

**Financial Statement Analysis & Valuation, 5<sup>th</sup> Edition**  
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**Practice Quiz**

**Module 2 – Review of Business Activities and Financial Statements**

1. Following are selected income statement and balance sheet data for companies in different industries.

\$ millions	Sales	Cost of goods sold	Gross profit	Net income	Assets	Liabilities	Equity
Harley-Davidson	\$ 5,342	\$ 3,302	\$ 2,040	\$ 960	\$ 5,255	\$ 2,171	\$ 3,084
Nike, Inc.	13,740	7,624	6,116	1,212	8,794	3,149	5,645
Starbucks Corp.	6,369	2,605	3,764	494	3,514	1,423	2,091
Target Corp.	51,271	34,927	16,344	2,408	34,995	20,790	14,205

Which company reports the highest ratio of net income to equity?

- a. Harley-Davidson
  - b. Nike, Inc.
  - c. Starbucks Corp.
  - d. Target Corp.
2. Following are selected income statement and balance sheet data for companies in different industries.

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Which company has financed itself with the highest percentage of liabilities to equity?

- a. Harley-Davidson
- b. Nike, Inc.
- c. Starbucks Corp.
- d. Target Corp.

3. Following are selected income statement accounts for Apple Inc.

(\$ millions)	
Sales	\$233,715
Cost of goods sold	<u>140,089</u>
Gross profit	93,626
Total expenses	<u>40,232</u>
Net income	<u>\$ 53,394</u>

Compute Apple's gross profit margin.

- a. 22.7%
- b. 40.0%
- c. 17.2%
- d. 11.2%

4. Indicate which of the following items would be reported in the balance sheet.

- |                         |                             |                     |
|-------------------------|-----------------------------|---------------------|
| A. Net income           | D. Accumulated depreciation | G. Interest expense |
| B. Retained earnings    | E. Wages expense            | H. Interest payable |
| C. Depreciation expense | F. Wages payable            | I. Sales            |

- a. C, E, G, I
- b. A, D, F, G
- c. B, C, E, H
- d. B, D, F, H

5. Indicate which of the following items would be reported in the income statement.

- |                         |                        |                     |
|-------------------------|------------------------|---------------------|
| A. Sales                | D. Accounts receivable | G. Inventories      |
| B. Retained earnings    | E. Dividends           | H. Accounts payable |
| C. Depreciation expense | F. Cost of goods sold  | I. Net income       |

- a. C, E, G, I
- b. A, C, F, I
- c. B, C, E, H
- d. A, E, F, I

6. Daniels Company reports the following year-end account balances at December 31, 2017.

Accounts payable .....	\$20,000	Inventory .....	\$40,000
Accounts receivable .....	\$40,000	Land .....	\$100,000
Bonds payable, long-term .....	\$250,000	Goodwill .....	\$10,000
Buildings .....	\$160,000	Retained earnings .....	\$115,000
Cash .....	\$50,000	Sales revenue .....	\$500,000
Common stock .....	\$100,000	Supplies inventory .....	\$5,000
Cost of goods sold .....	\$200,000	Supplies expense .....	\$20,000
Equipment .....	\$80,000	Wages expense .....	\$100,000

What is Daniels Company's net income for 2017?

- a. \$380,000
- b. \$375,000
- c. \$180,000
- d. \$300,000

7. Following is selected financial information for Aiello, Inc. for the years 2017 and 2016.

(\$ millions)	2017	2016
Beginning retained earnings	\$ ?	\$245,870
Net income (loss)	88,030	79,980
Dividends	25,120	?
Ending retained earnings	?	290,570

What is Aiello, Inc.'s ending retained earnings balance for 2017?

- a. \$403,720
- b. \$227,660
- c. \$353,480
- d. \$290,570

8. Selected balance sheet amounts for Reed Corporation for 2017 follow.

Current assets	Long-term assets	Total assets	Current liabilities	Long-term liabilities	Total liabilities	Equity
\$9,540	?	?	\$14,520	\$12,340	?	\$15,990

What is the balance sheet amount for Long-term assets?

