

Practice Problems for Exam 1

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) A firm's liquidity level decreases when: 1) _____
A) inventory is sold on credit. B) inventory is purchased with cash.
C) an account receivable is collected. D) inventory is sold for cash.
- 2) A negative cash flow to stockholders indicates a firm: 2) _____
A) had a positive cash flow to creditors.
B) repurchased more shares than it sold.
C) had a net loss for the year.
D) received more from selling stock than it paid out to shareholders.
- 3) Holly Farms has sales of \$509,600, costs of \$448,150, depreciation expense of \$36,100, and interest paid of \$12,400. The tax rate is 28 percent. How much net income did the firm earn for the period? 3) _____
A) \$8,671 B) \$10,380 C) \$5,886 D) \$7,778 E) \$9,324
- 4) Wes Motors has total assets of \$98,300, net working capital of \$11,300, owners' equity of \$41,600, and long-term debt of \$38,600. What is the value of the current assets? 4) _____
A) \$28,900 B) \$29,400 C) \$6,800 D) \$21,600 E) \$18,100
- 5) Towne Realty has total assets of \$346,200, net fixed assets of \$277,400, current liabilities of \$16,100, and long-term liabilities of \$124,600. What is the total debt ratio? 5) _____
A) .68 B) .52 C) .47 D) .56 E) .41
- 6) You are analyzing a company that has cash of \$8,800, accounts receivable of \$15,800, fixed assets of \$87,600, accounts payable of \$40,300, and inventory of \$46,900. What is the quick ratio? 6) _____
A) .83 B) 1.20 C) .67 D) 1.64 E) .61
- 7) Stephen claims that he invested \$6,000 six years ago and that this investment is worth \$28,700 today. For this to be true, what annual rate of return did he have to earn? Assume the interest compounded annually. 7) _____
A) 26.01 percent B) 27.87 percent
C) 29.80 percent D) 31.39 percent
- 8) Common-size financial statements present all balance sheet account values as a percentage of: 8) _____
A) the forecasted budget. B) total equity.
C) last year's account value. D) total assets.

9) Briar Patch Fruits has sales of \$529,600, cost of goods sold of \$408,350, depreciation of \$25,400, and interest expense of \$9,100. The tax rate is 35 percent. What is the times interest earned ratio? 9) _____
 A) 4.79 B) 8.87 C) 4.38 D) 10.53 E) 9.46

10) UXZ has sales of \$683,200, cost of goods sold of \$512,900, and inventory of \$74,315. What is the inventory turnover rate? 10) _____
 A) 8.47 times B) 5.70 times C) 7.14 times D) 6.90 times

11) Spring Falls Gifts has sales of \$680,300, total assets of \$589,100, and a profit margin of 4.3 percent. What is the return on assets? 11) _____
 A) 4.30 percent B) 4.97 percent C) 7.01 percent D) 6.54 percent

12) Use the following tax table to answer this question: 12) _____

Taxable Income		Tax Rate
\$ 0-	50,000	15%
50,001-	75,000	25
75,001-	100,000	34
100,001-	335,000	39
335,001-	10,000,000	34

Comfy Inn earned \$218,310 in taxable income for the year. How much tax does the company owe?
 A) \$85,140.90 B) \$69,998.20 C) \$68,390.90 D) \$65,240.10

13) BR Trucking has total sales of \$911,300, a total asset turnover of 1.1, and a profit margin of 5.87 percent. Currently, the firm has 18,500 shares outstanding. What are the earnings per share? 13) _____
 A) \$2.89 B) \$2.86 C) \$2.97 D) \$2.58 E) \$2.92

14) Tessler Farms has a return on equity of 11.28 percent, a debt-equity ratio of 1.03, and a total asset turnover of .87. What is the return on assets? 14) _____
 A) 15.24 percent B) 5.56 percent
 C) 8.06 percent D) 17.41 percent

15) Marcie's has sales of \$179,600, depreciation of \$14,900, costs of goods sold of \$138,200, and other costs of \$28,400. The tax rate is 35 percent. What is the net income? 15) _____
 A) \$1,204 B) \$14,660 C) \$13,665 D) -\$1,235 E) \$382

16) You want to invest an amount of money today and receive back twice that amount in the future. You expect to earn 6 percent interest. Approximately how long must you wait for your investment to double in value? 16) _____
 A) 7 years B) 14 years C) 8 years D) 12 years E) 6 years

- 17) Your grandparents just gave you a gift of \$6,500. You are investing this money for 6 years at 4 percent simple interest. How much money will you have at the end of the 6 years? 17) _____
 A) \$7,280 B) \$6,938 C) \$8,060 D) \$6,760 E) \$7,800
- 18) Rusty Antiques has a marginal tax rate of 39 percent and an average tax rate of 26.9 percent. If the firm owes \$37,265 in taxes, how much taxable income did it earn? 18) _____
 A) \$138,532 B) \$137,750 C) \$136,800 D) \$139,957
- 19) What is the future value of \$5,700 invested for 18 years at 9 percent compounded annually? 19) _____
 A) \$26,397.74 B) \$27,520.22 C) \$26,887.59 D) \$27,513.06
- 20) You are scheduled to receive \$7,500 in two years. When you receive it, you will invest it at 4.5 percent per year. How much will your investment be worth ten years from now? 20) _____
 A) \$9,110.24 B) \$10,665.75 C) \$10,113.33 D) \$11,617.07
- 21) When you were born, your parents opened an investment account in your name and deposited \$1,500 into the account. The account has earned an average annual rate of return of 5.3 percent. Today, the account is valued at \$42,856. How old are you? 21) _____
 A) 67.33 years B) 64.91 years C) 71.47 years D) 61.08 years
- 22) You want to have \$40,000 for a down payment on a house 4 years from now. If you can earn 5.6 percent, compounded annually on your savings, how much do you need to deposit today to reach your goal? 22) _____
 A) \$28,211.17 B) \$30,886.40 C) \$32,166.54 D) \$34,420.73
- 23) You're trying to save to buy a new car valued at \$48,690. You have \$38,000 today that can be invested at your bank. The bank pays 3.7 percent annual interest on its accounts. How long will it be before you have enough to buy the car for cash? Assume the price of the car remains constant. 23) _____
 A) 5.13 years B) 7.08 years C) 6.82 years D) 4.67 years
- 24) Suppose that in 2015, a \$10 silver certificate from 1898 sold for \$11,700. For this to have been true, what would the annual increase in the value of the certificate have been? 24) _____
 A) 7.23 percent B) 6.22 percent C) 7.07 percent D) 6.01 percent
- 25) You and your sister are planning a large anniversary party 3 years from today for your parents' 50th anniversary. You have estimated that you will need \$6,500 for this party. You can earn 2.6 percent compounded annually on your savings. How much would you and your sister have to deposit today in one lump sum to pay for the entire party? 25) _____
 A) \$6,018.26 B) \$5,868.81 C) \$6,076.55 D) \$5,934.90

Answer Key

Testname: 1PRACTICEPROLBLEMSEXAM

- 1) B
- 2) D
- 3) E
- 4) B
- 5) E
- 6) E
- 7) C
- 8) D
- 9) D
- 10) D
- 11) B
- 12) C
- 13) A
- 14) B
- 15) D
- 16) D
- 17) C
- 18) A
- 19) C
- 20) B
- 21) B
- 22) C
- 23) C
- 24) B
- 25) A