Test Bank for Fundamentals of Corporate Finance 12th Ross

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Fundamentals of Corporate Finance, 12e **(Ross)**
Chapter 2 Financial Statements, Taxes, and Cash Flow

1) Which one of the following is classified as a tangible fixed asset?
A) Accounts receivable
B) Production equipment
C) Cash
D) Patent
E) Inventory

2) Which one of the following is a current asset?
A) Accounts payable
B) Trademark
C) Accounts receivable
D) Notes payable
E) Equipment

3) Which one of the following is included in a firm's market value but yet is excluded from the firm's accounting value?
A) Real estate investment
B) Good reputation of the company
C) Equipment owned by the firm
D) Money due from a customer
E) An item held by the firm for future sale

4) Which one of the following is a current liability?
A) Note payable to a supplier in 13 months
B) Amount due from a customer in two weeks
C) Account payable to a supplier that is due next week
D) Loan payable to the bank in 18 months
E) Amount due from a customer that is past due

5) Which one of the following will decrease the value of a firm's net working capital?
A) Using cash to pay a supplier
B) Depreciating an asset
C) Collecting an accounts receivable
D) Purchasing inventory on credit
E) Selling inventory at a loss

6) Which one of the following statements concerning net working capital is correct?
A) Net working capital increases when inventory is purchased with cash.
B) Net working capital excludes inventory.
C) Total assets must increase if net working capital increases.
D) Net working capital may be a negative value.
E) Net working capital is the amount of cash a firm currently has available for spending.

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7) Which one of the following statements concerning net working capital is correct?
A) A firm's ability to meet its current obligations increases as the firm's net working capital decreases.
B) An increase in net working capital must also increase current assets.
C) Net working capital increases when inventory is sold for cash at a profit.
D) Firms with equal amounts of net working capital are also equally liquid.
E) Net working capital is a part of the operating cash flow.

8) Which one of the following accounts is the most liquid?
A) Inventory
B) Building
C) Accounts Receivable
D) Equipment
E) Land

9) Which one of the following represents the most liquid asset?
A) $100 account receivable that is discounted and collected for $96 today
B) $100 of inventory that is sold today on credit for $103
C) $100 of inventory that is discounted and sold for $97 cash today
D) $100 of inventory that is sold today for $100 cash
E) $100 of accounts receivable that will be collected in full next week

10) Which one of the following statements related to liquidity is correct?
A) Liquid assets tend to earn a high rate of return.
B) Liquid assets are valuable to a firm.
C) Liquid assets are defined as assets that can be sold quickly regardless of the price obtained.
D) Inventory is more liquid than accounts receivable because inventory is tangible.
E) Any asset that can be sold is considered liquid.

11) Shareholders' equity:
A) is referred to as a firm's financial leverage.
B) is equal to total assets plus total liabilities.
C) decreases whenever new shares of stock are issued.
D) includes patents, preferred stock, and common stock.
E) represents the residual value of a firm.

12) As the degree of financial leverage increases, the:
A) probability a firm will encounter financial distress increases.
B) amount of a firm's total debt decreases.
C) less debt a firm has per dollar of total assets.
D) number of outstanding shares of stock increases.
E) accounts payable balance decreases.

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13) The book value of a firm is:
A) equivalent to the firm's market value provided that the firm has some fixed assets.
B) based on historical cost.
C) generally greater than the market value when fixed assets are included.
D) more of a financial than an accounting valuation.
E) adjusted to the market value whenever the market value exceeds the stated book value.

14) The value of which one of the following is included in the market value of a firm but is excluded from the firm's book value?
A) Office equipment
B) Copyright
C) Distribution warehouse
D) Employee's experience
E) Land acquired over 25 years ago

15) You recently purchased a grocery store. At the time of the purchase, the store's market value and its book value were equal. The purchase included the building, fixtures, and inventory. Which one of the following is most apt to cause the market value of this store to be less than its book value?
A) A sudden and unexpected increase in inflation
B) The replacement of old inventory items with more desirable products
C) Improvements to the surrounding area by other store owners
D) Construction of a new restricted access highway located between the store and the surrounding residential areas
E) Addition of a stop light at the main entrance to the store's parking lot

16) Which one of the following is the financial statement that shows the accounting value of a firm's equity as of a particular date?
A) Income statement
B) Creditor's statement
C) Balance sheet
D) Statement of cash flows
E) Dividend statement

17) Net working capital is defined as:
A) total liabilities minus shareholders' equity.
B) current liabilities minus shareholders' equity.
C) fixed assets minus long-term liabilities.
D) total assets minus total liabilities.
E) current assets minus current liabilities.

