

Chapter 2 Problems

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

- 1) Neiger Flours owes \$16,929 in taxes on taxable income of \$61,509. If the firm earns \$100 more in income, it will owe an additional \$48 in taxes. What is the average tax rate on income of \$61,609? 1) _____
- A) 35.00 percent B) 27.56 percent
 C) 28.00 percent D) 30.33 percent

- 2) Red's Tractors owes \$52,311 in taxes on a taxable income of \$608,606. The company has determined that it will owe \$56,211 in tax if its taxable income rises to \$620,424. What is the marginal tax rate at this level of income? 2) _____
- A) 39 percent B) 34 percent C) 33 percent D) 35 percent

- 3) Use the following tax table to answer this question: 3) _____

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

- BT Trucking has taxable income of \$617,429. How much does it owe in taxes?
- A) \$240,797.31 B) \$96,025.86 C) \$209,925.86 D) \$201,354.82

- 4) Gino's Winery has net working capital of \$29,800, net fixed assets of \$64,800, current liabilities of \$34,700, and long-term debt of \$23,000. What is the value of the owners' equity? 4) _____
- A) \$71,600 B) \$36,900 C) \$106,300 D) \$66,700

- 5) Lew's Auto Repair has cash of \$18,600, accounts receivable of \$34,500, accounts payable of \$28,900, inventory of \$97,800, long-term debt of \$142,000, and net fixed assets of \$363,800. The firm estimates that if it wanted to cease operations today it could sell the inventory for \$85,000 and the fixed assets for \$349,000. The firm could collect 100 percent of its receivables as they are secured. What is the market value of the firm's assets? 5) _____
- A) \$458,200 B) \$487,100 C) \$332,800 D) \$495,500

- 6) Donner United has total owners' equity of \$18,800. The firm has current assets of \$23,100, current liabilities of \$12,200, and total assets of \$36,400. What is the value of the long-term debt? 6) _____
- A) \$12,500 B) \$13,700 C) \$5,400 D) \$29,800 E) \$43,000

- 7) Production equipment is classified as: 7) _____
- A) a net working capital item.
 - B) a current liability.
 - C) an intangible fixed asset.
 - D) a current asset.
 - E) a tangible fixed asset.
- 8) One example of a primary market transaction would be the: 8) _____
- A) sale of 100 shares of stock by Maria to her best friend.
 - B) sale of 5,000 shares of stock owned by a corporate CEO to his son.
 - C) sale of 1,000 shares of newly issued stock by Alt Company to Miquel.
 - D) sale by Terry of 50,000 shares of stock to his brother.
 - E) purchase by Theo of 5,000 shares of stock from his father.
- 9) Given a profitable firm, depreciation: 9) _____
- A) increases net fixed assets.
 - B) has no effect on net income.
 - C) increases net income.
 - D) lowers taxes.
 - E) decreases net working capital.
- 10) Which one of the following is a capital structure decision? 10) _____
- A) Determining when suppliers should be paid
 - B) Selecting new equipment to purchase
 - C) Setting the terms of sale for credit sales
 - D) Determining the optimal inventory level
 - E) Establishing the preferred debt-equity level