

Student name: _____

Current liabilities are defined as liabilities with a maturity of less than one year.

true

false

A decline in the Net Property, Plant, and Equipment account between year-end 2020 and year-end 2021 is a clear indication that fixed assets were sold during 2021.

true

false

When reporting financial performance for tax purposes, U.S. companies prefer to use accelerated depreciation methods over the straight-line method.

true

false

Accounting rules require U.S. companies to depreciate research and development (R&D) expenditures using the straight-line method.

true

false

You can construct a sources and uses statement for 2021 if you have a company's year-end balance sheets for 2021 and 2022.

true

false

A reduction in long-term debt is a use of cash.

true

false

The accrual principle requires that revenue not be recognized until payment from a sale is received.

true

false

An increase in cash and cash equivalents should appear as a use of cash on the sources and uses statement.

true

false

A cash flow statement places each source or use of cash into one of three broad categories: operating activities, investing activities, or financing activities.

true

false

The cost of equity is usually reported on the income statement right below interest expense.

true

false

The United States was one of the first countries to adopt International Financial Reporting Standards.

true

false

Which of the following statements concerning a firm's cash flows and profits is false?

Managers must be at least as concerned with cash flows as with profits.

A company that sells merchandise at a profit can be assured of generating cash soon enough to replenish cash flows required for continued production.

The cash flows generated in a given time period can differ from the profits reported.

Profits are no assurance that cash flow will be sufficient to maintain solvency.

Due to required cash investments in current assets, fast-growing and profitable companies can literally "grow broke".

Which of the following is NOT a typical reason for differences between profits and cash flow?

Goodwill

Depreciation expense

Changes in accounts receivable

Accrual accounting practices

Which one of the following is the financial statement that shows a financial snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets?

Income statement

Creditor's statement

Balance sheet

Cash flow statement

Sources and uses statement

A balance sheet reports the value of a firm's assets, liabilities, and equity over an annual period.

over any period of time.

at any point in time.

at the end of the year only.

A company sells used equipment with a book value of \$100,000 for \$250,000 cash. How would this transaction affect the company's balance sheet?

Equity rises \$250,000; net plant and equipment falls \$250,000.

Cash rises \$250,000; net plant and equipment falls \$100,000; equity rises \$150,000.

Cash rises \$250,000; accounts receivable falls \$100,000; goodwill rises \$150,000.

Cash rises \$250,000; net plant and equipment falls \$250,000.

A company purchases a new \$10 million building financed half with cash and half with a bank loan. How would this transaction affect the company's balance sheet?

Net plant and equipment rises \$10 million; cash falls \$10 million; bank debt rises \$5 million.

Net plant and equipment rises \$5 million; cash falls \$10 million; bank debt rises \$5 million.

Net plant and equipment rises \$5 million; cash falls \$5 million; bank debt rises \$5 million.

Net plant and equipment rises \$10 million; cash falls \$5 million; bank debt rises \$5 million.

Which one of the following is the financial statement that summarizes a firm's revenue and expenses over a period of time?

Income statement

Balance sheet

Cash flow statement

Sources and uses statement

Market value statement

The sources and uses of cash over a stated period of time are reflected in the income statement.

balance sheet.

shareholders' equity statement.

cash flow statement.

statement of operating position.

Which one of the following is a source of cash?

Increase in accounts receivable

Decrease in notes payable

Decrease in common stock

Increase in inventory

Increase in accounts payable

Which one of the following is a use of cash?

Increase in notes payable

Increase in inventory

Increase in long-term debt

Decrease in accounts receivable

Increase in common stock

Which one of the following is a source of cash?

Decrease in accounts receivable

Decrease in common stock
Decrease in long-term debt
Decrease in accounts payable
Increase in inventory

Which of the following would NOT be considered a use of cash?

Dividends paid
A decrease in accounts payable
Depreciation
An increase in the cash and marketable securities account

Which one of the following is the financial statement that summarizes changes in the company's cash balance over a period of time?

Income statement
Balance sheet
Cash flow statement
Shareholders' equity statement
Market value statement

Which of the following is NOT a major category on the cash flow statement?

Cash flows from selling activities
Cash flows from operating activities
Cash flows from financing activities
Cash flows from investing activities

The book value of an asset

is always equal to its market value.

is always less than or equal to its market value.

is always greater than or equal to its market value.

could be greater than, equal to, or less than its market value.

Which of the following is a reason why a company's market value of equity can differ from its book value of equity?

Shareholders are keenly aware of book values but have little interest in market values.

Accountants' charges for the cost of equity are often higher than they should be.

The value of some assets on the balance sheet are marked to market.

The value of some assets on the balance sheet reflect historical cost, adjusted for depreciation.

Depreciation expense

decreases both taxes and net income.

increases net fixed assets.

increases net income.

increases both current assets and net income.

decreases both current assets and net income.

[The following information applies to the questions displayed below.]

Foodtek, Incorporation
Selected financial information (\$ millions)

	2020	2021
Net sales	296	364
Cost of goods sold	168	223
Depreciation	51	65
Net income	32	45
Finished goods inventory	34	29
Accounts receivable	47	87
Accounts payable	39	44
Net fixed assets	310	415
Year-end cash balance	186	123

Please refer to the financial information for Foodtek, Incorporation above. During 2021, how much cash (in millions of dollars) did Foodtek collect from sales?

277

324

364

404

451

None of the options are correct.

Please refer to the financial information for Foodtek, Incorporation above. During 2021, what was the cost of merchandise (in millions of dollars) produced by Foodtek?

