

Name _____

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

- 1) Net income after taxes are defined as 1) _____
A) sales revenue minus cost of goods sold. B) EBIT minus interest and taxes.
C) gross profits minus operating expenses. D) EBIT minus interest.

Answer: B

Explanation: A)
B)
C)
D)

- 2) The stockholder's annual report must include 2) _____
A) a balance sheet. B) an income statement.
C) a statement of cash flows. D) all of the above.

Answer: D

Explanation: A)
B)
C)
D)

- 3) Gross profits are defined as 3) _____
A) sales revenue minus cost of goods sold.
B) operating profits minus cost of goods sold.
C) operating profits minus depreciation.
D) sales revenue minus operating expenses.

Answer: A

Explanation: A)
B)
C)
D)

- 4) Under CCA, an asset which originally cost \$100,000 is being depreciated using a 30% CCA rate. 4) _____
The depreciation expense in year 3 is _____.
A) \$21,000 B) \$17,850 C) \$12,030 D) \$10,440

Answer: B

Explanation: A)
B)
C)
D)

- 5) One of the most influential documents issued by a publicly held corporation is the 5) _____
A) annual report. B) income statement.
C) cash flow statement. D) letter to stockholders.

Answer: A

Explanation: A)
B)
C)
D)

6) All of the following are uses of cash EXCEPT

- A) an increase in inventory.
- C) a decrease in notes payable.

- B) a decrease in cash.
- D) dividends.

6) _____

Answer: B

Explanation: A)
B)
C)
D)

7) The rule-setting body, which authorizes generally accepted accounting principles is the

- A) AcSB.
- C) Government of Canada.

- B) GAAP.
- D) TSX.

7) _____

Answer: A

Explanation: A)
B)
C)
D)

8) The dividend exemption for Canadian corporations receiving dividends from another Canadian corporation has resulted in

- A) a lower cost of equity for the corporation paying the dividend.
- B) stock investments being relatively more attractive relative to bond investments made by one corporation in another corporation.
- C) a higher relative cost of bond-financing for the corporation paying the dividend.
- D) stock investments being relatively less attractive, relative to bond investments made by one corporation in another corporation.

8) _____

Answer: B

Explanation: A)
B)
C)
D)

9) A firm has the following accounts and financial data for 2003:

9) _____

Sales revenue	\$ 3,060	Cost of goods sold	\$1,800
Accounts receivable	500	Preferred stock dividends	18
Interest expense	126	Tax rate	40%
Operating expenses	600	Number of shares of common	
Accounts payable	240	stocks outstanding	1,000

The firm's earnings per share, rounded to the nearest cent, for 2003 is _____.

- A) \$0.32
- B) \$0.51
- C) \$0.53
- D) \$0.30

Answer: D

Explanation: A)
B)
C)
D)

12) All of the following are financing cash flows EXCEPT

- A) sale of stock.
B) increasing debt.
C) repurchasing stock.
D) payment of stock dividends.

12) _____

Answer: D

Explanation:

- A)
- B)
- C)
- D)

13) Corporation X needs \$1,000,000 and can raise this through debt at an annual rate of 10 percent, or preferred stock at an annual cost of 7 percent. If the corporation has a 40 percent tax rate, the after-tax cost of each is

- A) debt: \$60,000; preferred stock: \$42,000. B) debt: \$60,000; preferred stock: \$70,000.
C) debt: \$100,000; preferred stock: \$70,000. D) debt: \$100,000; preferred stock: \$42,000.

13) _____

Answer: B

Explanation: A)
B)
C)
D)

14) The small business deduction for eligible Canadian-controlled private corporations is

- A) 28%. B) 7%. C) 16%. D) 44%.

14) _____

Answer: C

Explanation: A)
B)
C)
D)

15) The net value of fixed assets is also called their

- A) book value. B) par value. C) price. D) market value.

15)

Answer: A

Explanation: A)
B)
C)
D)

16) Capital gains are taxed at _____ of the investor's marginal tax rate.

- A) 100 percent B) 25 percent C) 50 percent D) 66.67 percent

16) _____

Answer: C

Explanation: A)
B)
C)
D)

- 17) The depreciable life of an asset is of concern to the financial manager, and
- A) a longer depreciable life is preferred, because management can postpone purchasing new assets, since the old assets still have a useful life.
 - B) a shorter depreciable life is preferred, because it will result in a faster receipt of cash flows.
 - C) a longer depreciable life is preferred, because it will result in a faster receipt of cash flows.
 - D) a shorter depreciable life is preferred, because management can then purchase new assets, as the old assets are written off.

17) _____

Answer: B

Explanation: A)
B)
C)
D)

- 18) For the year ended December 31, 2003, a corporation had cash flow from operating activities of -\$10,000, cash flow from investment activities of \$4,000, and cash flow from financing activities of \$9,000. The Statement of Cash Flows would show a
- A) net increase of \$5,000 in cash and marketable securities.
 - B) net increase of \$3,000 in cash and marketable securities.
 - C) net decrease of \$3,000 in cash and marketable securities.
 - D) net decrease of \$5,000 in cash and marketable securities.

18) _____

Answer: B

Explanation: A)
B)
C)
D)

- 19) Operating profits are defined as
- A) earnings before depreciation and taxes.
 - B) gross profits minus operating expenses.
 - C) sales revenue minus depreciation expense.
 - D) sales revenue minus cost of goods sold.

19) _____

Answer: B

Explanation: A)
B)
C)
D)

- 20) All of the following are examples of current assets EXCEPT
- A) cash.
 - B) accruals.
 - C) inventory.
 - D) accounts receivable.

20) _____

Answer: B

Explanation: A)
B)
C)
D)

21) Total assets less net fixed assets equals

A) gross assets.

C) liabilities and equity.

B) current assets.

D) depreciation.

21) _____

Answer: B

Explanation: A)
B)
C)
D)

22) All of the following are noncash charges EXCEPT

A) depletion.

B) amortization.

C) accruals.

D) depreciation.

22) _____

Answer: C

Explanation: A)
B)
C)
D)

FIGURE 2.2

RUFF SANDPAPER CO.
Balance Sheets
For the Years Ended 2002 and 2003

	2003	2002
Assets		
Cash	800	600
Marketable securities	200	200
Accounts receivable	1,200	1,000
Inventories	2,000	1,800
Gross fixed asset	3,000	2,800
Less Accumulated amortization	1,000	800
Net fixed assets	2,000	2,000
	-----	-----
Total assets	6,200	5,600
	=====	=====
Liabilities		
Accounts payable	200	100
Notes payable	800	900
Accruals	100	100
Long-term debt	2,000	1,500
Stockholders' equity		
Common stock	2,500	2,500
Retained earnings	600	500
	-----	-----
Total liabilities and equity	6,200	5,600
	=====	=====

Net profits after taxes for 2003: \$150.00

- 23) The firm's cash flow from operations is _____. (See Figure 2.2) 23) _____
 A) \$150 B) \$950 C) \$350 D) \$300

Answer: C

Explanation: A)
 B)
 C)
 D)

- 24) Which of the following is a noncash expense added back to net income in determining cash flow from operating activities? 24) _____
 A) amortization B) interest C) administration D) selling

Answer: A

Explanation: A)
 B)
 C)
 D)

25) All of the following are examples of fixed assets EXCEPT

25) _____

A) equipment.

B) buildings.

C) marketable securities.

D) automobiles.

Answer: C

Explanation: A)
B)
C)
D)

26) The capital cost allowance (CCA) system is the depreciation method used for _____ purposes.

26) _____

A) financial reporting

B) managerial

C) cost accounting

D) tax

Answer: D

Explanation: A)
B)
C)
D)

FIGURE 2.2

RUFF SANDPAPER CO.
Balance Sheets
For the Years Ended 2002 and 2003

	2003	2002
Assets		
Cash	800	600
Marketable securities	200	200
Accounts receivable	1,200	1,000
Inventories	2,000	1,800
Gross fixed asset	3,000	2,800
Less Accumulated amortization	1,000	800
Net fixed assets	2,000	2,000
	-----	-----
Total assets	6,200	5,600
	=====	=====
Liabilities		
Accounts payable	200	100
Notes payable	800	900
Accruals	100	100
Long-term debt	2,000	1,500
Stockholders' equity		
Common stock	2,500	2,500
Retained earnings	600	500
	-----	-----
Total liabilities and equity	6,200	5,600
	=====	=====

Net profits after taxes for 2003: \$150.00

- 27) The firm _____ fixed assets worth _____. (See Figure 2.2) 27) _____
 A) purchased; \$200 B) sold; \$0
 C) sold; \$200 D) purchased; \$0

Answer: A

Explanation: A)
 B)
 C)
 D)

- 28) The firm may have increased long-term debts to finance (See Figure 2.2) 28) _____
 A) a decrease in notes payable.
 B) an increase in current assets.
 C) an increase in current assets, an increase in gross fixed assets, and a decrease in notes payable.
 D) an increase in gross fixed assets.

