

**Financial & Managerial Accounting for MBAs, 5<sup>th</sup> Edition  
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**Practice Quiz**

**Module 12 – Financial Statement Forecasting**

1. Assume Abercrombie & Fitch reports the following fiscal year income statement.

<b>Income Statement (\$ thousands)</b>	<b>2016</b>
Sales	\$2,784,711
Cost of goods sold	<u>933,295</u>
Gross profit	1,851,416
Stores and distribution expense	1,000,755
Marketing, general and administrative expense	313,457
Other operating income, net	<u>(5,534)</u>
Operating income	542,738
Interest income, net	<u>(6,674)</u>
Income before income taxes	549,412
Provision for income taxes	<u>215,426</u>
Net income	<u>\$ 333,986</u>

Forecast Abercrombie & Fitch's 2017 income statement assuming the following income statement relations (\$ 000s); cost of goods sold can be inferred as sales minus gross profit, and assume no change for all other accounts not listed below.

Net sales growth .....	37.8%
Gross profit margin .....	66.5%
Stores and distribution expenses/Net sales .....	35.9%
Marketing, general and administrative expense/Net sales .....	11.3%
Other operating income, net/Net sales .....	-0.2%
Provision for income taxes/Income before income taxes .....	39.2%
Interest income, net .....	No change

What is the forecasted net income for 2017?

- a. \$3,837,332,000
- b. \$333,986,000
- c. \$126,246,000
- d. \$459,012,000

2. Assume Best Buy reports the following fiscal year income statement.

Income Statement (\$ millions)	2016
Revenue	\$30,848
Cost of goods sold	<u>23,122</u>
Gross profit	7,726
Selling, general and administrative expenses	<u>6,082</u>
Operating income	1,644
Net interest income	<u>77</u>
Earnings from continuing operations before income tax expense	1,721
Income tax expense	<u>581</u>
Net earnings	<u>\$ 1,140</u>

Forecast Best Buy's fiscal year 2017 income statement assuming the following income statement relations; cost of goods sold can be inferred as sales minus gross profit, and assume no change for all other accounts not listed below.

Revenue growth .....	12.4%
Gross profit margin .....	25.0%
Selling, general and administrative expense / Revenue .....	19.7%
Income tax expense/Earnings from continuing operations before income tax .....	33.8%

What is the forecasted net earnings for fiscal year ended 2017?

- a. \$1,268 million
- b. \$1,140 million
- c. \$1,301 million
- d. \$1,377 million

3. Assume that Harley-Davidson reports 2017 net operating working capital of \$1,226 million and 2017 long-term operating assets of \$812 million.

Forecast Harley-Davidson's 2018 net operating working capital and 2018 long-term operating assets. Assume forecasted revenues of \$6,051 million, net operating working capital turnover of 4.63 times, and long-term operating asset turnover of 6.99 times. (Both turnover rates are computed here using year-end balances. Finance receivables and related debt are considered operating under the assumption that they are an integral part of Harley's operating activities).

- |   |  |
|---|--|
| a. \$3,019 million net operating working capital; | \$942 million long-term operating assets   |
| b. \$3,667 million net operating working capital; | \$1,014 million long-term operating assets |
| c. \$2,173 million net operating working capital; | \$792 million long-term operating assets   |
| d. \$1,307 million net operating working capital; | \$866 million long-term operating assets   |

4. Assume that Nike reports 2017 net operating working capital of \$2,603 million and 2017 long-term operating assets of \$1,980 million.

Forecast Nike's 2018 net operating working capital and 2018 long-term operating assets. Assume forecasted sales of \$15,389 million, net operating working capital turnover of 5.28 times, and long-term operating asset turnover of 6.94 times. (Both turnover rates are computed here using year-end balances.)

