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

Solutions to Practice Quiz

LO: 1
1. Answer: c

	Accounts Receivable Turnover rates for 2005
Procter & Gamble	\$56,741 / [(\$4,062 + \$4,185) / 2] = 13.76
Colgate-Palmolive..	\$11,397 / [(\$1,320 + \$1,309) / 2] = 8.67

LO: 2
2. Answer: a

	Inventory Turnover rates for 2006
ANF..	\$933 / [(\$211 + \$363) / 2] = 3.25
TJX...	\$12,295 / [(\$2,352 + \$2,366) / 2] = 5.21

LO: 3
3. Answer: d

	PPE turnover rates for 2005
Texas Instruments	\$13,392 / [(\$3,918 + \$3,899) / 2] = 3.43
Intel Corp.	\$38,826 / [(\$15,768 + \$17,111) / 2] = 2.36

LO: 2
4. Answer: d

   Pretax income has been reduced by \$697 million. Assuming a 35% tax rate, taxes have been reduced by \$697 x 0.35 = \$244 million.

LO: 2
5. Answer: b

   For 2005, the change in the LIFO reserve is an increase of \$130 million (\$1,132 million – \$1,002 million). This reduces pretax income by that amount (as compared to the taxable income that Deere would have reported had it used the FIFO system). Assuming a tax rate of 35%, Deere saved taxes of \$130 million x 0.35 = \$45.5 million in 2005 because it used the LIFO costing method.

LO: 3
6. Answer: a

Percent used up = Accumulated depreciation / Asset cost
= $4,113 million / ($6,390 – $79 – $232) million = 68%

(Note: We eliminate land and construction in progress from the computation because land is never depreciated and construction in progress represents assets that are not in service yet and are, consequently, not depreciated).

Assuming that assets are replaced evenly as they are used up, we would expect assets to be 50% depreciated, on average. Deere's 68% is higher than this average. The implication is that Deere will require higher capital expenditures in the near future to replace aging assets.

LO: 1
7. Answer: a

	Receivable turnover rate
2004	$\dfrac{\$20{,}011}{\frac{\$2{,}714+\$2{,}792}{2}} = 7.27$
2005	$\dfrac{\$21{,}167}{\frac{\$2{,}792+\$2{,}838}{2}} = 7.52$

LO: 1
8. Answer: b

($ 000s)	2005
Accounts receivable (net)	$518,625
Allowance for uncollectible accounts..	18,401
Gross accounts receivable	$537,026
Percentage of uncollectible accounts to gross accounts receivable	3.43% ($18,401 / $537,026)

LO: 1
9. Answer: d

(all in $ thousands consistent with Intuit's financial statements)
Gross receivables as of 2005 are $86,125 + $15,653 = $101,778.
Average collection period (days sales in accounts receivable) is: $101,778 / ($2,038,000 / 365)
= 18.23 days

LO: 3

10. Answer: c

    Average useful life = Cost / Depreciation expense
    = ($12,760,421 – $370,949 – $920,599) / $868,808
    = 13.2 years

    (Note: We eliminate land and construction in progress from the computation because land is never depreciated and construction in progress represents assets that are not in service yet and are consequently not depreciated).

    The footnote indicates that buildings have estimated useful lives ranging from 10-50 years (27-year average) and Equipment from 3-20 years (11-year average).