

**Module 4 – Financial Accounting for MBAs, 7<sup>th</sup> Edition by Easton, Wild, Halsey & McAnally**

**Practice Quiz Solutions**

1. Following is the balance sheet for 3M Company.

<b>At December 31</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 1,798	\$ 1,897
Marketable securities—current	118	1,439
Accounts receivable, net	4,154	4,238
Inventories	3,518	3,706
Other current assets	<u>1,398</u>	<u>1,023</u>
Total current assets	10,986	12,303
Marketable securities—noncurrent	126	117
Property, plant and equipment—net	8,515	8,489
Goodwill	9,249	7,050
Intangible assets—net	2,601	1,435
Prepaid pension benefits	188	46
Other assets	<u>1,053</u>	<u>1,769</u>
Total assets	<u>\$ 32,718</u>	<u>\$ 31,209</u>
Short-term debt & current portion of LT debt	\$ 2,044	\$ 106
Accounts payable	1,694	1,807
Accrued payroll	644	732
Accrued income taxes	332	435
Other current liabilities	<u>2,404</u>	<u>2,884</u>
Total current liabilities	7,118	5,964
Long-term debt	8,753	6,705
Pension and postretirement benefits	3,520	3,843
Other liabilities	<u>1,580</u>	<u>1,555</u>
Total liabilities	20,971	18,067
3M Company shareholders' equity:		
Common stock	9	9
Additional paid-in capital	4,791	4,379
Retained earnings	36,575	34,317
Treasury stock	(23,308)	(19,307)
Accumulated other comprehensive loss	<u>(6,359)</u>	<u>(6,289)</u>
Total 3M Company shareholders' equity	11,708	13,109
Noncontrolling interest	<u>39</u>	<u>33</u>
Total equity	<u>11,747</u>	<u>13,142</u>
Total liabilities and equity	<u>\$ 32,718</u>	<u>\$ 31,209</u>

*Continued next page*

Identify and compute its fiscal year-end 2015 net operating assets.

- a. \$24,077 million
- b. \$20,502 million
- c. \$ 4,334 million
- d. \$14,205 million

Answer: b

$$\text{NOA 2015} = (\$32,718 - \$1,798 - \$118 - \$126) - (\$1,694 + \$644 + \$332 + \$2,404 + \$3,520 + \$1,580) = \$20,502 \text{ million}$$

*Note:* In the absence of information about other current and long-term assets and liabilities, we assume that these are operating in nature.

2. Following is the income statement for Nordstrom Company. Assume that the combined federal and state statutory tax rate is 37%.

(\$ millions)	2016
Net sales	\$14,095
Credit card revenues	<u>342</u>
Total revenues	14,437
Cost of sales and related buying and occupancy costs	(9,168)
Selling, general and administrative expenses	<u>(4,168)</u>
Earnings before interest and income taxes	1,101
Interest expense, net	<u>(125)</u>
Earnings before income taxes	976
Income tax expense	<u>(376)</u>
Net earnings	<u>\$ 600</u>

Compute NOPAT for Nordstrom for 2016. (*Hint:* Treat credit card revenues as operating.)

- a. \$ 679 million
- b. \$1,136 million
- c. \$ 851 million
- d. \$ 725 million

Answer: a

$$\text{NOPAT} = \$1,101 - (\$376 + [\$125 \times 0.37]) = \$679 \text{ million}$$

3. Selected balance sheet and income statement information for Value-Mart Corporation, a discount store retailer, follows (\$ millions).

Company	2017 Revenues	2017 NOPAT	2017 Net Operating Assets	2016 Net Operating Assets
Value-Mart	\$42,315	\$2,988	\$22,320	\$19,010

Compute its 2017 return on net operating assets (RNOA).

- a. 48.84%
- b. 7.06%
- c. 13.39%
- d. 14.46%

Answer: d

$$\begin{aligned}
 \text{RNOA} &= \text{NOPAT} / \text{Average net operating assets (NOA)} \\
 &= \$2,988 / [(\$22,320 + \$19,010) / 2] \\
 &= 14.46\%
 \end{aligned}$$

4. Assume Verizon reports the following selected balance sheet and income statement information.

(\$ millions)	2014	2013
Current assets	\$ 16,448	\$ 19,479
Current liabilities	25,063	23,129
Total liabilities	101,696	103,345
Equity	66,434	62,613
Earnings before interest and taxes	12,787	12,496
Interest expense	2,180	2,384
Net cash flow from operating activities	22,012	21,820

Compute the current ratio for 2014.

- a. 0.16
- b. 0.66
- c. 1.29
- d. 1.52

Answer: b

$$\text{2014 current ratio: } \$16,448 / \$25,063 = 0.66$$

5. Selected fiscal year balance sheet and income statement information for a fast-food chain, Cluck-in-a-Bucket, Corp. follows (\$ millions).

