Module 5 – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang

Practice Quiz

1. **Cisco Systems** reports the following footnote disclosure to its 10-K report ($ millions).

Years Ended	July 30, 2005
Federal	
Current	$1,340
Deferred	497
	1,837
State	
Current	496
Deferred	(292)
	204
Foreign	
Current	404
Deferred	(150)
	254
Total	$2,295

What amount of income tax expense does Cisco report in its income statement for 2005?

a. $2,240 million
b. $2,295 million
c. $55 million
d. $1,837 million

2. On March 15, 2014, Frankel Construction contracted to build a shopping center at a contract price of $240 million. The schedule of expected (which equals actual) cash collections and contract costs follows:

Year	Cash Collections	Cost Incurred
2014	$60 million	$30 million
2015	100 million	80 million
2016	80 million	60 million
Total	$240 million	$170 million

Calculate the amount of net income for each of the three years 2014 through 2016 using the percentage-of-completion revenue recognition method. ($ millions)

a. 2014: 13.2 2015: 32.8 2016: 24.0
b. 2014: 60 2015: 100 2016: 80
c. 2014: 30 2015: 20 2016: 20
d. 2014: 17.50 2015: 29.16 2016: 23.34

3. The income tax footnote to the financial statements of Chambers, Inc. follows.

The components of the provision for income taxes for the years ended May 31 were as follows:

($ millions)	2014	2013
Current provision		
Domestic		
Federal	$371	$112
State and local	54	28
Foreign	85	39
	510	179
Deferred provision (benefit)		
Domestic		
Federal	(22)	304
State and local	(7)	25
Foreign	---	---
	(29)	329
Provision for income taxes	$481	$508

What percentage of total tax expense is currently payable in 2013 and 2014?

a. 2013: 65% 2014: (6)%
b. 2013: 100% 2014: 100%
c. 2013: 82% 2014: 73%
d. 2013: 35% 2014: 106%

4. Following is the **Bristol-Myers Squibb** income statement.

Dollars in Millions	2005	2004
Net sales	$19,207	$19,380
Cost of products sold	5,928	5,989
Marketing, selling and administrative	5,106	5,016
Advertising and product promotion	1,476	1,411
Research and development	2,746	2,500
Provision for restructuring, net	32	104
Litigation charges, net	269	420
Gain on sale of business	(569)	(320)
Equity in net income of affiliates	(334)	(273)
Other expense, net	37	115
Total expenses	14,691	14,962
Earnings from continuing operations before minority interest and income taxes	4,516	4,418
Provision for income taxes	932	1,519
Minority interest, net of taxes	592	521
Earnings from continuing operations	2,992	2,378
Discontinued operations		
Net earnings	(5)	10
Net gain on disposal	13	—
	8	10
Net earnings	$ 3,000	$ 2,388

Notes:

- **Equity in net income of affiliates** refers to income BMY earned on investments in affiliated (but unconsolidated) companies.
- **Minority interest** expense relates to the claims of outside shareholders of BMY's (consolidated) subsidiaries in the income of those companies.

Which of the following components would you not consider operating?

a. Equity in net income of affiliates
b. Gain on sale of business
c. Research and development
d. Other expense.

5. Which of the following best describes the condition(s) that must be present for the recognition of revenue?

   a. Revenue must be earned and collected
   b. There are no uncertainties in measurement of income
   c. Revenue must be earned and realizable
   d. Expenses must be measurable and directly associated with the revenues.

6. A company's projects extend over several years and collection of receivables is reasonably certain. Each of its projects has a contract that specifies a price, and reliable estimates can be made of the extent of progress and cost to complete each project. The method that the company should use to account for construction revenue is the:

   a. Installment method
   b. Percentage-of-completion method
   c. Completed-contract method
   d. Sales method

7. Binder Corporation agreed to build a warehouse for a client at an agreed contract price of $4,000,000. Expected (and actual) costs for the warehouse follow: 2014, $640,000; 2015, $1,600,000; and 2016, $800,000. The company completed the warehouse in 2016. Compute net income for each year 2014 through 2016 using the percentage-of-completion method.

a.	2014: $200,000	2015: $520,000	2016: $240,000
b.	2014: $640,000	2015: $1,600,000	2016: $800,000
c.	2014: $0	2015: $0	2016: $960,000
d.	2014: $320,000	2015: $320,000	2016: $320,000