

Module 1 – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang

Solutions to Practice Quiz

LO: 1

1. Answer: b

LO: 2

2. Answer: a

| | |
|---|------------------|
| Computation of dividends | |
| Beginning retained earnings, 2005 | \$8,223.9 |
| + Net income | 1,351.4 |
| – Cash dividends..... | (?) |
| = Ending retained earnings, 2005 | <u>\$8,968.1</u> |

Thus, dividends were \$607.2 million for 2005.

LO: 2

3. Answer: c

Using the accounting equation at the *beginning* of the year:

$$\begin{array}{lcl} \text{Assets}(\$50,388 - \$400) & = & \text{Liabilities}(\$26,197) + \text{Equity}(?) \\ \text{Thus: Beginning Equity} & = & \underline{\$23,791} \end{array}$$

Using the accounting equation at the *end* of the year:

$$\begin{array}{lcl} \text{Assets}(\$50,388) & = & \text{Liabilities}(\$26,197 - \$100) + \text{Equity}(?) \\ \text{Thus: Ending Equity} & = & \underline{\$24,291} \end{array}$$

LO: 4

4. Answer: c

$$\begin{aligned} \text{ROE} &= \text{Net income} / \text{Average stockholders' equity} \\ &= \$564 \text{ million} / [(\$2,229 \text{ million} + \$2,090 \text{ million}) / 2] = 26.1\% \end{aligned}$$

LO: 4

5. Answer: a

Return on equity is net income divided by the average total stockholders' equity.
Nokia's ROE: €3,582 / [(€14,576 + €14,871) / 2] = 24.3%.

LO: 2

6. Answer: b

(\$ millions)

| Assets | = | Liabilities | + | Equity |
|----------|---|-----------------|---|---------|
| \$15,470 | | <u>\$10,597</u> | | \$4,873 |

Dell receives more of its financing from nonowners (\$10,597 million) versus owners (\$4,873 million). Its owner financing comprises 31.5% of its total financing (\$4,873 million/ \$15,470 million).

LO:2

7. Answer: d

(\$ millions)

| Assets | = | Liabilities | + | Equity |
|-----------|---|-------------|---|-----------------|
| \$315,920 | | \$304,269 | | <u>\$11,651</u> |

Ford receives more of its financing from nonowners (\$304,269 million) versus owners (\$11,651 million). Its owner financing comprises 3.7% of its total financing (\$11,651 million/ \$315,920 million). The relatively low level of equity capital is primarily the result of the fact that Ford is actually a blend of two companies: the automotive manufacturing company and the financial subsidiary. The financial subsidiary has a balance sheet similar to that of a bank, that is, relatively little equity capital. The blend of these two operating entities results in a balance sheet that is more dependent on borrowed funds than would be the case if Ford consisted solely of the manufacturing company.

LO: 4

8. Answer: d

ROA = Profit margin \times asset turnover. 2013 ROA = 26% \times 1.2 = 31.2%.

LO: 4

9. Answer: a

$$\begin{aligned}\text{Return on assets (ROA)} &= \text{Net income} / \text{Average assets} \\ &= \$800 / [(\$5,000 + \$6,500) / 2] \\ &= \underline{13.9\%}\end{aligned}$$

LO: 4

10. Answer: c

$$\begin{aligned}2013 \text{ ROE} &= \$11,000 / [(\$31,000 + \$30,000) / 2] = \underline{36.1\%} \\ 2013 \text{ ROA} &= \$11,000 / [(\$125,000 + \$105,000) / 2] = \underline{9.6\%}\end{aligned}$$