

## Practice for Exam 1

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

- 1) Theo's BBQ has \$48,000 in current assets and \$39,000 in current liabilities. Decisions related to these accounts as referred to as: 1) \_\_\_\_\_  
A) working capital management. B) fixed account structure.  
C) capital structure decisions. D) operating management.
- 2) Matt and Alicia created a firm that is a separate legal entity and will share ownership of that firm on a 75/25 basis. Which type of entity did they create if they have no personal liability for the firm's debts? 2) \_\_\_\_\_  
A) Corporation B) General partnership  
C) Limited partnership D) Sole proprietorship
- 3) Capital budgeting includes the evaluation of which of the following? 3) \_\_\_\_\_  
A) Size of future cash flows only  
B) Size and timing of future cash flows only  
C) Size, timing, and risk of future cash flows  
D) Risk and size of future cash flows only  
E) Timing and risk of future cash flows only
- 4) Which one of the following is a capital structure decision? 4) \_\_\_\_\_  
A) Setting the terms of sale for credit sales  
B) Determining the optimal inventory level  
C) Selecting new equipment to purchase  
D) Determining when suppliers should be paid  
E) Establishing the preferred debt-equity level
- 5) Working capital management includes which one of the following? 5) \_\_\_\_\_  
A) Determining how many new shares of stock should be issued  
B) Establishing the target debt-equity ratio  
C) Deciding whether to purchase a new machine or fix a currently owned machine  
D) Deciding which new projects to accept  
E) Determining which customers will be granted credit
- 6) One example of a primary market transaction would be the: 6) \_\_\_\_\_  
A) purchase by Theo of 5,000 shares of stock from his father.  
B) sale of 100 shares of stock by Maria to her best friend.  
C) sale of 5,000 shares of stock owned by a corporate CEO to his son.  
D) sale by Terry of 50,000 shares of stock to his brother.  
E) sale of 1,000 shares of newly issued stock by Alt Company to Miquel.

- 7) Probably the least effective means of aligning management goals with shareholder interests is: 7) \_\_\_\_\_
- A) the potential for a proxy fight by an unhappy segment of shareholders.
  - B) automatically increasing management salaries on an annual basis.
  - C) the threat of a takeover of the firm.
  - D) holding management salaries steady while increasing stock option grants.
  - E) basing all management bonuses on performance goals.
- 8) A firm's liquidity level decreases when: 8) \_\_\_\_\_
- A) inventory is sold on credit.
  - B) inventory is purchased with cash.
  - C) an account receivable is collected.
  - D) proceeds from a long-term loan are received.
  - E) inventory is sold for cash.
- 9) The market value: 9) \_\_\_\_\_
- A) of an asset is lowered each year by the amount of depreciation expensed for that asset.
  - B) of accounts receivable is generally higher than the book value of those receivables.
  - C) of an asset is reflected in the balance sheet.
  - D) of fixed assets will always exceed the book value of those assets.
  - E) of an asset tends to provide a better guide to the actual worth of that asset than does the book value.
- 10) 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? 10) \_\_\_\_\_
- A) 28.00 percent      B) 30.33 percent      C) 27.56 percent      D) 33.33 percent
- 11) 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? 11) \_\_\_\_\_
- A) 38 percent      B) 34 percent      C) 35 percent      D) 33 percent
- 12) 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? 12) \_\_\_\_\_
- A) \$8,671      B) \$10,380      C) \$5,886      D) \$7,778      E) \$9,324
- 13) A negative cash flow to stockholders indicates a firm: 13) \_\_\_\_\_
- 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.
  - E) paid dividends that exceeded the amount of the net new equity.

- 14) 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? 14) \_\_\_\_\_  
 A) \$28,900      B) \$29,400      C) \$6,800      D) \$21,600      E) \$18,100
- 15) Common-size financial statements present all balance sheet account values as a percentage of: 15) \_\_\_\_\_  
 A) the forecasted budget.      B) total equity.  
 C) last year's account value.      D) total assets.
- 16) 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? 16) \_\_\_\_\_  
 A) .83      B) 1.20      C) .67      D) 1.64      E) .61
- 17) 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? 17) \_\_\_\_\_  
 A) .68      B) .52      C) .47      D) .56      E) .41
- 18) 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? 18) \_\_\_\_\_  
 A) 4.79      B) 8.87      C) 4.38      D) 10.53      E) 9.46
- 19) UXZ has sales of \$683,200, cost of goods sold of \$512,900, and inventory of \$74,315. What is the inventory turnover rate? 19) \_\_\_\_\_  
 A) 8.47 times      B) 5.70 times      C) 7.14 times      D) 6.90 times
- 20) 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? 20) \_\_\_\_\_  
 A) 4.30 percent      B) 4.97 percent      C) 7.01 percent      D) 6.54 percent
- 21) 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? 21) \_\_\_\_\_  
 A) \$2.89      B) \$2.86      C) \$2.97      D) \$2.58      E) \$2.92
- 22) 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? 22) \_\_\_\_\_  
 A) 15.24 percent      B) 5.56 percent      C) 8.06 percent      D) 17.41 percent
- 23) 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? 23) \_\_\_\_\_  
 A) \$1,204      B) \$14,660      C) \$13,665      D) -\$1,235      E) \$382

Answer Key

Testname: PRACTICE1

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