

**Practice Quiz**

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**Chapter 13. Analysis and Interpretation of Financial Statements**

1. If you wanted to determine whether accounts receivable grew at the same rate as sales, what type of financial statement analysis would you perform?
  - a. Horizontal analysis of the balance sheet and vertical analysis of the income statement.
  - b. Vertical analysis of the balance sheet and horizontal analysis of the income statement.
  - c. Horizontal analysis of both the balance sheet and the income statement.
  - d. Vertical analysis of both the balance sheet and the income statement.
  
2. Selected balance sheet information is presented for four companies within the same industry (in millions):

	<u>Company 1</u>	<u>Company 2</u>	<u>Company 3</u>	<u>Company 4</u>
Current assets	\$927	\$2,601	\$3,987	\$2,201
Current liabilities	\$854	\$2,887	\$3,334	\$1,453
Total liabilities	\$3,891	\$7,011	\$6,533	\$3,942
Total liabilities and stockholders' equity	\$4,843	\$13,460	\$13,045	\$6,566

- Based on your calculations of the debt-to-equity ratio for all companies, which company is more solvent?
- a. Company 1
  - b. Company 2
  - c. Company 3
  - d. Company 4
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3. The return on assets ratio can be broken down into two individual ratios, which are:
    - a. Return on sales and asset turnover
    - b. Return on sales and return on equity
    - c. Return on sales and current ratio
    - d. Asset turnover and return on equity

**Questions 4 through 10 were based on the following financial data for Smith & Sons:**

<b>Smith &amp; Sons Balance Sheet As of December 31</b>			
Cash	\$ 80,000	Current liabilities	\$ 160,000
Accounts receivable	160,000	Bonds payable	240,000
Inventory	260,000	Common stock	400,000
Plant assets (net)	500,000	Retained earnings	200,000
Total assets	<u>\$1,000,000</u>	Total liabilities and stockholders' equity	<u>\$1,000,000</u>

Sales revenue for the year was \$1,600,000, gross profit was \$640,000, and net income was \$72,000.

One year ago, accounts receivable were \$152,000, inventory was \$220,000, total assets were \$920,000, and stockholders' equity was \$520,000.

4. What the company's inventory turnover for the year?
  - a. 4.0
  - b. 0.4
  - c. 3.0
  - d. 0.3
  
5. What was the company's return on common stockholders' equity?
  - a. 6.0 percent
  - b. 8.9 percent
  - c. 11.2 percent
  - d. 12.9 percent
  
6. What was the company's accounts receivable turnover for the year?
  - a. 12.0
  - b. 10.3
  - c. 8.6
  - d. 6.6
  
7. What was the firm's return on sales for the year?
  - a. 9.0 percent
  - b. 6.0 percent
  - c. 5.0 percent
  - d. 4.5 percent

8. What was the firm's return on assets for the year?
- a. 9.5 percent
  - b. 8.5 percent
  - c. 7.5 percent
  - d. 5.0 percent
9. If the company's interest expense was \$24,000 and its income tax expense \$20,000, what was the company's times-interest-earned ratio for the year?
- a. 5.0
  - b. 4.8
  - c. 4.6
  - d. 4.4
10. What was the company's current ratio?
- a. 3.1
  - b. 4.0
  - c. 4.2
  - d. 5.0

## Practice Quiz SOLUTIONS

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1. c
2. c  
Rationale:
- | <u>Company</u> | <u>Debt-to-equity ratio</u>      |        |
|----------------|----------------------------------|--------|
| Company 1      | $\$3,891 / (\$4,843 - \$3,891)$  | = 4.09 |
| Company 2      | $\$7,011 / (\$13,460 - \$7,011)$ | = 1.09 |
| Company 3      | $\$6,533 / (\$13,045 - \$6,533)$ | = 1.00 |
| Company 4      | $\$3,942 / (\$6,566 - \$3,942)$  | = 1.50 |
3. a
4. a  
Rationale:  $(\$1,600,000 - \$640,000) / [(\$260,000 + \$220,000) / 2]$
5. d  
Rationale:  $\$72,000 / [(\$600,000 + \$520,000)/2]$
6. b  
Rationale:  $\$1,600,000 / [(\$160,000 + \$152,000)/2]$
7. d  
Rationale:  $(\$72,000 / \$1,600,000)$
8. c  
Rationale:  $\$72,000 / [(\$1,000,000 + \$920,000) / 2]$
9. b  
Rationale:  $(\$72,000 + \$20,000 + \$24,000) / \$24,000$
10. a  
Rationale:  $(\$80,000 + \$160,000 + \$260,000) / \$160,000$