

Financial Accounting for Undergraduates
3rd 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: $(\$18,000 - \$10,000)$