Answer: C

Explanation: A)
 B)
 C)
 D)

29) The cost of capital

29) _____

- A) measures the riskiness of a project or firm.
- B) depends on the type of assets being invested in.
- C) provides a hurdle for management in making capital budgeting decisions.
- D) all of the above

Answer: D

Explanation: A)
B)
C)
D)

FIGURE 2.2

RUFF SANDPAPER CO.
Balance Sheets
For the Years Ended 2002 and 2003

	2003	2002
Assets		
Cash	800	600
Marketable securities	200	200
Accounts receivable	1,200	1,000
Inventories	2,000	1,800
Gross fixed asset	3,000	2,800
Less Accumulated amortization	1,000	800
Net fixed assets	2,000	2,000
	-----	-----
Total assets	6,200	5,600
	=====	=====
Liabilities		
Accounts payable	200	100
Notes payable	800	900
Accruals	100	100
Long-term debt	2,000	1,500
Stockholders' equity		
Common stock	2,500	2,500
Retained earnings	600	500
	-----	-----
Total liabilities and equity	6,200	5,600
	=====	=====

Net profits after taxes for 2003: \$150.00

30) The smallest use of funds for the firm in 2003 is (See Figure 2.2)

30) _____

- A) a decrease in long-term debts.
- B) a decrease in notes payable.
- C) dividends.
- D) an increase in inventory.

Answer: C

Explanation: A)
B)
C)
D)

- 31) Use of funds for 2003 totaled _____. (See Figure 2.2) 31) _____
A) \$950 B) \$700 C) \$800 D) \$600
Answer: A
Explanation: A)
B)
C)
D)
- 32) Under CCA, an asset which originally cost \$100,000, incurred installation costs of \$10,000, and has an estimated salvage value of \$25,000, is being depreciated using a 30% CCA rate. What is the depreciation expense in year 1? 32) _____
A) \$16,500 B) \$11,250 C) \$15,000 D) \$12,750
Answer: A
Explanation: A)
B)
C)
D)
- 33) All of the following are examples of current liabilities EXCEPT 33) _____
A) accounts receivable. B) notes payable.
C) accounts payable. D) accruals.
Answer: A
Explanation: A)
B)
C)
D)
- 34) The statement of cash flows may also be called the 34) _____
A) funds statement. B) sources and uses statement.
C) statement of retained earnings. D) bank statement.
Answer: B
Explanation: A)
B)
C)
D)
- 35) A capital gain occurs when an asset has been held for 35) _____
A) more than six months. B) less than six months.
C) any length of time. D) more than one year.
Answer: C
Explanation: A)
B)
C)
D)

- 36) The _____ provides a financial summary of the firm's operating results during a specified period. 36) _____
 A) statement of cash flows B) balance sheet
 C) income statement D) statement of retained earnings
 Answer: C
 Explanation: A)
 B)
 C)
 D)
- 37) The _____ represents a summary statement of the firm's financial position at a given point in time. 37) _____
 A) income statement B) statement of retained earnings
 C) balance sheet D) statement of cash flows
 Answer: C
 Explanation: A)
 B)
 C)
 D)
- 38) Corporate taxes are paid through 38) _____
 A) lower returns to the investor. B) higher prices to the consumer.
 C) lower wages to workers. D) all of the above.
 Answer: D
 Explanation: A)
 B)
 C)
 D)
- 39) A corporation has year end 2001 and 2002 retained earnings balances of \$320,000 and \$400,000, respectively. The firm reported net income after taxes of \$100,000 in 2002. The firm paid dividends in 2002 of _____. 39) _____
 A) \$0 B) \$20,000 C) \$100,000 D) \$80,000
 Answer: B
 Explanation: A)
 B)
 C)
 D)
- 40) When preparing a statement of cash flows, retained earnings adjustments are required so that which of the following are separated on the statement? 40) _____
 A) net income and dividends B) revenue and cost
 C) amortization and purchases D) assets and liabilities
 Answer: A
 Explanation: A)
 B)
 C)
 D)

- 41) Capital budgeting is 41) _____
A) necessary whenever an executive wants to determine how to report earnings on the financial statements.
B) the methods used to determine a firm's hurdle rate for new projects.
C) the methods used to value a real project.
D) not related to finance, but rather a marketing term.
Answer: C
Explanation: A)
B)
C)
D)
- 42) Allocation of the historic costs of fixed assets against the annual revenue they generate is called 42) _____
A) net profits. B) variable costing.
C) gross profits. D) amortization.
Answer: D
Explanation: A)
B)
C)
D)
- 43) The cash flows from operating activities of the firm include 43) _____
A) interest expense. B) stock repurchases.
C) dividends paid. D) cost of raw materials.
Answer: D
Explanation: A)
B)
C)
D)
- 44) Earnings available to common shareholders are defined as net income 44) _____
A) after taxes minus preferred dividends. B) before taxes.
C) after taxes minus common dividends. D) after taxes.
Answer: A
Explanation: A)
B)
C)
D)
- 45) Cash flows that result from debt and equity financing transactions, including incurrence and repayment of debt, cash inflows from the sale of stock, and cash outflows to pay cash dividends or repurchase stock are called 45) _____
A) investment flows. B) financing flows.
C) operating flows. D) none of the above.
Answer: B
Explanation: A)
B)
C)
D)

- 46) Candy Corporation has pretax profits of \$1.2 million, an average tax rate of 34 percent, and it pays preferred dividends of \$50,000. There are 100,000 shares outstanding and no interest expenses. What is Candy Corporation's earnings per share? 46) _____
- A) \$4.52 B) \$7.59 C) \$7.42 D) \$3.91
- Answer: C
- Explanation: A)
B)
C)
D)
- 47) In Canada, the Board of Directors are generally 47) _____
- A) Aboriginal leaders and elders.
B) women.
C) politicians or an appointee.
D) selected from a small group of inter-related people.
- Answer: D
- Explanation: A)
B)
C)
D)
- 48) Jennings, Inc. has a tax liability of \$170,000 on pretax income of \$500,000. What is the average tax rate for Jennings, Inc.? 48) _____
- A) 34 percent B) 40 percent C) 25 percent D) 46 percent
- Answer: A
- Explanation: A)
B)
C)
D)
- 49) All of the following are true EXCEPT 49) _____
- A) Corporations may pay taxes on only 30 percent of the dividends received from other corporations, depending on their percentage of ownership.
B) Corporations pay taxes on all dividends received from other corporations, regardless of their share of ownership.
C) Capital gains is taxed as ordinary income.
D) Interest income received by a corporation is taxed as ordinary income.
- Answer: B
- Explanation: A)
B)
C)
D)
- 50) The cash flows from operating activities of the firm include 50) _____
- A) taxes paid. B) dividends paid.
C) labor expense. D) interest expense.
- Answer: C
- Explanation: A)
B)
C)
D)

51) Johnson, Inc. has just ended the calendar year making a sale in the amount of \$10,000 of merchandise purchased during the year at a total cost of \$7,000. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. The net profit and cash flow for the year are

51) _____

- A) \$3,000 and \$10,000 respectively.
- B) \$7,000 and -\$3,000 respectively.
- C) \$3,000 and -\$7,000 respectively.
- D) \$3,000 and \$7,000 respectively.

Answer: C

Explanation: A)
B)
C)
D)

52) Corporations experiencing operating losses are allowed to

52) _____

- A) carryback the losses for 2 years and carryforward for 2 years.
- B) only carryforward the losses 20 years.
- C) carryback the losses for 5 years and carryforward for 2 years.
- D) carryback the losses for 3 years and carryforward for 7 years.

Answer: D

Explanation: A)
B)
C)
D)

53) A corporation had an operating loss in 2002. All prior years had positive earnings. In utilizing the tax laws on carrybacks and carryforwards on operating losses a corporation

53) _____

- A) has the option of selecting whether to carryforward or carryback the loss.
- B) must carryback the operating loss for at least one year before it can carryforward.
- C) must first carryback the loss to 2001, then to 2000 and 1999.
- D) must first carryback the loss to 1999, then to 2000 and 2001.

Answer: D

Explanation: A)
B)
C)
D)

54) For the year ended December 31, 2003, a corporation had cash flow from operating activities of \$12,000, cash flow from investment activities of -\$10,000, and cash flow from financing activities of \$4,000. The Statement of Cash Flows would show a

54) _____

- A) net increase of \$6,000 in cash and marketable securities.
- B) net increase of \$2,000 in cash and marketable securities.
- C) net decrease of \$18,000 in cash and marketable securities.
- D) net decrease of \$6,000 in cash and marketable securities.

Answer: A

Explanation: A)
B)
C)
D)

55) All of the following are operating cash flows EXCEPT

55) _____

- A) an increase or decrease in current liabilities.
- B) net income after taxes.
- C) amortization expense.
- D) an increase or decrease in fixed assets.

Answer: D

Explanation: A)
B)
C)
D)

56) Under CCA, an asset which originally cost \$100,000 is being depreciated using a 4% CCA rate. The depreciation expense in year 1 is _____.

56) _____

- A) \$4,000
- B) \$6,000
- C) \$2,000
- D) \$0

Answer: C

Explanation: A)
B)
C)
D)

FIGURE 2.2

RUFF SANDPAPER CO.
Balance Sheets
For the Years Ended 2002 and 2003

	2003	2002
Assets		
Cash	800	600
Marketable securities	200	200
Accounts receivable	1,200	1,000
Inventories	2,000	1,800
Gross fixed asset	3,000	2,800
Less Accumulated amortization	1,000	800
Net fixed assets	2,000	2,000
	-----	-----
Total assets	6,200	5,600
	=====	=====
Liabilities		
Accounts payable	200	100
Notes payable	800	900
Accruals	100	100
Long-term debt	2,000	1,500
Stockholders' equity		
Common stock	2,500	2,500
Retained earnings	600	500
	-----	-----
Total liabilities and equity	6,200	5,600
	=====	=====

Net profits after taxes for 2003: \$150.00

57) The amortization expense for 2003 is _____. (See Figure 2.2)

A) \$1,000

B) \$50

C) \$0

D) \$200

57) _____

Answer: D

Explanation: A)
B)
C)
D)

58) Parliament allows Canadian corporations to exclude from taxes 100 percent of dividends received from other Canadian corporations. Parliament did this to

A) encourage corporations to invest in each other.

