Module 1 – Financial Accounting for MBAs, 6th Edition by Easton, Wild, Halsey & McAnally

Solutions to Practice Quiz

LO: 1
1. Answer: b

LO: 2
2. Answer: a

Computation of dividends

	Beginning retained earnings, 2005	$8,223.9
+	Net income	1,351.4
–	Cash dividends	(?)
=	Ending retained earnings, 2005	$8,968.1

Thus, dividends were $607.2 million for 2005.

LO: 2
3. Answer: c

Using the accounting equation at the *beginning* of the year:

Assets($50,388 - $400) = Liabilities($26,197) + Equity(?)
Thus: Beginning Equity = $23,791

Using the accounting equation at the *end* of the year:
Assets($50,388) = Liabilities($26,197 - $100) + Equity(?)
Thus: Ending Equity = $24,291

LO: 3
4. Answer: c

ROE = Net income / Average stockholders' equity
= $564 million / [($2,229 million + $2,090 million) / 2] = 26.1%

LO: 3
5. Answer: a

Return on equity is net income divided by the average total stockholders' equity.
Nokia's ROE: €3,582 / [(€14,576 + €14,871) / 2] = 24.3%.

LO: 2
6. Answer: b

($ millions)

Assets	=	Liabilities	+	Equity
$15,470		$10,597		$4,873

Dell receives more of its financing from nonowners ($10,597 million) versus owners ($4,873 million). Its owner financing comprises 31.5% of its total financing ($4,873 million/ $15,470 million).

LO:2
7. Answer: d

($ millions)

Assets	=	Liabilities	+	Equity
$315,920		$304,269		$11,651

Ford receives more of its financing from nonowners ($304,269 million) versus owners ($11,651 million). Its owner financing comprises 3.7% of its total financing ($11,651 million/ $315,920 million). The relatively low level of equity capital is primarily the result of the fact that Ford is actually a blend of two companies: the automotive manufacturing company and the financial subsidiary. The financial subsidiary has a balance sheet similar to that of a bank, that is, relatively little equity capital. The blend of these two operating entities results in a balance sheet that is more dependent on borrowed funds than would be the case if Ford consisted solely of the manufacturing company.

LO: 3
8. Answer: d

ROA = Profit margin × asset turnover. 2013 ROA = 26% × 1.2 = 31.2%.

LO: 3
9. Answer: a

Return on assets (ROA)	=	Net income / Average assets
	=	$800 / [($5,000 + $6,500) / 2]
	=	13.9%

LO: 3
10. Answer: c

2013 ROE = $11,000 / [($31,000+$30,000) / 2] = 36.1%
2013 ROA = $11,000 / [($125,000+$105,000) / 2] = 9.6%