Module 2 – Financial Accounting for MBAs, 6th Edition by Easton, Wild, Halsey & McAnally

Solutions to Practice Quiz

LO: 1
1. Answer: a

   Harley enjoys the highest profitability as measured by net income to equity, followed by Starbucks and Nike. These are all premium brands that have effectively differentiated their products and can, therefore, enjoy above-average returns on stockholder investment. Although Target is well run, it operates in the highly competitive retail segment where it is nearly impossible to differentiate products. Its returns on shareholder investment are the lowest of the four companies, although still above the median of 12% for all publicly traded companies.

LO: 1
2. Answer: d

   Target has the highest proportion of debt in its capital structure mostly because it has its own, proprietary credit card. The credit card industry is similar to a bank – high debt levels and relatively low margins. Target consolidates its credit card operations with those of its retail sales. This inflates Target's consolidated debt level above what we typically observe for stand-alone retail operations. Finally, companies that enjoy relatively stable cash flows can afford higher debt levels because there is some assurance that future cash flows will be sufficient to cover fixed debt payments. The other three companies operate with a greater proportion of equity than of debt.

LO: 1
3. Answer: b

   Net Profit Margin = $1,841 / $48,163 = 3.82%

LO: 1
4. Answer: d

   Retained earnings, Accumulated depreciation, Wages payable, and Interest payable would all be reported in the balance sheet.

LO:1
5. Answer: a

Net income computation		
Service revenue (record when earned)	$200,000	
Wages expense (record when incurred, even if unpaid)	(60,000)	($40,000+$20,000)
Net income..	$ 140,000	

LO: 1
6. Answer: d

Net cash flow computation

Cash inflow from services rendered	$100,000	($70,000+$30,000)
Cash outflow for wages paid	(30,000)	
Net cash inflow	$70,000	

LO: 1
7. Answer: c

Retained earnings, January 2, 2005..	$35,223
Add: Net income	10,411
Less: Dividends..	(3,793)
Other retained earnings changes	(370)
Retained earnings, January 1, 2006..	$41,471

LO: 1
8. Answer: c

Revenues..	$400,000
Expenses	100,000
Net income..	$300,000

LO:1
9. Answer: c

Sales revenue..		$500,000
Expenses		
Cost of goods sold	$200,000	
Wages expense	100,000	
Supplies expense..	20,000	
Total expenses..		320,000
Net income...		$180,000

LO: 3
10. Answer: a

Sales revenue..		$28,000	($8,000 + $20,000)
Expenses			
Rent expense...	$5,000		
Wage expense...	6,000	11,000	
Net income...		$17,000	