B) lower the cost of equity financing for corporations.

C) avoid triple taxation on dividends.

D) avoid double taxation on dividends.

58) _____

Answer: C

Explanation: A)
B)
C)
D)

- 59) The tax deductibility of expenses _____ their after-tax cost. 59) _____
 A) has no effect on B) increases
 C) has an undetermined effect on D) reduces
 Answer: D
 Explanation: A)
 B)
 C)
 D)
- 60) Cash flows directly related to production and sale of the firm's products and services are called 60) _____
 A) financing flows. B) operating flows.
 C) investment flows. D) none of the above.
 Answer: B
 Explanation: A)
 B)
 C)
 D)
- 61) A firm has year end 2001 and 2002 retained earnings balances of \$670,000 and \$560,000, 61) _____
 respectively. The firm paid \$10,000 in dividends in 2002. The firm's net income after taxes in 2002
 is _____.
 A) \$100,000 B) \$110,000 C) -\$100,000 D) -\$110,000
 Answer: C
 Explanation: A)
 B)
 C)
 D)
- 62) Financial cash flows through the firm include 62) _____
 A) interest expense. B) labor expense.
 C) rent. D) salaries.
 Answer: A
 Explanation: A)
 B)
 C)
 D)
- 63) When preparing a statement of cash flows, retained earnings adjustments are required so that 63) _____
 which of the following are separated on the statement?
 A) depreciation and purchases B) net profits and dividends
 C) assets and liabilities D) revenue and cost
 Answer: B
 Explanation: A)
 B)
 C)
 D)

64) Accounting practices and procedures used to prepare financial statements are called
A) CCRA. B) CICA. C) GAAP. D) AcSB.

64) _____

Answer: C

Explanation: A)
 B)
 C)
 D)

65) Under CCA, an asset which originally cost \$10,000 is being depreciated using a 20% CCA rate.
What is the depreciation expense in year 2?

65) _____

A) \$2,100 B) \$1,500 C) \$1,200 D) \$1,800

Answer: D

Explanation: A)
 B)
 C)
 D)

FIGURE 2.2

RUFF SANDPAPER CO.
Balance Sheets
For the Years Ended 2002 and 2003

	2003	2002
Assets		
Cash	800	600
Marketable securities	200	200
Accounts receivable	1,200	1,000
Inventories	2,000	1,800
Gross fixed asset	3,000	2,800
Less Accumulated amortization	1,000	800
Net fixed assets	2,000	2,000
	-----	-----
Total assets	6,200	5,600
	=====	=====
Liabilities		
Accounts payable	200	100
Notes payable	800	900
Accruals	100	100
Long-term debt	2,000	1,500
Stockholders' equity		
Common stock	2,500	2,500
Retained earnings	600	500
	-----	-----
Total liabilities and equity	6,200	5,600
	=====	=====

Net profits after taxes for 2003: \$150.00

66) Sources of funds for 2003 totaled _____. (See Figure 2.2)

- A) \$600 B) \$800 C) \$700 D) \$950

66) _____

Answer: D

Explanation: A)
B)
C)
D)

67) A firm has just ended the calendar year making a sale in the amount of \$150,000 of merchandise purchased during the year at a total cost of \$112,500. Although the firm paid in full for the merchandise during the year, it has yet to collect at year end from the customer. The net profit and cash flow for the year are

67) _____

- A) \$0 and \$150,000 respectively. B) \$150,000 and \$112,500 respectively.
C) \$37,500 and -\$150,000 respectively. D) \$37,500 and -\$112,500 respectively.

Answer: D

Explanation: A)
B)
C)
D)

- 68) Given the financial manager's preference for faster receipt of cash flows, _____
- A) the manager is not concerned with depreciable lives, because depreciation is a non-cash expense.
 - B) a longer depreciable life is preferred to a shorter one.
 - C) a shorter depreciable life is preferred to a longer one.
 - D) the manager is not concerned with depreciable lives, because once purchased, depreciation is considered a sunk cost.

Answer: C

Explanation: A)
B)
C)
D)

- 69) Retained earnings on the balance sheet represents _____
- A) net profits after taxes.
 - B) the cumulative total of earnings reinvested in the firm.
 - C) cash.
 - D) net profits after taxes minus preferred dividends.

Answer: B

Explanation: A)
B)
C)
D)

- 70) For the year ended December 31, 2003, a corporation had cash flow from operating activities of \$20,000, cash flow from investment activities of -\$15,000, and cash flow from financing activities of -\$10,000. The Statement of Cash Flows would show a _____
- A) net decrease of \$15,000 in cash and marketable securities.
 - B) net decrease of \$5,000 in cash and marketable securities.
 - C) net increase of \$25,000 in cash and marketable securities.
 - D) net increase of \$5,000 in cash and marketable securities.

Answer: B

Explanation: A)
B)
C)
D)

- 71) The statement of cash flows provides a summary of the firm's _____
- A) cash inflows from financing.
 - B) cash flows from operations.
 - C) investment cash flows.
 - D) all of the above

Answer: D

Explanation: A)
B)
C)
D)

FIGURE 2.1

A corporation had the following earnings and loss record for the years 1997 through 2002:

1997	\$200,000
1998	100,000
1999	100,000
2000	(800,000)
2001	200,000
2002	300,000

- 72) In 2002 the corporation in Figure 2.1 will have taxable income of 72) _____
 A) \$100,000 B) \$200,000 C) \$0 D) \$300,000

Answer: B

Explanation: A)
 B)
 C)
 D)

- 73) The statement of retained earnings reports all of the following EXCEPT 73) _____
 A) preferred stock dividends. B) interest.
 C) common stock dividends. D) net profits after taxes.

Answer: B

Explanation: A)
 B)
 C)
 D)

- 74) The after-tax cost of a \$40 can of paint to a company with a marginal tax rate of 40% is 74) _____
 A) \$24. B) \$40.
 C) \$16. D) not determinable.

Answer: A

Explanation: A)
 B)
 C)
 D)

- 75) A firm's operating cash flow is defined as 75) _____
 A) gross profit minus operating expenses. B) EBIT - taxes + depreciation.
 C) gross profit minus depreciation. D) EBIT + depreciation.

Answer: B

Explanation: A)
 B)
 C)
 D)

- 76) A corporation sold a fixed asset for \$100,000, which was also its book value. This is 76) _____
A) an operating cash flow and a use of funds.
B) an operating cash flow and a source of funds.
C) an investment cash flow and a use of funds.
D) an investment cash flow and a source of funds.

Answer: D

Explanation: A)
B)
C)
D)

- 77) The portion of the annual report where management provides analysis and explains the financial results is the 77) _____
A) letter to shareholders. B) management's discussion and analysis.
C) auditors note to shareholders. D) all of the above

Answer: B

Explanation: A)
B)
C)
D)

- 78) The average tax rate of a corporation with ordinary income of \$105,000 and a tax liability of \$24,200 is 78) _____
A) 46 percent. B) 34 percent. C) 23 percent. D) 15 percent.

Answer: C

Explanation: A)
B)
C)
D)

- 79) The depreciable value of an asset, under CCA, is 79) _____
A) the full cost including installation costs adjusted for the salvage value.
B) the full cost excluding installation costs.
C) the full cost minus salvage value.
D) the full cost including installation costs.

Answer: D

Explanation: A)
B)
C)
D)

- 80) If a corporation sells certain assets for more than their initial purchase price, the difference between the sale price and the purchase price is called 80) _____
A) an ordinary gain. B) a capital gain.
C) a capital loss. D) an ordinary loss.

Answer: B

Explanation: A)
B)
C)
D)

81) A firm has the following accounts and financial data for 2003:

81) _____

Sales revenue	\$ 3,060	Cost of goods sold	\$1,800
Accounts receivable	500	Preferred stock dividends	18
Interest expense	126	Tax rate	40%
Operating expenses	600	Number of shares of common	
Accounts payable	240	stocks outstanding	1,000

The firm's earnings available to common shareholders for 2003 are _____.

- A) \$195 B) -\$224 C) \$516 D) \$302

Answer: D

Explanation: A)
 B)
 C)
 D)

FIGURE 2.1

A corporation had the following earnings and loss record for the years 1997 through 2002:

1997	\$200,000
1998	100,000
1999	100,000
2000	(800,000)
2001	200,000
2002	300,000

82) The corporation in Figure 2.1 had taxable income in 2001 of

82) _____

- A) \$0 B) -\$200,000 C) \$200,000 D) \$160,000

Answer: A

Explanation: A)
 B)
 C)
 D)

83) Since financial decisions usually involve new cash flows or changes in existing ones, the relevant tax rate is the

83) _____

- A) marginal tax rate. B) going-concern tax rate.
C) average tax rate. D) CCA tax rate.

Answer: A

Explanation: A)
 B)
 C)
 D)

84) All of the following are sources of cash EXCEPT

- A) an increase in accruals.
- C) net profits after taxes.

- B) dividends.
- D) a decrease in accounts receivable.

84) _____

Answer: B

Explanation: A)
B)
C)
D)

85) Corporation A owns 15 percent of the stock of corporation B. Corporation B pays corporation A \$100,000 in dividends in 2002. Corporation A must pay tax on

- A) \$50,000.
- B) \$100,000.
- C) nothing.
- D) \$125,000.

