

Module 6 – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang

Practice Quiz

1. **Procter & Gamble (PG)** and **Colgate-Palmolive (CL)** report the following sales and accounts receivable balances (\$ millions).

	Procter & Gamble		Colgate-Palmolive	
	Sales	Accounts Receivable	Sales	Accounts Receivable
2004	\$51,407	\$4,082	\$10,584	\$1,320
2005	56,741	4,185	11,397	1,309

Compute the 2005 accounts receivable turnover for both companies.

- PG: 13.56 CL: 8.71
 - PG: 13.11 CL: 8.35
 - PG: 13.76 CL: 8.67
 - PG: 15.31 CL: 9.02
2. **Abercrombie and Fitch (ANF)** and **TJ Maxx (TJX)** report the following information in their respective January 2006 10-K reports.

	Abercrombie & Fitch			TJ Maxx		
	Sales	Cost of Goods Sold	Inventories	Sales	Cost of Goods Sold	Inventories
2005	\$2,021	\$660	\$211	\$14,913	\$11,398	\$2,352
2006	2,785	933	363	16,058	12,295	2,366

Compute the 2006 inventory turnover for each of these two retailers.

- ANF: 3.25 TJX: 5.21
- ANF: 7.67 TJX: 6.79
- ANF: 2.98 TJX: 1.31
- ANF: 2.57 TJX: 5.19

3. **Intel Corporation (INTC)** and **Texas Instruments (TXN)** report the following information.

\$ millions	Intel Corp		Texas Instruments	
	Sales	Plant, Property and Equipment, net	Sales	Plant, Property and Equipment, net
2004	\$34,209	\$15,768	\$12,580	\$3,918
2005	38,826	17,111	13,392	3,899

Compute the 2005 PPE turnover for both companies.

- a. INTC: 2.27 TXN: 3.44
- b. INTC: 2.17 TXN: 3.21
- c. INTC: 2.50 TXN: 3.50
- d. INTC: 2.36 TXN: 3.43

4. **General Electric Company** reports the following footnote in its 10-K report.

December 31 (In millions)	2005	2004
Raw materials and work in process	\$ 5,527	\$ 5,042
Finished goods	5,152	4,806
Unbilled shipments	333	402
	<u>11,012</u>	<u>10,250</u>
Less revaluation to LIFO	(697)	(661)
	<u>\$10,315</u>	<u>\$ 9,589</u>

The company reports its inventories using the LIFO inventory costing method.

Assume GE has a 35% income tax rate. As of the 2005 year-end, how much has GE saved in taxes by choosing LIFO over FIFO method for costing inventory?

- a. \$6,705 million
- b. \$ 475 million
- c. \$3,610 million
- d. \$ 244 million

5. The inventory footnote from the **Deere & Company's** 2005 10-K follows (\$ millions).

Inventories Most inventories owned by Deere & Company and its United States equipment subsidiaries are valued at cost, on the "last-in, first-out" (LIFO) basis. Remaining inventories are generally valued at the lower of cost, on the "first-in, first-out" (FIFO) basis, or market. The value of gross inventories on the LIFO basis represented 61 percent of worldwide gross inventories at FIFO value on October 31, 2005 and 2004, respectively. If all inventories had been valued on a FIFO basis, estimated inventories by major classification at October 31 in millions of dollars would have been as follows:

	2005	2004
Raw materials and supplies	\$ 716	\$ 589
Work-in-process	425	408
Finished machines and parts	<u>2,126</u>	<u>2,004</u>
Total FIFO value	3,267	3,001
Less adjustment to LIFO value	<u>1,132</u>	<u>1,002</u>
Inventories	<u>\$2,135</u>	<u>\$1,999</u>

We notice that not all of Deere's inventories are reported using the same inventory costing method (companies can use different inventory costing methods for different inventory pools).

What effect has the use of LIFO inventory costing had on Deere's tax liability for 2005 only (assume a 35% income tax rate)?

- a. \$396 million tax savings
- b. \$ 45.5 million tax savings
- c. \$130 million tax savings
- d. \$ 85 million tax savings

6. The property and equipment footnote from the **Deere & Company** balance sheet follows.

Property and Depreciation A summary of property and equipment at October 31 follows:

(\$ millions)	Average Useful Lives (Years)	2005	2004
Equipment Operations			
Land		\$ 79	\$ 75
Buildings and building equipment	25	1,490	1,419
Machinery and equipment	10	2,981	2,870
Dies, patterns, tools, etc.	7	1,039	987
All other	5	589	571
Construction in progress		232	156
Total at cost		6,390	6,078
Less accumulated depreciation		4,113	3,968
Total		<u>\$2,277</u>	<u>\$2,112</u>

During 2005, the company reported \$636.5 million of depreciation expense (this expense also includes amortization expense relating to computer software that is included with property and equipment).