- |   |  |
|---|--|
| a. \$4,747 million net operating working capital; | \$2,417 million long-term operating assets |
| b. \$2,915 million net operating working capital; | \$2,217 million long-term operating assets |
| c. \$4,219 million net operating working capital; | \$2,198 million long-term operating assets |
| d. \$3,876 million net operating working capital; | \$1,982 million long-term operating assets |

5. Assume the following are the fiscal year income statement and balance sheet of Whole Foods Market, Inc.

Income Statement (\$ thousands)	2016
Sales	\$4,701,289
Cost of goods sold and occupancy costs	<u>3,052,184</u>
Gross profit	1,649,105
Direct store expenses	1,223,473
General and administrative expenses	158,864
Pre-opening and relocation costs	<u>37,035</u>
Operating income	229,733
Other income expense	
Interest expense	(2,223)
Investment and other income	<u>9,623</u>
Income before income taxes	237,133
Provision for income taxes	<u>100,782</u>
Net income	<u>\$ 136,351</u>

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<b>Balance Sheet (\$ thousands)</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 308,524	\$ 194,747
Restricted cash	36,922	26,790
Trade accounts receivable	66,682	64,972
Merchandise inventories	174,848	152,912
Prepaid expenses and other current assets	45,965	16,702
Deferred income taxes	<u>39,588</u>	<u>29,974</u>
Total current assets	672,529	486,097
Property, plant and equipment, net	1,054,605	873,397
Goodwill	112,476	112,186
Intangible assets, net	21,990	24,831
Deferred income taxes	22,452	4,193
Other assets	<u>5,244</u>	<u>20,302</u>
Total assets	<u>\$1,889,296</u>	<u>\$1,521,006</u>
<b>Liabilities and Shareholders' equity</b>		
Current portion of long-term debt	\$ 5,932	\$ 5,973
Trade accounts payable	103,348	90,751
Accrued payroll, bonus and other benefits	126,981	100,536
Dividends payable	17,208	9,361
Other current liabilities	<u>164,914</u>	<u>128,329</u>
Total current liabilities	418,383	334,950
Long-term debt, less current installments	12,932	164,770
Deferred rent liabilities	91,775	70,067
Other long-term liabilities	<u>530</u>	<u>1,581</u>
Total liabilities	523,620	571,368
<b>Shareholders' equity</b>		
Common stock	874,972	535,107
Accumulated other comprehensive income	4,405	2,053
Retained earnings	<u>486,299</u>	<u>412,478</u>
Shareholders' equity	<u>1,365,676</u>	<u>949,638</u>
Total liabilities and shareholders' equity	<u>\$1,889,296</u>	<u>\$1,521,006</u>

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Forecast Whole Food Market's 2017 income statement and year-end balance sheet using the following relations (cost of goods sold and occupancy costs can be inferred as sales minus gross profit; and assume no change for all other accounts not listed below). Cash balance is plug figure.

Sales growth .....	21.6%
Gross profit margin .....	35.1%
Direct store expenses .....	26.0%
General and administrative expenses .....	3.4%
Pre-opening and relocation costs .....	0.8%
Provision for income taxes/Income before income taxes .....	42.6%
Sales/Year-end trade accounts receivable .....	70.16
Cost of goods sold and occupancy costs/Year-end merchandise inventories .....	17.54
Sales/Year-end property and equipment, net .....	4.46
Cost of goods sold and occupancy costs/Year-end trade accounts payable .....	29.63
Sales/Year-end accrued payroll, bonus and other benefits due team members .....	37.02
Dividends/Net income .....	40.2%
Dividends/Dividends payable .....	3.22

What is the forecasted cash balance at fiscal 2017 year-end?