85) _____

Answer: C

Explanation: A)
B)
C)
D)

86) A firm has year end 2001 and 2002 retained earnings balances of \$670,000 and \$560,000, respectively. The firm reported net profits after taxes of \$100,000 in 2002. The firm paid dividends in 2002 of _____.

- A) \$210,000
- B) \$110,000
- C) \$100,000
- D) \$10,000

86) _____

Answer: A

Explanation: A)
B)
C)
D)

87) Three important inputs to the statement of cash flows must be obtained from an income statement for the period of concern. These inputs are all of the following EXCEPT

- A) net income after taxes.
- B) cash dividends paid on both preferred and common stocks.
- C) interest expenses.
- D) amortization and any noncash charges.

87) _____

Answer: B

Explanation: A)
B)
C)
D)

88) A corporation raises \$500,000 in long-term debt to acquire additional plant capacity. This is considered

- A) a financing cash flow and investment cash flow, respectively.
- B) an investment cash flow.
- C) a financing cash flow.
- D) a financing cash flow and operating cash flow, respectively.

88) _____

Answer: A

Explanation: A)
B)
C)
D)

- 89) Dividends paid to a Canadian corporation by a Canadian corporation are
- A) taxed as ordinary income.
 - B) exempt from tax.
 - C) taxed at 50% of the marginal tax rate.
 - D) grossed up by 25% before calculating taxes and the dividend tax credit.

89) _____

Answer: B

Explanation: A)
B)
C)
D)

FIGURE 2.1

A corporation had the following earnings and loss record for the years 1997 through 2002:

1997	\$200,000
1998	100,000
1999	100,000
2000	(800,000)
2001	200,000
2002	300,000

- 90) If the corporation in Figure 2.1 had a 40 percent tax rate for all years, they received a tax refund in 2000 in the amount of

90) _____

- A) \$80,000 B) \$240,000 C) \$480,000 D) \$320,000

Answer: A

Explanation: A)
B)
C)
D)

- 91) Inputs to the statement of cash flows from the income statement include all of the following EXCEPT

91) _____

- A) operating profit. B) net income after tax.
C) non-cash charges, such as amortization. D) cash dividends.

Answer: A

Explanation: A)
B)
C)
D)

- 92) Firm ABC has operating profits of \$100,000, taxes of \$17,000, interest expense of \$34,000 and preferred dividends of \$5,000. What is the firm's net income after taxes?

92) _____

- A) \$44,000 B) \$66,000 C) \$49,000 D) \$83,000

Answer: C

Explanation: A)
B)
C)
D)

93) The first step in preparing a statement of cash flows is to

93) _____

- A) calculate changes in balance sheet accounts.
- B) calculate the amortization expense.
- C) adjust retained earnings.
- D) calculate changes in income statement accounts.

Answer: A

Explanation: A)
B)
C)
D)

94) A corporation

94) _____

- A) must use different depreciation methods for tax and financial reporting purposes.
- B) may use different depreciation methods for tax and financial reporting purposes.
- C) must use the same depreciation method for tax and financial reporting purposes.
- D) must use different (from for tax purposes), but strictly mandated, depreciation methods for financial reporting purposes.

Answer: B

Explanation: A)
B)
C)
D)

95) Operating profits are defined as

95) _____

- A) earnings before interest and taxes.
- B) earnings after taxes.
- C) sales revenue minus cost of goods sold.
- D) earnings before depreciation and taxes.

Answer: A

Explanation: A)
B)
C)
D)

96) Which of the following is a source of cash flows?

96) _____

- A) amortization
- B) interest expense
- C) cost of goods sold
- D) taxes

Answer: A

Explanation: A)
B)
C)
D)

97) The stockholder's report may include all of the following EXCEPT

97) _____

- A) a statement of cash flows.
- B) a cash budget.
- C) a statement of retained earnings.
- D) an income statement.

Answer: B

Explanation: A)
B)
C)
D)

- 98) Cash flows associated with purchase and sale of both fixed assets and business interests are called 98) _____
 A) financing flows. B) operating flows.
 C) investment flows. D) none of the above.

Answer: C

Explanation: A)
 B)
 C)
 D)

- 99) Capital losses can be 99) _____
 A) written off against all sources of income. B) written off against only ordinary income.
 C) written off against only capital gains. D) cannot be written off at all.

Answer: C

Explanation: A)
 B)
 C)
 D)

- 100) A firm has the following accounts and financial data for 2003: 100) _____

Sales revenue	\$ 3,060	Cost of goods sold	\$1,800
Accounts receivable	500	Preferred stock dividends	18
Interest expense	126	Tax rate	40%
Operating expenses	600	Number of shares of common	
Accounts payable	240	stocks outstanding	1,000

The firm's net income after taxes for 2003 is _____.

- A) \$320 B) \$206 C) -\$206 D) \$213

Answer: A

Explanation: A)
 B)
 C)
 D)

- 101) The _____ summarizes the firm's funds flow over a given period of time. 101) _____
 A) balance sheet B) income statement
 C) statement of retained earnings D) statement of cash flows

Answer: D

Explanation: A)
 B)
 C)
 D)

- 102) A corporation has a year end 2001 retained earnings balance of \$220,000. The firm reported net income after taxes of \$50,000 in 2002 and paid dividends in 2002 of \$30,000. The firm's retained earnings balance at year end 2002 is _____. 102) _____
- A) \$270,000 B) \$300,000 C) \$240,000 D) \$250,000

Answer: C

Explanation: A)
 B)
 C)
 D)

- 103) On the balance sheet net fixed assets represent 103) _____
- A) gross fixed assets at cost minus accumulated depreciation.
B) gross fixed assets at cost minus depreciation expense.
C) gross fixed assets at market value minus accumulated depreciation.
D) gross fixed assets at market value minus depreciation expense.

Answer: A

Explanation: A)
 B)
 C)
 D)

- 104) The statement of cash flows includes all of the following categories EXCEPT 104) _____
- A) operating flows. B) equity flows.
C) financing flows. D) investment flows.

Answer: B

Explanation: A)
 B)
 C)
 D)

- 105) The depreciable value of an asset, under CCA, is 105) _____
- A) the original cost plus installation costs, minus salvage value.
B) the original cost (purchase price) only.
C) the original cost minus salvage value.
D) the original cost plus installation.

Answer: D

Explanation: A)
 B)
 C)
 D)

FIGURE 2.2

RUFF SANDPAPER CO.
Balance Sheets
For the Years Ended 2002 and 2003

	2003	2002
Assets		
Cash	800	600
Marketable securities	200	200
Accounts receivable	1,200	1,000
Inventories	2,000	1,800
Gross fixed asset	3,000	2,800
Less Accumulated amortization	1,000	800
Net fixed assets	2,000	2,000
	-----	-----
Total assets	6,200	5,600
	=====	=====
Liabilities		
Accounts payable	200	100
Notes payable	800	900
Accruals	100	100
Long-term debt	2,000	1,500
Stockholders' equity		
Common stock	2,500	2,500
Retained earnings	600	500
	-----	-----
Total liabilities and equity	6,200	5,600
	=====	=====

Net profits after taxes for 2003: \$150.00

- 106) Common stock dividends paid in 2003 amounted to _____. (See Figure 2.2)
- A) \$150 B) \$600 C) \$50 D) \$100

106) _____

Answer: C

Explanation: A)
 B)
 C)
 D)

- 107) Capital cost allowance is
- A) amortized using a pre-established CCA rate.
B) calculated in the year of acquisition using the half-year rule.
C) amortized on a declining balance basis.
D) all of the above.

107) _____

Answer: D

Explanation: A)
 B)
 C)
 D)

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 108) The net fixed asset investment is defined as the change in net fixed assets plus amortization expense for the period. 108) _____
Answer: ☒ True ☐ False
Explanation:
- 109) The ordinary income of a corporation is income earned through the sale of a firm's goods and services and is currently taxed subject to the individual income tax rates. 109) _____
Answer: ☐ True ☒ False
Explanation:
- 110) Publicly owned corporations are those which are financed by proceeds from government treasury securities. 110) _____
Answer: ☐ True ☒ False
Explanation:
- 111) Publicly owned corporations are required by the provincial securities commissions and stock exchanges to provide their stockholders with an annual stockholders' report. 111) _____
Answer: ☒ True ☐ False
Explanation:
- 112) The CCA depreciation method requires use of the half-year convention. Assets are assumed to be acquired in the middle of the year and only one-half of the first year's depreciation is recovered in the first year. 112) _____
Answer: ☒ True ☐ False
Explanation:
- 113) Common stock dividends paid to stockholders are equal to the earnings available for common stockholders divided by the number of shares of common stock outstanding. 113) _____
Answer: ☐ True ☒ False
Explanation:
- 114) A Canadian-controlled private corporation's first \$500,000 of taxable income qualifies for the small business deduction. 114) _____
Answer: ☐ True ☒ False
Explanation:
- 115) Both present and prospective shareholders are interested in the firm's current and future level of risk and return. These two dimensions directly affect share price. 115) _____
Answer: ☒ True ☐ False
Explanation:
- 116) To assess whether any developments have occurred that are contrary to the company's financial policies, the financial manager should pay special attention to both the major categories of cash flow and the individual items of cash inflow and outflow. 116) _____
Answer: ☒ True ☐ False
Explanation:

