets and operating income (EBIT) remain the same. The company's tax rate will also remain the same. Which of the following will occur?

a. The company's net income will increase.
b. The company's taxable income will fall.
c. The company will pay less in taxes.
d. Statements b and c are correct.
e. All of the statements above are correct.

i. At the beginning of the year, Gonzales Corporation had $100,000 in cash. The company undertook a major expansion during this same year. Looking at its statement of cash flows, you see that the net cash provided by its operations was $300,000 and the company's investing activities required cash expenditures of $800,000. The company's cash position at the end of the year was $50,000. What was the net cash provided by the company's financing activities?

a. $350,000
b. $400,000
c. $300,000

d. $450,000
e. $500,000

Rate of interest

i. A firm has notes payable of $1,546,000, long-term debt of $13,000,000, and total interest expense of $1,300,000. If the firm pays 8 percent interest on its long-term debt, what interest rate does it pay on its notes payable?

a. 8.2%
b. 13.1%
c. 16.8%
d. 18.0%
e. 15.3%

Cash flows

i. Which of the following alternatives could potentially result in a net increase in a company's cash flow for the current year?

a. Reduce the days sales outstanding ratio.
b. Increase the number of years over which fixed assets are depreciated.
c. Decrease the accounts payable balance.
d. Statements a and b are correct.
e. All of the statements above are correct.

Financial statement analysis

i. Company A and Company B have the same total assets, return on assets (ROA), and profit margin. However, Company A has a higher debt ratio and interest expense than Company B. Which of the following statements is most correct?

a. Company A has a higher ROE (return on equity) than Company B.
b. Company A has a higher total assets turnover than Company B.
c. Company A has a higher operating income (EBIT) than Company B.
d. Statements a and b are correct.
e. Statements a and c are correct.

Ratio analysis

i. As a short-term creditor concerned with a company's ability to meet its financial obligation to you, which one of the following combinations of ratios would you most likely prefer?

	Current ratio	TIE	Debt ratio
a.	0.5	0.5	0.33
b.	1.0	1.0	0.50
c.	1.5	1.5	0.50
d.	2.0	1.0	0.67
e.	2.5	0.5	0.71

Market price per share

i. You are given the following information: Stockholders' equity = $1,250; price/earnings ratio = 5; shares outstanding = 25; and market/book ratio = 1.5. Calculate the market price of a share of the company's stock.

a. $ 33.33
b. $ 75.00
c. $ 10.00
d. $166.67
e. $133.32

ROA

i. A firm has a profit margin of 15 percent on sales of $20,000,000. If the firm has debt of $7,500,000, total assets of $22,500,000, and an after-tax interest cost on total debt of 5 percent, what is the firm's ROA?

a. 8.4%
b. 10.9%
c. 12.0%
d. 13.3%
e. 15.1%

TIE ratio

i. Culver Inc. has earnings after interest but before taxes of $300. The company's times interest earned ratio is 7.00. Calculate the company's interest charges.

a. $42.86
b. $50.00
c. $40.00
d. $60.00
e. $57.93

ROE

i. Tapley Dental Supply Company has the following data:

Net income	$240
Sales	$10,000
Total assets	$6,000
Debt ratio	75%
TIE ratio	2.0
Current ratio	1.2
BEP ratio	13.33%

If Tapley could streamline operations, cut operating costs, and raise net income to $300 without affecting sales or the balance sheet (the additional profits will be paid out as dividends), by how much would its ROE increase?

a. 3.00%
b. 3.50%
c. 4.00%
d. 4.25%
e. 5.50%

Profit margin

i. Your company had the following balance sheet and income statement information for 2002:

Balance Sheet:

Cash	$ 20		
A/R	1,000		
Inventories	5,000		
Total current assets	$6,020	Debt	$4,000
Net fixed assets	2,980	Equity	5,000
Total assets	$9,000	Total claims	$9,000

Income Statement:

Sales	$10,000
Cost of goods sold	9,200
EBIT	$ 800
Interest (10%)	400
EBT	$ 400
Taxes (40%)	160
Net income	$ 240

The industry average inventory turnover is 5. You think you can change your inventory control system so as to cause your turnover to equal the industry average, and this change is expected to have no effect on either sales or cost of goods sold. The cash generated from reducing inventories will be used to buy tax-exempt securities that have a 7 percent rate of return. What will your profit margin be after the change in inventories is reflected in the income statement?

a. 2.1%
b. 2.4%
c. 4.5%
d. 5.3%
e. 6.7%