

Financial Statement Analysis & Valuation, 5th Edition
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Practice Quiz Solutions

Module 4 – Credit Risk Analysis and Interpretation

Use the following information to answer Questions 1, 2, and 3.

Assume the following is select financial information for Kohl's Corporation for fiscal 2016 (\$ millions).

Current assets.....	\$4,775
Current liabilities.....	2,590
Interest expense.....	303
Total liabilities.....	7,586
Shareholders' equity.....	6,508
Earnings before interest and taxes.....	2,158

1. Compute the current ratio using Kohl's reported financial information.

- a. 0.542
- b. 1.844
- c. 0.734
- d. 0.949

Answer: b

$$\text{Current ratio} = \$4,775 / \$2,590 = 1.844$$

2. Compute the liabilities-to-equity ratio using Kohl's reported financial information.

- a. 1.166
- b. 0.858
- c. 1.773
- d. 0.949

Answer: a

$$\text{Liabilities-to-equity ratio} = \$7,586 / \$6,508 = 1.166$$

3. Compute the times interest earned ratio using Kohl's reported financial information.

- a. 0.140
- b. 0.022
- c. 7.122
- d. 21.48

Answer: c

$$\text{Times interest earned} = \$2,158 / \$303 = 7.122$$

4. The following is selected financial information for Mouse Company for 2017.

Working capital	\$ (30)
Retained earnings	(500)
Earnings before interest and tax	250
Market value of equity	100
Sales	3,000
Total assets	1,000
Total liabilities	1,500

Compute the Altman Z-score for Mouse Company.

- a. 2.35
- b. 2.89
- c. 3.10
- d. 4.62

Answer: c

$$\begin{aligned} \text{Z-score} &= (1.2 \times -\$30 / \$1,000) + (1.4 \times -\$500 / \$1,000) + (3.3 \times \$250 / \$1,000) + (0.6 \times \$100 / \$1,500) \\ &+ (0.99 \times \$3,000 / \$1,000) = 3.10 \end{aligned}$$

Use the following information to answer Questions 5, 6, 7, and 8.

The following is selected financial information for Joker Company for 2017.

Cash	\$ 13,000
Accounts receivable	11,000
Current asset	36,000
Current liabilities	33,000
Long-term debt	170,000
Short-term debt	10,000
Total liabilities	230,000
Interest expense	15,000
Capital expenditures	16,000
Equity	46,000
Cash from operations	1,000
Earnings before interest and taxes	16,000

5. Compute the quick ratio for Joker Company.

- a. 0.727
- b. 1.091
- c. 0.394
- d. 0.333

Answer: a

$$\text{Quick ratio} = (\$13,000 + \$11,000) / \$33,000 = 0.727$$

6. Compute the total debt to equity ratio for Joker Company.

- a. 3.913
- b. 3.696
- c. 0.739
- d. 2.425

Answer: a

$$\text{Total debt to equity} = (\$170,000 + \$10,000) / \$46,000 = 3.913$$

7. Compute the cash from operations to total debt for Joker Company.

- a. 0.004
- b. 0.060
- c. 0.055
- d. 0.006

Answer: d

$$\text{Cash from operations to total debt} = \$1,000 / (\$10,000 + \$170,000) = 0.006$$

8. Compute the free operating cash flow to total debt for Joker Company.

- a. 0.094
- b. 0.739
- c. -0.094
- d. -0.083

Answer: d

$$\text{Free operating cash flow to total debt} = (\$1,000 - \$16,000) / (\$10,000 + \$170,000) = -0.083$$