- 117) Because amortization is treated as a separate source of cash, only net rather than gross changes in fixed assets appear on the statement of cash flows. 117) _____
Answer: True ☒ False
Explanation:
- 118) An investor receives a \$500 dividend cheque from Bell Canada; this is considered passive income. 118) _____
Answer: ☒ True False
Explanation:
- 119) A benefit of holding cash is the liquidity it gives the firm. 119) _____
Answer: ☒ True False
Explanation:
- 120) Cash flow from operations is equal to the firm's net income after taxes minus all noncash charges. 120) _____
Answer: True ☒ False
Explanation:
- 121) Retained earnings represents the cumulative total of all earnings retained and reinvested in the firm since its inception. 121) _____
Answer: ☒ True False
Explanation:
- 122) Under the capital cost allowance (CCA) procedures, the depreciable value of a fixed asset is its full cost, including outlays for installation. 122) _____
Answer: ☒ True False
Explanation:
- 123) Capital cost allowance is simply the tax version of amortization. 123) _____
Answer: ☒ True False
Explanation:
- 124) The original price per share received by the firm on a single issue of common stock is equal to the the contributed capital divided by the number of shares outstanding. 124) _____
Answer: ☒ True False
Explanation:
- 125) The depreciable life of an asset can significantly affect the pattern of cash flows. The shorter the depreciable life of an asset, the more quickly the cash flow created by the depreciation write-off will be received. 125) _____
Answer: ☒ True False
Explanation:
- 126) Given the financial manager's preference for faster receipt of cash flows, a longer depreciable life is preferred to a shorter one. 126) _____
Answer: True ☒ False
Explanation:

- 127) A statement of cash flows reconciles the net income earned during a given year, and any cash dividends paid, with the change in retained earnings between the start and end of that year. 127) _____
Answer: True ☒ False
Explanation:
- 128) The income statement is a financial summary of the firm's operating results during a specified period, while the balance sheet is a summary statement of the firm's financial position at a given point in time. 128) _____
Answer: ☒ True False
Explanation:
- 129) The finance definition of operating cash flow excludes interest as an operating flow, whereas the accounting definition includes it as an operating flow. 129) _____
Answer: ☒ True False
Explanation:
- 130) The manufacturing and processing deduction allows manufacturing and processing businesses a 7 percent reduction from the effective general federal tax rate in 2001. 130) _____
Answer: ☒ True False
Explanation:
- 131) A long-term government of Canada bond is considered a marketable security. 131) _____
Answer: True ☒ False
Explanation:
- 132) Earnings per share represents the amount earned during the period on each outstanding share of common stock. 132) _____
Answer: ☒ True False
Explanation:
- 133) Unlike the United States, in Canada public corporations have no obligation to report their financial results through an annual report to shareholders. 133) _____
Answer: True ☒ False
Explanation:
- 134) The marginal tax rate represents the rate at which additional income is taxed. 134) _____
Answer: ☒ True False
Explanation:
- 135) The statement of cash flows allows the financial manager and other interested parties to analyze the firm's past and possibly future profitability. 135) _____
Answer: True ☒ False
Explanation:
- 136) A share of stock was purchased for \$2 and sold 3 years later for \$5. The \$5 increase in value is taxed as a capital gain. 136) _____
Answer: True ☒ False
Explanation:

- 137) The Canadian Institute of Chartered Accountants, part of the Accounting Standards Board, is the accounting profession's rule-setting body that authorizes accounting practices and principles. 137) _____
Answer: True ☒ False
Explanation:
- 138) An increase in the firm's cash balance is a source of cash flow. 138) _____
Answer: True ☒ False
Explanation:
- 139) Noncash charges are expenses that involve an actual outlay of cash during the period but are not deducted on the income statement. 139) _____
Answer: True ☒ False
Explanation:
- 140) Dividends paid to shareholders requires an outflow of cash. 140) _____
Answer: ☒ True False
Explanation:
- 141) Common stock consists of two components, contributed capital and retained earnings. 141) _____
Answer: ☒ True False
Explanation:
- 142) The par value of common stock is an arbitrarily assigned per share value used primarily for accounting purposes. 142) _____
Answer: ☒ True False
Explanation:
- 143) In the statement of cash flow, the financing flows are cash flows that result from debt and equity financing transactions, including incurrence and repayment of debt, cash inflow from the sale of stock, and cash outflows to repurchase stock or pay cash dividends. 143) _____
Answer: ☒ True False
Explanation:
- 144) Earnings per share results from dividing earnings available for common stockholders by the number of shares of common stock authorized. 144) _____
Answer: True ☒ False
Explanation:
- 145) The balance sheet is a statement which balances the firm's assets (what it owns) against its debt (what it owes). 145) _____
Answer: True ☒ False
Explanation:
- 146) The stated (par) value on preferred stock represents the actual price for which the shares must be sold. 146) _____
Answer: True ☒ False
Explanation:

- 147) Amortization is the systematic expensing of a portion of the cost of a fixed asset against sales. 147) _____
Answer: ☒ True ☐ False
Explanation:
- 148) In the statement of cash flow, the operating cash flows are cash flows directly related to purchase and sale of fixed assets. 148) _____
Answer: ☐ True ☒ False
Explanation:
- 149) An increase in the accounts payable account results in a outflow of cash. 149) _____
Answer: ☐ True ☒ False
Explanation:
- 150) Canadian- controlled private corporations have tax advantages relative to public companies. 150) _____
Answer: ☒ True ☐ False
Explanation:
- 151) The net working capital investment is defined as the change in current assets minus the change in current liabilities. 151) _____
Answer: ☒ True ☐ False
Explanation:
- 152) Net fixed assets represent the difference between gross fixed assets and the total expense recorded for the depreciation of fixed assets. 152) _____
Answer: ☒ True ☐ False
Explanation:
- 153) In finance, operating cash flow is the cash flow a firm generates from its normal operations, calculated as EBIT - taxes + depreciation. 153) _____
Answer: ☒ True ☐ False
Explanation:
- 154) The CICA has developed a set of accounting standards that specify the four financial statements that companies must develop and how information is to be presented and disclosed in the financial statements. 154) _____
Answer: ☒ True ☐ False
Explanation:
- 155) An increase in a firm's inventory account results in an outflow of cash. 155) _____
Answer: ☒ True ☐ False
Explanation:
- 156) Generally Accepted Accounting Principles are authorized by the Canadian Institute of Chartered Accountants. 156) _____
Answer: ☒ True ☐ False
Explanation:

- 157) The president's letter, as the first component of the stockholders' report, is the primary communication from management to the firm's employees. 157) _____
 Answer: True ☒ False
 Explanation:
- 158) The statement of cash flows provides insight into the firm's assets and liabilities and reconciles them with changes in its cash and marketable securities during the period of concern. 158) _____
 Answer: True ☒ False
 Explanation:
- 159) Business firms are permitted to systematically charge a portion of the market value of fixed assets, as depreciation, against annual revenues. 159) _____
 Answer: True ☒ False
 Explanation:
- 160) GAAP is the accounting profession's rule-setting body. 160) _____
 Answer: True ☒ False
 Explanation:
- 161) The sale of every business requires a premium be paid to cover the cost of goodwill. 161) _____
 Answer: True ☒ False
 Explanation:
- 162) The Canada Customs and Revenue Agency provides businesses with a table of CCA rates used to amortize fixed assets for tax purposes. 162) _____
 Answer: ☒ True ☐ False
 Explanation:
- 163) The more risky an investment, the greater the investor's expected return and the greater the probability of less than desirable results. 163) _____
 Answer: ☒ True ☐ False
 Explanation:
- 164) Amortization is considered to be use of cash flow since the cash must be drawn from somewhere. 164) _____
 Answer: True ☒ False
 Explanation:

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 165) Darling Paper Container, Inc. purchased several machines at a total cost of \$275,000. The installation cost for this equipment was \$25,000. The firm plans to depreciate the equipment using a 20% CCA rate. Prepare a depreciation schedule showing the depreciation expense for each of the first five years.

Answer:

Depreciation Schedule		
Year	Depreciation Expense	
1	\$300,000	$\times .10 = 30,000$
2	\$270,000	$\times .20 = 54,000$
3	\$216,000	$\times .20 = 43,200$
4	\$172,800	$\times .20 = 34,560$
5	\$138,240	$\times .20 = 27,648$

166) During 2002, a firm has sold 5 assets at book value. Calculate the tax liability on the assets. The firm pays a 40 percent tax rate on ordinary income.

Asset	Purchase Price	Sale Price
1	\$10,000	\$12,000
2	\$50,000	\$40,000
3	\$37,500	\$50,000
4	\$ 3,000	\$ 3,500
5	\$15,000	\$12,000

Answer: Asset		Tax Liability
1	$\$2,000(.40)(0.5)$	= \$400
2	---	
3	$\$12,500(.40)(0.5)$	= \$2,500
4	$\$500(.40)(0.5)$	= \$100
5	---	

167) Colonial Furniture's net profits before taxes for 2002 totaled \$354,000. The company's total retained earnings were \$338,000 for 2001 year end and \$389,000 for 2002 year end. Colonial is subject to a 26% tax rate. How large was the cash dividend declared by Colonial Furniture in 2002?

Answer: Net Profits Before Taxes	\$354,000
Less: Taxes (26%)	92,040

Net Profits After Taxes	\$261,960
 Retained Earnings (2001)	 \$338,000
Net Profits After Taxes (2002)	261,960
Dividends	X
-----	-----
Retained Earnings (2002)	\$389,000
 Dividends = \$210,960	

168) A corporation has the following record of earnings for the years 1996 through 2002.

- Indicate the carryback/carryforward amounts.
- Calculate the tax refund in 2001 if their tax rate during this time period has been 40 percent.
- Indicate the carryforward, the taxable earnings, and tax liability for 2002.

