

**Module 5 – Financial Statement Analysis & Valuation, 4<sup>th</sup> Edition by Easton, McAnally, Sommers & Zhang**

**Solutions to Practice Quiz**

LO: 3

1. Answer: b

Cisco reports \$2,295 million of tax expense in its income statement. This is the total of Federal, state and foreign taxes.

LO: 1

2. Answer: a

(\$ millions)		Percentage of Completion Method		
Year	Costs incurred	Percent of total expected costs	Revenue recognized (percentage of costs incurred × total contract amount)	Income (revenue – costs incurred)
2014	\$30	18% (\$30/\$170)	\$ 43.2	\$ 13.2
2015	80	47% (\$80/\$170)	112.8	32.8
2016	<u>60</u>	35% (\$60/\$170)	<u>84.0</u>	<u>24.0</u>
	<u>\$170</u>		<u>\$240.0</u>	<u>\$70.0</u>

LO: 3

3. Answer: d

We can calculate the percentage currently payable by dividing the current provision by total tax expense. This yields 106% (\$510 million / \$481 million) in 2014, and 35% (\$179 million / \$508 million) in 2013.

LO: 2

4. Answer: b

Equity in net income of affiliates is generally considered to be operating provided that the investment is strategic in nature, which is typically the case.

Other expense is assumed to be operating unless information is provided in the footnotes that indicates otherwise.

Research and development is operating.

LO: 1

5. Answer: c

GAAP specifies two revenue recognition criteria that must both be met for revenue to be recognized on the income statement. Revenue must be realized or realizable, and earned.

LO: 1

6. Answer: b

Percentage-of-completion method

LO: 1

7. Answer: a

Year	Costs incurred	Percentage-of-Completion Method		
		Percent of total expected costs	Revenue recognized (percentage of costs incurred × total contract amount)	Income (revenue – costs incurred)
2014	\$ 640,000	21% <sup>a</sup>	\$ 840,000	\$200,000
2015	1,600,000	53% <sup>b</sup>	2,120,000	520,000
2016	<u>800,000</u>	26% <sup>c</sup>	<u>1,040,000</u>	<u>240,000</u>
Total	<u>\$3,040,000</u>		<u>\$4,000,000</u>	<u>\$960,000</u>

<sup>a</sup> \$640,000 / \$3,040,000

<sup>b</sup> \$1,600,000 / \$3,040,000

<sup>c</sup> \$800,000 / \$3,040,000