194

218

223

228

252

None of the options are correct.

Please refer to the financial information for Foodtek, Incorporation above. Assuming the company neither sold nor salvaged any assets during the year, what were Foodtek's capital expenditures (in millions of dollars) during 2021?

40

105

170

310

415

None of the options are correct.

Please refer to the financial information for Foodtek, Incorporation above. Assuming that there were no financing cash flows during 2021 and basing your answer solely on the information provided, what were Foodtek's cash flows from operations (in millions of dollars) for 2021?

35

45

70

90

110

None of the options are correct.

Suppose an acquiring firm pays \$100 million for a target firm, and the target's assets have a book value of \$60 million and an estimated replacement value of \$70 million. What amount would be allocated to the acquiring firm's goodwill account?

\$0 million

\$20 million

\$30 million

\$70 million

\$80 million

None of the options are correct.

JM Case Corporation has a market value of \$5 million with 500,000 shares outstanding. The book value of its equity is \$1,750,000. What is JM Case's price per share?

\$3.50

\$5.00

\$10.00

\$25.00

\$50.00

None of the options are correct.

JM Case Corporation has a market value of \$5 million with 500,000 shares outstanding. The book value of its equity is \$1,750,000. What is JM Case's book value per share?

\$3.50

\$5.00

\$10.00

\$25.00

\$50.00

None of the options are correct.

JM Case Corporation has a market value of \$5 million with 500,000 shares outstanding. The book value of its equity is \$1,750,000. If the company repurchases 20% of its shares in the stock market at the current market price, what will be the book value of equity after the repurchase if all else remains the same? (Assume there are no taxes, no transactions costs, and that investors do not change their perceptions of the firm.)

\$750,000

\$1,000,000

\$1,250,000

\$1,400,000

\$4,000,000

None of the options are correct.

JM Case Incorporation has a market value of \$5 million with 500,000 shares outstanding. The book value of its equity is \$1,750,000. If the company repurchases 20% of its shares in the stock market at the current market price, what will be the market value of equity after the repurchase if all else remains the same? (Assume there are no taxes, no transactions costs, and that investors do not change their perceptions of the firm.)

\$1,000,000

\$1,750,000

\$3,250,000

\$4,000,000

\$5,000,000

None of the options are correct.

ZZZ Corporation's income statement shows a provision for income taxes of \$65 million in 2021. At the end of 2020, ZZZ's balance sheet reported income taxes payable of \$12 million and deferred taxes of \$18 million. At the end of 2021, their balance sheet shows income taxes payable of \$13 million and deferred taxes of \$17 million. What were ZZZ's taxes paid in 2021?

\$61 million

\$63 million

\$65 million

\$67 million

\$69 million

Which of the following formulas describes the calculation of cash flow from operating activities?

Net income + Noncash charges – Net increase in current assets + Net increase in current liabilities

Net income + Capital expenditures – Dividends paid

Net income – Capital expenditures – Dividends paid

Net income + Net increase in current assets – Net increase in current liabilities

Net income + Noncash charges – Capital expenditures

Which of the following statements regarding the practice of reporting adjusted earnings is true?

It is uncommon for large public U.S. corporations to report adjusted earnings.

A company's adjusted earnings are typically lower than official earnings.

U.S. corporations are required to explain differences between adjusted earnings and official earnings.

Managers must follow all generally accepted accounting principles when calculating adjusted earnings.

Which of the following statements concerning the cash flow–production cycle is true?

The profits reported in a given time period equal the cash flows generated.

A company's operations and finances are independent of each other.

Financial statements have nothing to do with reality.

The movement of cash to inventory, to accounts receivable, and back to cash is known as the firm's working capital cycle.

A profitable company will always have sufficient cash to meet its obligations.

The estimated replacement value of Little Rock, Incorporated's total assets is \$400,000. Suppose Big Rock Incorporated acquires Little Rock's assets for \$1 million and finances the purchase with \$600,000 in new stock, \$300,000 in new debt, and existing cash of \$100,000. Describe how the acquisition affects Big Rock's balance sheet.

Playtime Products earned net income of \$500,000 last year. The firm increased its accounts receivable during the year by \$220,000. The book value of its assets declined by the year's depreciation charge, which was \$140,000, and the market value of its assets increased by \$50,000. Based only on this information, how much cash did Playtime Products generate during the year? Please ignore taxes for this problem.

During the past year, Lele Design earned net income of \$250,000. The firm neither bought nor sold any capital assets. The book value of its assets declined by the year's depreciation charge of \$200,000. The firm's operating cash flow for the year was \$450,000. The market value of its assets increased by \$300,000. Based only on this information, what was Lele Design's economic income for the year? Why is this figure different from its accounting income? Please ignore taxes for this problem.

Identify the sources and uses of cash for Blackhurst Corporation for 2021 based on the following year-end balance sheets.

	2020	2021
ASSETS		
Cash	40	30
Accounts receivable	100	150
Inventory	135	125
Net fixed assets	200	240
Total assets	475	545
LIABILITIES & EQUITY		
Bank loan	40	100
Long-term debt	200	180
Equity	235	265
Total liabilities & equity	475	545

Answer Key

Test name: CH1 Analysis for Financial Management E13

TRUE

FALSE

TRUE

FALSE

FALSE

TRUE

FALSE

TRUE

TRUE

FALSE

FALSE

B

A

C

C

B

D

A

D

E

B

A

C

C

A

D

D

A

Section Break

B

B

C

F

C

C

A

A

D

C

A

C

D

Short Answer

Short Answer

Short Answer

Short Answer