- a. \$ 214 million
- b. \$ 416 million
- c. (\$ 319) million
- d. \$1,217 million

6. Assume the following are the fiscal year income statements and balance sheets of Abercrombie & Fitch.

<b>Income Statement</b>	
<b>(\$ thousands)</b>	<b>2016</b>
Sales	\$2,784,711
Cost of goods sold	<u>933,295</u>
Gross profit	1,851,416
Stores and distribution expense	1,000,755
Marketing, general and administrative expense	313,457
Other operating income, net	<u>(5,534)</u>
Operating income	542,738
Interest income, net	<u>(6,674)</u>
Income before income taxes	549,412
Provision for income taxes	<u>215,426</u>
Net income	<u>\$ 333,986</u>

<b>Balance Sheet</b>		
<b>(\$ thousands)</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and equivalents	\$ 50,687	\$ 338,735
Marketable securities	411,167	--
Receivables	41,855	37,760
Inventories	362,536	211,198
Deferred income taxes	29,654	39,090
Other current assets	<u>51,185</u>	<u>44,001</u>
Total current assets	947,084	670,784
Property and equipment, net	813,603	687,011
Other assets	<u>29,031</u>	<u>28,996</u>
Total assets	<u>\$1,789,718</u>	<u>\$1,386,791</u>
<b>Liabilities and shareholders' equity</b>		
Accounts payable	\$ 86,572	\$ 83,760
Outstanding checks	58,741	53,577
Accrued expenses	215,034	205,153
Deferred lease credits	31,727	31,135
Income taxes payable	<u>99,480</u>	<u>55,587</u>
Total current liabilities	491,554	429,212
Deferred income taxes	38,496	50,032
Deferred lease credits	191,225	177,923
Other liabilities	<u>73,326</u>	<u>60,298</u>
Total long-term liabilities	303,047	288,253

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<b>Balance Sheet—continued (\$ thousands)</b>	<b>2016</b>	<b>2015</b>
Shareholders' equity		
Common stock	1,033	1,033
Paid-in capital	161,678	140,251
Retained earnings	1,357,791	1,076,023
Accumulated other comprehensive	(796)	--
Deferred compensation	26,206	15,048
Treasury stock	<u>(550,795)</u>	<u>(563,029)</u>
Total shareholders' equity	<u>995,117</u>	<u>669,326</u>
Total liabilities and shareholders' equity	<u>\$1,789,718</u>	<u>\$1,386,791</u>

Forecast its fiscal year 2017 income statement, its 2017 fiscal year-end balance sheet, and fiscal year 2017 statement of cash flows using the following relations (cost of goods sold can be inferred as sales minus gross profit; assume no change for all other accounts not listed).

Net sales growth .....	37.8%
Gross profit margin.....	66.5%
Stores and distribution expense/Net sales.....	35.9%
Marketing, general and administrative expense/Net sales	11.3%
Other operating income, net/Net sales.....	-0.2%
Depreciation/Prior year property and equipment, net.....	18.1%
Provision for income taxes/Income before income taxes.....	39.2%
Interest income, net.....	no change
Net sales/Year-end receivable.....	66.53
Cost of goods sold/Year-end inventories.....	2.57
Cost of goods sold/Year-end payable.....	10.78
Net sales/Year-end property and equipment, net.....	3.42
Net sales/Year-end accrued expenses.....	12.95
Income taxes payable/Provision for income taxes.....	46.2%
Dividends.....	\$52,218

What is the forecasted 2017 net cash flow from operating activities?

- a. \$146,780,000
- b. \$455,686,000
- c. \$603,997,000
- d. \$ 52,218,000

7. Assume the following are the fiscal year income statement and balance sheets of Best Buy, Co., Inc.

<b>Income Statement (\$ millions)</b>	<b>2016</b>
Revenue	\$30,848
Cost of goods sold	<u>23,122</u>
Gross profit	7,726
Selling, general and administrative expenses	<u>6,082</u>
Operating income	1,644
Net interest income	<u>77</u>
Earnings from continuing operations before income tax expense	1,721
Income tax expense	<u>581</u>
Net earnings	<u>\$ 1,140</u>