Company	2017 Sales	2017 Net Income	2017 Net Operating Profit After Tax	2017 Net Operating Assets	2016 Net Operating Assets	2017 Stockholders' Equity	2016 Stockholders' Equity
Cluck-in-a-Bucket	\$38,826	\$8,664	\$8,487	\$21,157	\$19,092	\$36,182	\$38,579

Compute the 2017 return on equity (ROE).

- a. 23.95%
- b. 22.70%
- c. 23.18%
- d. 23.46%

Answer: c

2017 ROE:  $\$8,664 / [(\$36,182 + \$38,579) / 2] = 23.18\%$

6. Selected balance sheet and income statement information from Easton's, Inc. follows (\$ millions).

Company	2017 Sales	2017 Net Income	2017 Net Operating Profit After Tax	2017 Net Operating Assets	2016 Net Operating Assets	2017 Stockholders' Equity	2016 Stockholders' Equity
Easton's...	\$16,079	\$834	\$832	\$3,389	\$3,205	\$4,425	\$4,115

Compute the 2017 return on equity (ROE).

- a. 5.21%
- b. 19.10%
- c. 19.53%
- d. 18.85%

Answer: c

2017 ROE:  $\$834 / [(\$4,425 + \$4,115) / 2] = 19.53\%$

7. Assume that Verizon Communications, Inc. reports the following selected balance sheet and income statement information for 2012 through 2014 (\$ millions).

	<b>Total Current Assets</b>	<b>Total Current Liabilities</b>	<b>Pretax Income</b>	<b>Interest Expense</b>	<b>Total Liabilities</b>	<b>Stockholders' Equity</b>
2012	\$18,293	\$26,570	\$6,344	\$2,797	\$108,154	\$57,814
2013	19,479	23,159	12,521	2,384	103,345	62,613
2014	16,448	25,063	13,652	2,180	74,942	66,434

Compute times interest earned for 2014.

- a. 7.26
- b. 6.26
- c. 5.26
- d. 4.26

Answer: a

2014 times interest earned:  $(\$13,652 + \$2,180) / \$2,180 = 7.26$

8. Assume that Abercrombie & Fitch and TJX Companies reports the following selected balance sheet and income statement information (\$ millions).

<b>Company</b>	<b>Ticker</b>	<b>2014 Sales</b>	<b>2014 NOPAT</b>	<b>2014 Net Operating Assets</b>	<b>2013 Net Operating Assets</b>
Abercrombie & Fitch	ANF	\$ 2,784.7	\$324.7	\$ 565.0	\$ 361.7
TJX Companies	TJX	16,057.9	708.5	2,235.9	2,139.5

Compute the 2014 return on net operating assets (RNOA) for both companies.

- a. ANF 52.75%, TJX 26.23%
- b. ANF 70.08%, TJX 32.39%
- c. ANF 22.11%, TJX 16.82%
- d. ANF 36.33%, TJX 21.76%

Answer: b

ANF RNOA =  $\$324.7 / [(\$565.0 + \$361.7) / 2] = 70.08\%$

TJX RNOA =  $\$708.5 / [(\$2,235.9 + \$2,139.5) / 2] = 32.39\%$

9. Selected balance sheet and income statement information for Hill Corp. and May Inc., follows (\$ millions).

Company	2017 Sales	2017 NOPAT	2017 Net Operating Assets	2016 Net Operating Assets
Hill Corp	\$3,785	\$526.4	\$785.0	\$461.5
May Inc.	16,023	1,047.7	2,951.0	3,760.0

Compute the 2017 net operating profit margin (NOPM) for each company.

- Hill 52.74%, May 21.01%
- Hill 27.33%, May 19.17%
- Hill 18.14%, May 8.23%
- Hill 13.91%, May 6.54%

Answer: d

$$\text{Hill NOPM} = \$526.4 / \$3,785 = 13.91\%$$

$$\text{May NOPM} = \$1,047.7 / \$16,023 = 6.54\%$$

10. Selected balance sheet and income statement information for EKG Corporation and AMP Company follows (\$ millions).

Company	2017 Sales	2017 NOPAT	2017 Net Operating Assets	2016 Net Operating Assets
EKG Corp	\$37,006	\$1,292	\$10,007	\$9,437
AMP Company	47,409	1,716	8,781	7,818

Compute the 2017 net operating asset turnover (NOAT) for each company.

- EKG 3.81, AMP 5.71
- EKG 3.52, AMP 5.03
- EKG 12.70, AMP 20.14
- EKG 3.49, AMP 3.65

Answer: a

$$\text{EKG NOAT} = \$37,006 / [(\$10,007 + \$9,437) / 2] = 3.81$$

$$\text{AMP NOAT} = \$47,409 / [(\$8,781 + \$7,818) / 2] = 5.71$$