

**Financial Accounting for Undergraduates**  
**3<sup>rd</sup> Edition by Wallace, Nelson, Christensen, and Ferris**

**Practice Quiz Solutions**

**Chapter 4. Understanding Financial Statements**

1. Which of the following is *not* reported on a classified balance sheet?
- a. Net income
  - b. Current assets
  - c. Long-term liabilities
  - d. Stockholders' equity

Answer: a

2. A company has net income of \$5,000, current assets of \$10,000, total assets of \$40,000, and current liabilities of \$8,000. What is the company's current ratio?
- a. 0.125
  - b. 0.500
  - c. 0.625
  - d. 1.25.

Answer: d

Rationale:  $(\$10,000/\$8,000)$

3. A company has current liabilities of \$5,000, long-term liabilities of \$10,000, and stockholders' equity of \$15,000. What is the company's debt-to-total assets ratio?
- a. 33.3 percent
  - b. 50.0 percent
  - c. 75.0 percent
  - d. 100 percent

Answer: b

Rationale:  $(\$5,000 + \$10,000) / (\$5,000 + \$10,000 + \$15,000)$

4. A company has net income of \$5,000, net sales of \$20,000, and total assets of \$50,000. What is the company's return on sales ratio?
- a. 10 percent
  - b. 25 percent
  - c. 40 percent
  - d. There is insufficient information to calculate the ratio

Answer: b

Rationale: ( $\$5,000 / \$20,000$ )

5. A company has net income of \$5,000, capital expenditures of \$10,000, sales revenue of \$15,000, and cash flow from operations of \$18,000. How much is the company's free cash flow?
- a. \$ 3,000
  - b. \$ 5,000
  - c. \$ 8,000
  - d. \$18,000

Answer: c

Rationale: ( $\$18,000 - \$10,000$ )