Year	Taxable earnings
1996	\$ 400,000
1997	500,000
1998	600,000
1999	400,000
2000	300,000
2001	-1,500,000
2002	500,000

Answer: a.

Year	Taxable Earnings	CB/CF	Cumulative Earnings	Adjusted
1996	\$ 400,000	\$	\$	\$
1997	500,000			
1998	600,000	600,000	600,000	
1999	400,000	400,000	1,000,000	0
2000	300,000	300,000	1,300,000	0
2001	-1,500,000			
2002	500,000	200,000	1,500,000	0

- Tax refund in 2001:
 $(\$1,300,00)(0.40) = \$520,000$

- Carryforward to 2002:

		= \$200,000
Taxable earnings:	$\$500,000 - \$200,000$	= \$300,000
Tax liability:	$(\$300,000)(0.40)$	= \$120,000

169) Reliable Auto Parts has 5000 shares of common stock outstanding. The company also has the following amounts in revenue and expense accounts:

Sales revenue	\$ 85,000
General and administrative expense	7,500
Interest expense	3,500
Depreciation expense	5,000
Preferred stock dividends	500
Selling expense	4,000
Cost of goods sold	50,000

Calculate:

- gross profits
- operating profits
- net income before taxes
- net income after taxes (assume a 40 percent tax rate)
- cash flow from operations
- earnings available to common stockholders
- earnings per share

Answer: a.

Sales revenue	\$85,000
- cost of goods sold	- 50,000
-----	-----
gross profits	\$35,000

b.

Gross profits	\$35,000
- operating expenses	
selling expense	4,000
general & adm. expense	7,500
depreciation expense	5,000
-----	-----
	\$16,500

Operating profits	\$18,500

c.

Operating profits	\$18,500
- interest expense	- 3,500
-----	-----
net profits before taxes	\$15,000

d.

net profits before taxes	\$15,000
- taxes (40%)	- 6,000
-----	-----
net profits after taxes	\$ 9,000

e.

net profits after taxes	\$ 9,000
+ depreciation expense	+ 5,000
-----	-----
cash flow from operations	\$14,000

f.

net profits after taxes	\$ 9,000
- preferred dividends	- 500
-----	-----
earnings available for C.S.	\$ 8,500

g.

earnings available for C.S.	\$8,500	
-----	-----	= \$1.70/share
# of common shares outstanding	5,000	

170) Given the Income Statement, Statement of Changes in Retained Earnings and Balance Sheet, prepare a Statement of Cash Flows.

ABC confectionery Limited
Income Statement
For the year ended December 31, 2003

Sales Revenue	\$1,000,000
less: Cost of Goods Sold	575,000

Gross Profit	\$425,000
Expenses:	
Operating Expenses	\$225,000
Marketing Expenses	25,000
Administrative Expenses	25,000

Total Expenses	275,000
EBIT	\$150,000
Interest Expense	15,000

EBT	\$135,000
Taxes	27,000

Net Income after taxes	\$108,000
Note: Amortization Expense = \$10,400	

ABC confectionery Limited
Statement of Changes in Retained Earnings
For the year ended December 31, 2003

Retained Earnings, January 1, 2003	\$ 20,000
Add: Net Income	108,000

Total	\$128,000
less: Dividends Declared and Paid	120,000

Retained Earnings, December 31, 2003	\$ 8,000

ABC confectionery Limited
Balance Sheet
December 31, 2003

Assets	2003	2002
Current Assets:		
Cash	\$ 36,900	\$ 16,000
Accounts Receivable	6,000	4,000
Inventory	44,000	50,000
Prepaid Expenses	2,000	2,000
	-----	-----
Total Current Assets	\$ 88,900	\$ 72,000
Fixed Assets:		
Fixtures and Equipment	\$ 90,000	\$ 80,000
less: Accumulated Amortization	(68,000)	(60,000)
Building	120,000	120,000
less: Accumulated Amortization	(62,400)	(60,000)
Net Building	57,600	60,000
	-----	-----

Total Fixed Assets	\$ 79,600	\$ 80,000
	-----	-----
Total Assets	\$168,500	\$152,000
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 22,500	\$ 15,000
Interest Payable	3,000	4,000
Taxes Payable	40,000	8,000
	-----	-----
Total Current Liabilities	\$ 65,500	\$ 27,000
Long-term Liabilities:		
Business Loan	\$ 25,000	\$ 35,000
Mortgage on Building	57,500	60,000
	-----	-----
Total Long-term Liabilities	\$ 82,500	\$ 95,000
	-----	-----
Total Liabilities	\$148,000	\$122,000
Shareholders' Equity:		
Common Shares	\$ 12,500	\$ 10,000
Retained Earnings	8,000	20,000
	-----	-----
Total Shareholders' Equity	\$ 20,500	\$ 30,000
	-----	-----
Total Liab. and Shareholder's Equity	\$168,500	\$152,000

Answer: ABC confectionery Limited
Statement of Changes in Financial Position
For the year ended December 31, 2003

Operating Activities:

Net Income	\$108,000
Add:	
Inventory (decrease)	6,000
Accounts Payable (increase)	7,500
Taxes Payable (increase)	32,000
Depreciation Expense	10,400
Deduct:	
Accounts Receivable (increase)	(2,000)
Interest Payable (decrease)	(1,000)

Net Cash Flow from Operating Activities	\$160,900

Investing Activities:

Net purchases of Fixtures and Equipment	\$(10,000)

Net Cash Flow from Investing Activities	\$(10,000)

Financing Activities:

Principal paid on Business Loan	\$(10,000)
Principal paid on Mortgage	(2,500)
Dividends paid to shareholders	(120,000)

Answer: Issuance of shares	2,500

Net Cash Flow from Financing Activities	\$(130,000)

Net Increase in Cash	\$ 20,900

171) Identify each expense or revenue as a cash flow from operating activities (O), a cash flow from investment activities (I), or a cash flow from financing activities (F).

Administrative expenses
Rent payment
Interest on a note payable
Interest on a note receivable
Sale of equipment
Dividend payment
Stock repurchase
Sale of finished goods
Labor expense
Sale of a bond issue
Repayment of a long-term debt
Selling expenses
Amortization expense
Sale of common stock
Purchase of fixed assets

Answer: Administrative expenses..... O
Rent payment..... O
Interest on a note payable..... F
Interest on a note receivable..... F
Sale of equipment..... I
Dividend payment..... F
Stock repurchase..... F
Sale of finished goods..... O
Labor expense..... O
Sale of a bond issue..... F
Repayment of a long-term debt..... F
Selling expenses..... O
Depreciation expense..... O
Sale of common stock..... F
Purchase of fixed assets..... I

- 172) Jimmy Construction Limited at the start of 2003 had no assets in the Class 10 asset pool. During the year, Jimmy Construction purchased two trucks and a trailer for \$120,000. Set-up a capital cost allowance (CCA) schedule and calculate the CCA for the years 2003 to 2007.

If at the end of 2007 Jimmy Construction sold all the assets in the Class 10 asset pool for \$40,000, would the company have a terminal loss or a recapture? Calculate the dollar amount of the terminal loss or recapture.

Answer: Year	Opening UCC	Net Additions	CCA	Ending UCC
2003		\$120,000	\$18,000	\$102,000
2004	\$102,000		30,600	71,400
2005	71,400		21,420	49,980
2006	49,980		14,994	34,986
2007	34,986		10,496	24,490

$$\text{Recapture} = (40,000 - 24,490) = \$15,510$$

- 173) At the end of 2002, the Long Life Light Bulb Company announced it had produced a gross profit of \$1 million. The company has also established that over the course of this year it has incurred \$345,000 in operating expenses and \$125,000 in interest expenses. The company is subject to a 30% tax rate and has declared \$57,000 total preferred stock dividends.

- How much is the earnings available for common stockholders?
- Compute the increased retained earnings for 2002 if the company were to declare a \$4.25 common stock dividend. The company has 125,000 shares of common stock outstanding.

Answer: a.

Gross Profits	\$1,000,000
Less: Operating expenses	(345,000)

Operating Profits	\$ 655,000
Less: Interest	(125,000)

Net Profits before taxes	\$ 530,000
Less: Taxes (30%)	(159,000)

Net Profits After Taxes	\$ 371,000
Less: Preferred Stock Dividend	(57,000)

Earnings Available for Common Stock	\$ 314,000

b.

Earnings Available for Common Stock	\$ 314,000
Dividend = (4.25)(15,000 shares)	(63,750)

Increased Retained Earnings	\$ 250,250

174) Given the financial data for New Electronic World, Inc. (NEW), compute the following measures of cash flows for the NEW for the year ended December 31, 2003.

A. Operating Cash Flow.

B. Free Cash Flow.

	For the year ended December 31,	
	2002	2003
Depreciation		\$3,000
EBIT		30,000
Interest expenses		3,000
Taxes		8,000
Cash	\$21,000	24,000
Accounts Receivable	39,000	45,000
Inventory	27,000	30,000
Net fixed assets	22,000	24,000
Accounts payable	25,000	30,000
Notes payable	50,000	40,000
Accruals	1,000	2,000

Answer: a. $OCF = EBIT - Taxes + Depreciation$

$$OCF = \$30,000 - \$8,000 + \$3,000 = \$35,000$$

b. $FCF = OCF - \text{Net fixed asset investment (NFAI)} - \text{Net current asset investment (NCAI)}$

$$\begin{aligned} NFAI &= \text{Change in net fixed assets} + \text{Depreciation} \\ &= (24,000 - 22,000) + 3,000 = \$5,000 \end{aligned}$$

$$\begin{aligned} NCAI &= \text{Change in current assets} - \text{change in (Accounts payable + Accruals)} \\ &= (99,000 - 87,000) - (32,000 - 26,000) \\ &= \$6,000 \end{aligned}$$

$$FCF = 35,000 - 5,000 - 6,000 = \$24,000$$

- 175) Calculate the change in the key balance sheet accounts between 2002 and 2003 and classify each as a source(S), a use(U), or neither(N), and indicate which type of cash flow it is: an operating cash flow (O), and investment cash flow (I) or a financing cash flow (F).