Estimate the percent used up of Deere's depreciable assets.

- a. 68%
- b. 64%
- c. 50%
- d. 36%

7. **3M Company** reports the following financial statement amounts in its 2005 10-K report.

\$ millions	Sales	Cost of Goods Sold	Receivables, net	Inventories	Plant, property and equipment, net
2003	\$18,232	\$ 9,285	\$2,714	\$1,816	\$5,809
2004	20,011	9,958	2,792	1,897	5,711
2005	21,167	10,381	2,838	2,162	5,593

Compute the receivables turnover ratios for both 2004 and 2005.

- a. 2004: 7.27 2005: 7.52
- b. 2004: 7.17 2005: 7.46
- c. 2004: 3.57 2005: 3.66
- d. 2004: 3.54 2005: 3.69

8. Following is the current asset section from the **W.W. Grainger, Inc.**, balance sheet.

As of December 31 (\$000s)	2005	2004
Cash and cash equivalents	\$ 544,894	\$429,246
Accounts receivable (less allowances for doubtful accounts of \$18,401 and \$23,375 respectively)	518,625	480,893
Inventories	791,212	700,559
Prepaid expenses and other assets	54,334	47,086
Deferred income taxes	88,803	96,929
Total current assets	<u>\$1,997,868</u>	<u>1,754,713</u>

Grainger reports the following footnote relating to its receivables.

Allowance for Doubtful Accounts The following table shows the activity in the allowance for doubtful accounts.

For Years Ended December 31 (\$ 000s)	2005	2004	2003
Balance at beginning of period	\$23,375	\$24,736	\$26,868
Provision for uncollectible accounts	1,326	5,159	9,263
Write-off of uncollectible accounts, less recoveries	(6,380)	(6,662)	(11,713)
Foreign currency exchange impact	80	142	318
Balance at end of period	<u>\$18,401</u>	<u>\$23,375</u>	<u>\$24,736</u>

What percentage of its total accounts receivable does Grainger feel are uncollectible at December 31, 2005? (*Hint: Percentage of uncollectible accounts = Allowance for uncollectible accounts / Gross accounts receivable*)

- a. 3.55%
- b. 3.43%
- c. 0.26%
- d. 1.23%

9. Following is the current asset section from **Intuit's** balance sheet.

July 31 (\$ 000s)	2005	2004
Cash and cash equivalents	\$ 83,842	\$ 25,992
Investments	910,416	991,971
Accounts receivable, net of allowance for doubtful accounts of \$15,653 and \$6,994, respectively.	86,125	81,615
Deferred income taxes	54,854	31,094
Prepaid expenses and other current assets	99,275	62,792
Current assets of discontinued operations	21,989	12,279
Current assets before funds held for payroll customers.	1,256,501	1,205,743
Funds held for payroll customers	357,838	323,041
Total current assets	<u>\$1,614,339</u>	<u>\$1,528,784</u>

Total revenues were \$2,038 million (\$1,243 million in product sales and \$795 million in service revenues and other) in 2005.

Compute the average collection period for 2005 based on gross receivables.

- a. 15.42 days
- b. 29.89 days
- c. 12.72 days
- d. 18.23 days

10. The property and equipment section on recent **Abbott Laboratories** balance sheet follows.

Property and equipment, at cost (\$ thousands)	
Land	\$ 370,949
Buildings	2,655,356
Equipment	8,813,517
Construction in progress	920,599
	<u>12,760,421</u>
Less: accumulated depreciation and amortization	<u>6,757,280</u>
Net property and equipment	<u>\$ 6,003,141</u>

The company also provides the following disclosure relating to the useful lives of its depreciable assets.

Property and Equipment Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. The following table shows estimated useful lives of property and equipment.

Classification	Estimated Useful Lives
Buildings	10 to 50 years (average 27 years)
Equipment	3 to 20 years (average 11 years)

During the year, the company reported \$868,808 (\$ 000s) for depreciation expense.

Compute the estimated useful life of Abbott Laboratories' depreciable assets.

- 19.0 years
- 14.7 years
- 13.2 years
- 6.9 years