

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

Solutions to Practice Quiz

LO: 3

1. Answer: b

$$2011 \text{ current ratio} = \$4,775 / \$2,590 = 1.844$$

LO: 3

2. Answer: a

$$2011 \text{ liabilities-to-equity ratio} = \$7,586 / \$6,508 = 1.166$$

LO: 3

3. Answer: c

$$2011 \text{ times interest earned} = \$2,158 / \$303 = 7.122$$

LO: 5

4. Answer: c

$$\text{Z-score} = (1.2 \times -\$30 / \$1,000) + (1.4 \times -\$500 / \$1,000) + (3.3 \times \$250 / \$1,000) + (0.6 \times \$100 / \$1,500) + (0.99 \times \$3,000 / \$1,000) = 3.10$$

LO: 3

5. Answer: a

$$\text{Quick ratio} = (\$13,000 + \$11,000) / \$33,000 = 0.727$$

LO: 3

6. Answer: b

$$\text{Long-term debt to equity} = \$170,000 / \$46,000 = 3.696$$

LO: 3

7. Answer: d

$$\text{Cash from operations to total debt} = \$1,000 / (\$10,000 + \$170,000) = 0.006$$

LO: 3

8. Answer: d

$$\text{Free operating cash flow to total debt} = (\$1,000 - \$16,000) / (\$10,000 + \$170,000) = -0.083$$