

Module 2 – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang

Practice Quiz

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	Stockholders' 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 accounts for **Target Corporation**.

(\$ millions)	Amount	Classification
Sales	\$48,163	
Accumulated depreciation	6,178	
Depreciation expense	1,320	
Retained earnings	9,648	
Net income	1,841	
Property, plant & equipment, net	16,969	
Selling, general & administrative expense	11,534	
Accounts receivable	5,776	
Total liabilities	20,327	
Stockholders' equity	11,065	

Compute its net profit margin.

- 4.10%
 - 3.82%
 - 7.83%
 - 11.22%
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 |
- C, E, G, I
 - A, D, F, G
 - B, C, E, H
 - B, D, F, H
5. Healy Corporation recorded service revenues of \$200,000 in 2014, of which \$80,000 were on credit and \$120,000 were for cash. Moreover, of the \$80,000 credit sales for 2014, Healy collected \$20,000 cash on those receivables before year-end 2014. The company also paid \$40,000 cash for 2014 wages. Its employees also earned another \$20,000 in wages for 2014, which were not yet paid at year-end 2014.

Compute the company's net income for 2014.

- \$140,000
- \$ 80,000
- \$ 60,000
- \$160,000

6. Plexi Corporation recorded service revenues of \$150,000 in 2014, of which \$80,000 were on credit and \$70,000 were for cash. Moreover, of the \$80,000 credit sales for 2014, Plexi collected \$30,000 cash on those receivables before year-end 2014. The company also paid \$30,000 cash for 2014 wages. Its employees also earned another \$20,000 in wages for 2014, which were not yet paid at year-end 2014.

How much net cash inflow did the company generate in 2014?

- a. \$ 40,000
 - b. \$120,000
 - c. \$100,000
 - d. \$ 70,000
7. Following is financial information from **Johnson & Johnson** for the 2005 fiscal year ended January 1, 2006 (\$millions).

Retained earnings, Jan. 2, 2005.	\$35,223	Dividends.	\$3,793
Net earnings.	10,411	Retained earnings, Jan. 1, 2006.	?
Other retained earnings changes.	(370)		

What is the retained earnings balance at January 1, 2006?

- a. \$24,442 million
 - b. \$31,430 million
 - c. \$41,471 million
 - d. \$49,057 million
8. Guay Corp., a start-up company, provided services that were acceptable to its customers and billed those customers for \$400,000 in 2014. However, Guay collected only \$350,000 cash in 2014, and the remaining \$50,000 of 2014 revenues were collected in 2015. Guay employees earned \$100,000 in 2014 wages that were not paid until the first week of 2015.

How much net income does Guay report for 2014?

- a. \$350,000
- b. \$400,000
- c. \$300,000
- d. \$250,000

9. Bozo Company reports the following year-end account balances at December 31, 2014.

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 Bozo's net income for 2014?

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

10. L. Demers launched a professional services firm on March 1. The firm will prepare financial statements at each month-end. In March (its first month), Demers executed the following transactions.

- Demers (owner) invested in the company, \$150,000 cash and \$30,000 in property and equipment. The company issued common stock to Demers.
- The company paid \$5,000 cash for rent of office furnishings and facilities for March.
- The company performed services for clients and immediately received \$8,000 cash earned.
- The company performed services for clients and sent a bill for \$20,000 with payment due within 60 days.
- The company compensated an office employee with \$6,000 cash as salary for March.
- The company received \$12,000 cash as partial payment on the amount owed from clients in the 4th transaction above.
- The company paid \$2,000 cash in dividends to Demers (owner).

What is the net income for the month of March?

- a. \$ 17,000
- b. \$ 15,000
- c. \$ 3,000
- d. \$197,000