- a. \$42,850
- b. \$33,310
- c. \$26,860
- d. \$29,500

9. Foot Locker, Inc. is a retailer of athletic footwear and apparel. During a recent fiscal year, Foot Locker purchased merchandise inventory costing \$4,047 (\$ millions). Assume that Foot Locker makes all purchases on credit, and that its accounts payable is only used for inventory purchases.

The following T-accounts reflect information contained in the company's balance sheets (\$ millions).

Inventories		Accounts Payable	
Beg. Bal.	1,151	381	Beg. Bal.
End. Bal.	1,254	361	End. Bal.

What amount did Foot Locker pay in cash to its suppliers during the fiscal year?

- a. \$4,067 million
  - b. \$20 million
  - c. \$103 million
  - d. \$381 million
10. On December 31, 2016, the accounts of Leuz Architect Services showed credit balances in its Common Stock and Retained Earnings accounts of \$60,000 and \$30,000, respectively. The company's stock issuances for 2017 totaled \$12,000, and it paid \$10,000 cash dividends in 2017. During 2017, the company had net income of \$33,000.

What is the total stockholders' equity for Leuz Architect Services at December 31, 2017?

- a. \$ 72,000
  - b. \$ 53,000
  - c. \$125,000
  - d. \$135,000
11. Selected T-account balances for Bloomfield Company are shown below as of January 31, 2017; accounting adjustments have already been posted. The firm uses a calendar-year accounting period but prepares *monthly* adjustments.

Truck		Accumulated Depreciation-Truck	
Jan. 31 Bal.	10,200	Jan. 31 Bal.	2,040

If the truck has a useful life of five years (or 60 months), how many months has Bloomfield owned the truck?

- a. 3 months
- b. 24 months
- c. 12 months
- d. 18 months

12. The following information is taken Aiello Corporation's fiscal 2016 annual report.

Selected Balance Sheet Data	2016	2015
Inventories.....	\$221,418	\$226,893
Accounts Receivable.....	\$121,333	\$122,087

Aiello Corporation spent \$3,296,240 to purchase and manufacture inventories during its 2016 fiscal year.

What is the cost of goods sold for Aiello's fiscal year end?

- a. \$3,301,715
- b. \$3,296,240
- c. \$3,290,765
- d. \$3,300,000

13. The following information is taken Aiello Corporation's fiscal 2016 annual report.

Selected Balance Sheet Data	2016	2015
Inventories.....	\$221,418	\$226,893
Accounts Receivable.....	\$121,333	\$122,087

Assume that Aiello Corporation had \$1,003,881 sales on credit during fiscal year 2016. What amount did the company collect from credit customers during the year?

- a. \$1,003,881
- b. \$1,004,635
- c. \$1,003,127
- d. \$1,247,301

14. Plumlee Corporation has the following account balances at December 31, 2017.

	Debit	Credit
Service Fees Earned .....		\$92,500
Interest Income .....		2,200
Salaries Expense .....	\$41,800	
Advertising Expense .....	4,300	
Depreciation Expense .....	8,700	
Income Tax Expense .....	9,900	
Retained Earnings .....		42,700

Prepare entries to close these accounts in journal entry form. Set up T-accounts for each of the ledger accounts and post the entries to them. After these entries are posted, what is the balance of the Retained Earnings account?

- a. \$ 42,700
- b. \$ 72,700
- c. \$ 12,700
- d. \$137,400

15. Flex Fitness is a health and fitness club that operates gym facilities throughout the United States. Flex Fitness members pay their membership dues annually. Selected fiscal-year information from the company's balance sheets follows (\$ thousands).

<b>Selected Balance Sheet Data</b>	<b>2016</b>	<b>2015</b>
Deferred membership income (liability) .....	500,558	453,881

During fiscal 2016, Flex Fitness collected \$1,119,833 cash for membership fees.

Calculate the membership fee revenue that Flex Fitness recognized during the year.

- a. \$ 500,558 thousand
- b. \$1,166,510 thousand
- c. \$1,119,833 thousand
- d. \$1,073,156 thousand