<b>Balance Sheet (\$ millions)</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 681	\$ 354
Short-term investments	3,051	2,994
Receivables	506	375
Merchandise inventories	3,335	2,851
Other current assets	<u>409</u>	<u>329</u>
Total current assets	7,985	6,903
Property, plant and equipment, net	2,712	2,464
Goodwill	557	513
Tradename	44	40
Long-term investments	218	148
Other assets	<u>348</u>	<u>226</u>
Total assets	<u>\$11,864</u>	<u>\$10,294</u>
<b>Liabilities and Shareholders' equity</b>		
Accounts payable	3,234	2,824
Unredeemed gift card liabilities	469	410
Accrued compensation and related expenses	354	234
Accrued liabilities	878	844
Accrued income taxes	703	575
Current portion of long-term debt	<u>418</u>	<u>72</u>
Total current liabilities	6,056	4,959
Long-term liabilities	373	358
Long-term debt	178	528
<b>Shareholders' equity</b>		
Preferred stock	--	--
Common stock	49	49
Additional paid-in capital	643	936
Retained earnings	4,304	3,315
Accumulated other comprehensive income	<u>261</u>	<u>149</u>
Total shareholders' equity	<u>5,257</u>	<u>4,449</u>
Total liabilities and shareholders' equity	<u>\$11,864</u>	<u>\$10,294</u>

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Forecast Best Buy's fiscal year 2017 income statement, its 2017 fiscal year-end balance sheet, and its fiscal year 2017 statement of cash flows using the following relations (cost of goods sold can be inferred as revenue minus gross profit; and assume no change for all other accounts not listed below).

Revenue growth.....	12.4%
Gross profit margin.....	25.0%
Selling, general and administrative expenses/Revenue.....	19.7%
Depreciation (inc. in SG&A expense)/Prior year net property and equipment.....	18.5%
Income tax expense/Earnings from continuing operations before income taxes.....	33.8%
Revenues/Year-end receivables.....	60.96
Cost of goods sold/Year-end merchandise inventories.....	6.93
Cost of goods sold/Year-end accounts payable.....	7.15
Revenue/Year-end net property and equipment.....	11.38
Revenue/Year-end accrued compensation and related expenses and accrued liabilities.....	25.04
Accrued income taxes/Income tax expense.....	121.0%
Dividends/Net earnings.....	13.2%
Long-term debt in next fiscal year.....	\$16

What is the forecasted 2017 net cash flow from investing activities?

- \$ 505 million
- (\$ 585) million
- (\$ 837) million
- \$1,928 million

8. Following are Cooper Company's sales, net operating profit after tax (NOPAT), and net operating assets (NOA) for its year ended December 31, 2017 (\$ millions).

Sales .....	\$38,826
Net operating profit after tax (NOPAT) .....	8,333
Net operating assets (NOA) .....	21,694

Forecast Cooper's NOPAT for years 2018 and 2019 using the following assumptions:

Sales growth per year	13.50%
Net operating profit margin (NOPM)	21.46%
Net operating asset turnover (NOAT), based on NOA at December 1, 2017	1.79

- a. 2018: \$ 9,457 million      2019: \$10,734 million
- b. 2018: \$ 9,458 million      2019: \$11,396 million
- c. 2018: \$10,121 million      2019: \$12,293 million
- d. 2018: \$ 8,732 million      2019: \$ 9,319 million

9. Following are Tribeca Inc.'s sales, net operating profit after tax (NOPAT), and net operating assets (NOA) for its fiscal year ended May 31, 2017 (\$ millions).

Sales .....	\$14,380
Net operating profit after tax (NOPAT) .....	3,333
Net operating assets (NOA) .....	13,301

Forecast Tribeca's NOA for fiscal years 2018 and 2019 using the following assumptions:

Sales growth per year .....	21.90%
Net operating profit margin (NOPM) .....	23.18%
Net operating asset turnover (NOAT), based on NOA at May 31, 2017 .....	1.08

- a. 2018: \$24,001 million      2019: \$26,532 million
- b. 2018: \$16,231 million      2019: \$19,785 million
- c. 2018: \$17,529 million      2019: \$21,368 million
- d. 2018: \$14,371 million      2019: \$10,347 million