ABC Corp.
Balance Sheet Changes and Classification
of Key Accounts between 2002 and 2003

Account	2003	2002	Change	Classification	Type
Long-term debts	\$ 960	\$ 800			
Accounts receivable	640	500			
Common stock	200	200			
Cash	640	500			
Retained earnings	960	800			
Accruals	50	200			
Inventory	840	600			
Accounts payable	1,150	1,000			
Net fixed assets	1,800	2,000			

Answer:

ABC Corp.
Balance Sheet Changes and Classification
of Key Accounts between 2002 and 2003

Account	2003	2002	Chng	Classif.	Type
Long-term debts	\$ 960	\$ 800	+160	S	F
Accounts receivable	640	500	+140	U	O
Common stock	200	200	0	N	F
Cash	640	500	+140	U	O
Retained earnings	960	800	+160	S	O/F
Accruals	50	200	-150	U	O
Inventory	840	600	+240	U	O
Accounts payable	1,150	1,000	+150	S	O
Net fixed assets	1,800	2,000	-200	S	I

- 176) The Sunshine Company had a retained earnings balance of \$850,000 at the beginning of 2002. By the end of 2002, the company's retained earnings balance was \$950,000. During 2002, the company earned \$245,000 as net income after taxes. The company was then able to pay its preferred stockholders \$45,000. Compute the common stock dividend per share in 2002 assuming 10,000 shares of common stock outstanding.

Answer: Retained Earnings (2001)	\$850,000
Net Profits After Taxes (2002)	245,000
Preferred Stock Dividend	(45,000)
Common Stock Dividend	X
-----	-----
Retained Earnings (2002)	\$950,000

Total common stock dividend = \$100,000

Common stock dividend per share = $100,000 / 10,000 = \$10$

- 177) Ag Silver Mining, Inc. has \$500,000 of earnings before interest and taxes at the year end. Interest expenses for the year were \$10,000. The firm expects to distribute \$100,000 in dividends. Calculate the earnings after taxes for the firm assuming a 40 percent tax on ordinary income.

Answer: Earnings before interest and taxes	\$500,000
Less: Interest	10,000

Earnings before taxes	\$490,000
Less: Taxes (40%)	196,000

Earnings after taxes	\$294,000

FIGURE 2.3

Magna Fax, Inc.
Income Statement
For the Year Ended December 31, 2003

Sales revenue	\$150,000
Cost of goods sold	\$117,500

Gross Profits	32,500
Selling expense	4,500
General and administrative expense	4,000
Amortization expense	4,000

Operating profits	\$ 20,000
Interest expense	2,500

Net income before taxes	\$ 17,500
Taxes (40%)	7,000

Net income after taxes	\$ 10,500

Magna Fax, Inc.
Balance Sheet
For the Years Ended December 31, 2002 and 2003

Assets	2003	2002
Cash	\$24,000	\$21,000
Accounts receivable	45,000	39,000
Inventory	30,000	27,000
Gross fixed assets	\$42,000	\$40,000
Acc. amortization	22,000	18,000
Net fixed assets	20,000	22,000
	-----	-----
Total assets	\$119,000	\$109,000
Liabilities and Equity		
Accounts payable	\$25,000	\$30,000
Notes payable	50,000	40,000
Accruals	1,000	2,000
Long-term debts	10,000	8,000
Common stock at par	5,000	5,000
Retained earnings	28,000	24,000
	-----	-----
Total liabilities and equity	\$119,000	\$109,000

178) The credit manager at First Nations Bank has just received the income statement and balance sheet for Magna Fax, Inc. for the year ended December 31, 2003. (See Figure 2.3) The bank requires the firm to report its earnings performance and financial position quarterly as a condition of a loan agreement. The bank's credit manager must prepare two key financial statements based on the information sent by Magna Fax, Inc. This will be passed on to the commercial loan officer assigned to this account, so that he may review the financial condition of the firm.

- Prepare a statement of retained earnings for the year ended December 31, 2003.
- Prepare a statement of cash flows for the year ended December 31, 2003, organized by sources of cash and uses of cash.
- Prepare a statement of cash flows for the year ended December 31, 2003, organized by cash flow from operating activities, cash flow from investment activities, and cash flow from financing activities.

Answer: a.

Magna Fax, Inc.
Statement of Retained Earnings
For the Year Ended December 31, 2003

Retained Earnings Balance (December 31, 2002)	\$24,000
Net income after taxes	+ 10,500
Dividends	- 6,500
-----	-----
Retained Earnings Balance (December 31, 2003)	\$28,000

- b.
- Magna Fax, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2003

SOURCES	USES
Net income after taxes	Dividends paid
\$10,500	\$6,500
	Inc. in Cash
	3,000

Answer: Amortization	4,000	Inc. in Acct. rec	6,000
Inc. in Notes payable	10,000	Inc. in Inventory	3,000
Inc. in LT debts	2,000	Inc. in Fixed asset	2,000
Dec. in Acct payable	5,000	Dec. in Accruals	1,000
Total Sources	\$26,500	Total Uses	\$26,500

c. Magna Fax, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2003

Cash flow from operating activities:

Net income after taxes	\$10,500	
Amortization	4,000	
Inc. in Accounts receivable	- 6,000	
Inc. in Inventory	- 3,000	
Dec. in Accounts payable	- 5,000	
Dec. in Accruals	- 1,000	
	-----	-\$ 500

Cash flow from investment activities:

Inc. in Gross fixed assets	- 2,000	
Changes in business interest	0	
	-----	-\$2,000

Cash flow from financing activities:

Inc. in Notes payable	\$10,000	
Inc. in LT debts	2,000	
Changes in S.E.	0	
Dividends paid	- 6,500	
	-----	\$5,500

Net increase in cash & marketable sec.		\$3,000

179) The values shown on the balance sheet for the firm's assets are book values and generally are not what the assets are worth in the open market. State two reasons why this is the case?

Answer: 1) The historical cost principle is objective and conservative, but does not reflect market realities.
2) Items like goodwill, human capital, competitive advantages, and growth options are not accounted for in the financial statements.

180) On December 31, 2001, the Bradshaw Corporation had \$485,000 as an ending balance for its retained earnings account. During 2002, the corporation declared a \$3.50/share dividend to its stockholders. The Bradshaw Corporation has 35,000 shares of common stock outstanding. When the books were closed for 2002 year end, the corporation had a final retained earnings balance of \$565,000. What was the net income earned by Bradshaw Corporation during 2002?

Answer: Dividends = (\$3.50/share) (35,000 shares) = \$122,500

Retained Earnings (2001)	\$485,000
Net Income After Taxes (2002)	X
Dividends	122,500
-----	-----
Retained Earnings (2002)	\$565,000

Net Profits After Taxes = \$202,500

Answer Key
Testname: C2

- 1) B
- 2) D
- 3) A
- 4) B
- 5) A
- 6) B
- 7) A
- 8) B
- 9) D
- 10) C
- 11) D
- 12) D
- 13) B
- 14) C
- 15) A
- 16) C
- 17) B
- 18) B
- 19) B
- 20) B
- 21) B
- 22) C
- 23) C
- 24) A
- 25) C
- 26) D
- 27) A
- 28) C
- 29) D
- 30) C
- 31) A
- 32) A
- 33) A
- 34) B
- 35) C
- 36) C
- 37) C
- 38) D
- 39) B
- 40) A
- 41) C
- 42) D
- 43) D
- 44) A
- 45) B
- 46) C
- 47) D
- 48) A
- 49) B
- 50) C

Answer Key
Testname: C2

- 51) C
- 52) D
- 53) D
- 54) A
- 55) D
- 56) C
- 57) D
- 58) C
- 59) D
- 60) B
- 61) C
- 62) A
- 63) B
- 64) C
- 65) D
- 66) D
- 67) D
- 68) C
- 69) B
- 70) B
- 71) D
- 72) B
- 73) B
- 74) A
- 75) B
- 76) D
- 77) B
- 78) C
- 79) D
- 80) B
- 81) D
- 82) A
- 83) A
- 84) B
- 85) C
- 86) A
- 87) B
- 88) A
- 89) B
- 90) A
- 91) A
- 92) C
- 93) A
- 94) B
- 95) A
- 96) A
- 97) B
- 98) C
- 99) C
- 100) A

Answer Key
Testname: C2

- 101) D
- 102) C
- 103) A
- 104) B
- 105) D
- 106) C
- 107) D
- 108) TRUE
- 109) FALSE
- 110) FALSE
- 111) TRUE
- 112) TRUE
- 113) FALSE
- 114) FALSE
- 115) TRUE
- 116) TRUE
- 117) FALSE
- 118) TRUE
- 119) TRUE
- 120) FALSE
- 121) TRUE
- 122) TRUE
- 123) TRUE
- 124) TRUE
- 125) TRUE
- 126) FALSE
- 127) FALSE
- 128) TRUE
- 129) TRUE
- 130) TRUE
- 131) FALSE
- 132) TRUE
- 133) FALSE
- 134) TRUE
- 135) FALSE
- 136) FALSE
- 137) FALSE
- 138) FALSE
- 139) FALSE
- 140) TRUE
- 141) TRUE
- 142) TRUE
- 143) TRUE
- 144) FALSE
- 145) FALSE
- 146) FALSE
- 147) TRUE
- 148) FALSE
- 149) FALSE
- 150) TRUE

Answer Key
Testname: C2

- 151) TRUE
152) TRUE
153) TRUE
154) TRUE
155) TRUE
156) TRUE
157) FALSE
158) FALSE
159) FALSE
160) FALSE
161) FALSE
162) TRUE
163) TRUE
164) FALSE

165)

Depreciation Schedule		
Year	Depreciation Expense	
1	\$300,000	$\times .10 = 30,000$
2	\$270,000	$\times .20 = 54,000$
3	\$216,000	$\times .20 = 43,200$
4	\$172,800	$\times .20 = 34,560$
5	\$138,240	$\times .20 = 27,648$

166)

Asset	Tax Liability	
1	\$2,000(.40)(0.5)	= \$400
2	---	
3	\$12,500(.40)(0.5)	= \$2,500
4	\$500(.40)(0.5)	= \$100
5	---	

167)

Net Profits Before Taxes	\$354,000
Less: Taxes (26%)	92,040

Net Profits After Taxes	\$261,960
Retained Earnings (2001)	\$338,000
Net Profits After Taxes (2002)	261,960
Dividends	X

Retained Earnings (2002)	\$389,000

Dividends = \$210,960

Answer Key
Testname: C2

168) a.

Year	Taxable Earnings	CB/CF	Cumulative Earnings	Adjusted
1996	\$ 400,000	\$	\$	\$
1997	500,000			
1998	600,000	600,000	600,000	
1999	400,000	400,000	1,000,000	0
2000	300,000	300,000	1,300,000	0
2001	-1,500,000			
2002	500,000	200,000	1,500,000	0

b. Tax refund in 2001:
 $(\$1,300,00)(0.40) = \$520,000$

c. Carryforward to 2002: $= \$200,000$
 Taxable earnings: $\$500,000 - \$200,000 = \$300,000$
 Tax liability: $(\$300,000)(0.40) = \$120,000$

169) a.

Sales revenue	\$85,000
- cost of goods sold	- 50,000
-----	-----
gross profits	\$35,000

b.

Gross profits	\$35,000
- operating expenses	
selling expense	4,000
general & adm. expense	7,500
depreciation expense	5,000
-----	-----
	\$16,500

Operating profits $\$18,500$

c.

Operating profits	\$18,500
- interest expense	- 3,500
-----	-----
net profits before taxes	\$15,000

d.

net profits before taxes	\$15,000
- taxes (40%)	- 6,000
-----	-----
net profits after taxes	\$ 9,000

e.

net profits after taxes	\$ 9,000
+ depreciation expense	+ 5,000
-----	-----

Answer Key
Testname: C2

cash flow from operations \$14,000

f.

net profits after taxes \$ 9,000

- preferred dividends - 500

earnings available for C.S. \$ 8,500

g.

earnings available for C.S. \$8,500

----- = ----- = \$1.70/share

of common shares outstanding 5,000

170) ABC confectionery Limited

Statement of Changes in Financial Position

For the year ended December 31, 2003

Operating Activities:

Net Income \$108,000

Add:

Inventory (decrease) 6,000

Accounts Payable (increase) 7,500

Taxes Payable (increase) 32,000

Depreciation Expense 10,400

Deduct:

Accounts Receivable (increase) (2,000)

Interest Payable (decrease) (1,000)

Net Cash Flow from Operating Activities \$160,900

Investing Activities:

Net purchases of Fixtures and Equipment \$(10,000)

Net Cash Flow from Investing Activities \$(10,000)

Financing Activities:

Principal paid on Business Loan \$(10,000)

Principal paid on Mortgage (2,500)

Dividends paid to shareholders (120,000)

Issuance of shares 2,500

Net Cash Flow from Financing Activities \$(130,000)

Net Increase in Cash \$ 20,900

Answer Key
Testname: C2

- 171) Administrative expenses..... O
 Rent payment..... O
 Interest on a note payable..... F
 Interest on a note receivable..... F
 Sale of equipment..... I
 Dividend payment..... F
 Stock repurchase..... F
 Sale of finished goods..... O
 Labor expense..... O
 Sale of a bond issue..... F
 Repayment of a long-term debt..... F
 Selling expenses..... O
 Depreciation expense..... O
 Sale of common stock..... F
 Purchase of fixed assets..... I

172) Year	Opening UCC	Net Additions	CCA	Ending UCC
2003		\$120,000	\$18,000	\$102,000
2004	\$102,000		30,600	71,400
2005	71,400		21,420	49,980
2006	49,980		14,994	34,986
2007	34,986		10,496	24,490

Recapture = (40,000 - 24,490) = \$15,510

173) a.	
Gross Profits	\$1,000,000
Less: Operating expenses	(345,000)

Operating Profits	\$ 655,000
Less: Interest	(125,000)

Net Profits before taxes	\$ 530,000
Less: Taxes (30%)	(159,000)

Net Profits After Taxes	\$ 371,000
Less: Preferred Stock Dividend	(57,000)

Earnings Available for Common Stock	\$ 314,000
b.	
Earnings Available for Common Stock	\$ 314,000
Dividend = (4.25)(15,000 shares)	(63,750)

Increased Retained Earnings	\$ 250,250

Answer Key
Testname: C2

174) a. $OCF = EBIT - \text{Taxes} + \text{Depreciation}$

$$OCF = \$30,000 - \$8,000 + \$3,000 = \$35,000$$

b. $FCF = OCF - \text{Net fixed asset investment (NFAI)} - \text{Net current asset investment (NCAI)}$

$$\begin{aligned} \text{NFAI} &= \text{Change in net fixed assets} + \text{Depreciation} \\ &= (24,000 - 22,000) + 3,000 = \$5,000 \end{aligned}$$

$$\begin{aligned} \text{NCAI} &= \text{Change in current assets} - \text{change in (Accounts payable + Accruals)} \\ &= (99,000 - 87,000) - (32,000 - 26,000) \\ &= \$6,000 \end{aligned}$$

$$FCF = 35,000 - 5,000 - 6,000 = \$24,000$$

175) ABC Corp.
Balance Sheet Changes and Classification
of Key Accounts between 2002 and 2003

Account	2003	2002	Chng	Classif.	Type
Long-term debts	\$ 960	\$ 800	+160	S	F
Accounts receivable	640	500	+140	U	O
Common stock	200	200	0	N	F
Cash	640	500	+140	U	O
Retained earnings	960	800	+160	S	O/F
Accruals	50	200	-150	U	O
Inventory	840	600	+240	U	O
Accounts payable	1,150	1,000	+150	S	O
Net fixed assets	1,800	2,000	-200	S	I

176) Retained Earnings (2001)	\$850,000
Net Profits After Taxes (2002)	245,000
Preferred Stock Dividend	(45,000)
Common Stock Dividend	X
-----	-----
Retained Earnings (2002)	\$950,000

$$\text{Total common stock dividend} = \$100,000$$

$$\text{Common stock dividend per share} = 100,000/10,000 = \$10$$

177) Earnings before interest and taxes	\$500,000
Less: Interest	10,000

Earnings before taxes	\$490,000
Less: Taxes (40%)	196,000

Earnings after taxes	\$294,000

178) a. Magna Fax, Inc.
Statement of Retained Earnings
For the Year Ended December 31, 2003

Retained Earnings Balance (December 31, 2002)	\$24,000
Net income after taxes	+ 10,500

Answer Key
Testname: C2

Dividends	- 6,500
-----	-----
Retained Earnings Balance (December 31, 2003)	\$28,000

b. Magna Fax, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2003

SOURCES		USES	
Net income		Dividends paid	\$6,500
after taxes	\$10,500	Inc. in Cash	3,000
Amortization	4,000	Inc. in Acct. rec	6,000
Inc. in Notes payable	10,000	Inc. in Inventory	3,000
Inc. in LT debts	2,000	Inc. in Fixed asset	2,000
Dec. in Acct payable	5,000	Dec. in Accruals	1,000
Total Sources	\$26,500	Total Uses	\$26,500

c. Magna Fax, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2003

Cash flow from operating activities:

Net income after taxes	\$10,500	
Amortization	4,000	
Inc. in Accounts receivable	- 6,000	
Inc. in Inventory	- 3,000	
Dec. in Accounts payable	- 5,000	
Dec. in Accruals	- 1,000	
	-----	-\$ 500

Cash flow from investment activities:

Inc. in Gross fixed assets	- 2,000	
Changes in business interest	0	
	-----	-\$2,000

Cash flow from financing activities:

Inc. in Notes payable	\$10,000	
Inc. in LT debts	2,000	
Changes in S.E.	0	
Dividends paid	- 6,500	
	-----	\$5,500

Net increase in cash & marketable sec.		\$3,000

Answer Key
Testname: C2

- 179) 1) The historical cost principle is objective and conservative, but does not reflect market realities.
2) Items like goodwill, human capital, competitive advantages, and growth options are not accounted for in the financial statements.
- 180) Dividends = (\$3.50/share) (35,000 shares) = \$122,500

Retained Earnings (2001)	\$485,000
Net Income After Taxes (2002)	X
Dividends	122,500
-----	-----
Retained Earnings (2002)	\$565,000

Net Profits After Taxes = \$202,500