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18) Which one of these sets forth the common set of standards and procedures by which audited financial statements are prepared?
A) Matching principle
B) Cash flow identity
C) Generally Accepted Accounting Principles
D) Financial Accounting Reporting Principles
E) Standard Accounting Value Guidelines

19) Which one of the following is the financial statement that summarizes a firm's revenue and expenses over a period of time?
A) Income statement
B) Balance sheet
C) Statement of cash flows
D) Tax reconciliation statement
E) Market value report

20) Noncash items refer to:
A) fixed expenses.
B) inventory items purchased using credit.
C) the ownership of intangible assets such as patents.
D) expenses that do not directly affect cash flows.
E) sales that are made using store credit.

21) Which one of the following is true according to generally accepted accounting principles?
A) Depreciation is recorded based on the market value principle.
B) Income is recorded based on the realization principle.
C) Costs are recorded based on the realization principle.
D) Depreciation is recorded based on the recognition principle.
E) Costs of goods sold are recorded based on the recognition principle.

22) Which one of these is most apt to be a fixed cost?
A) Raw materials
B) Manufacturing wages
C) Management bonuses
D) Office salaries
E) Shipping and freight

23) Which one of the following statements is correct assuming accrual accounting is used?
A) The addition to retained earnings is equal to net income plus dividends paid.
B) Credit sales are recorded on the income statement when the cash from the sale is collected.
C) The labor costs for producing a product are expensed when the product is sold.
D) Interest is a non-cash expense.
E) Depreciation increases the marginal tax rate.

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24) The percentage of the next dollar you earn that must be paid in taxes is referred to as the _____ tax rate.
A) mean
B) residual
C) total
D) average
E) marginal

25) The _____ tax rate is equal to total taxes divided by total taxable income.
A) deductible
B) residual
C) total
D) average
E) marginal

26) Which one of the following statements related to corporate taxes is correct?
A) A company's marginal tax rate must be equal to or lower than its average tax rate.
B) The tax for a company is computed by multiplying the marginal tax rate times the taxable income.
C) Additional income is taxed at a firm's average tax rate.
D) The marginal tax rate will always exceed a company's average tax rate.
E) The marginal tax rate for a company can be either higher than or equal to the average tax rate.

27) Which one of the following statements concerning corporate income taxes is correct for 2018?
A) All corporations are exempt from federal taxation.
B) Corporations pay no tax on their first $50,000 of income.
C) The federal income tax on corporations is a flat-rate tax with the same rate applying to all levels of taxable income.
D) The marginal tax rate will always be lower than the average tax rate.
E) The first 25 percent of corporate income is exempt from taxation.

28) The cash flow that is available for distribution to a corporation's creditors and stockholders is called the:
A) operating cash flow.
B) net capital spending.
C) net working capital.
D) cash flow from assets.
E) cash flow to stockholders.

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29) Which term relates to the cash flow that results from a company's ongoing, normal business activities?
A) Operating cash flow
B) Capital spending
C) Net working capital
D) Cash flow from assets
E) Cash flow to creditors

30) Cash flow from assets is also known as the firm's:
A) capital structure.
B) equity structure.
C) hidden cash flow.
D) free cash flow.
E) historical cash flow.

31) The cash flow related to interest payments less any net new borrowing is called the:
A) operating cash flow.
B) capital spending cash flow.
C) net working capital.
D) cash flow from assets.
E) cash flow to creditors.

32) Cash flow to stockholders is defined as:
A) the total amount of interest and dividends paid during the past year.
B) the change in total equity over the past year.
C) cash flow from assets plus the cash flow to creditors.
D) operating cash flow minus the cash flow to creditors.
E) dividend payments less net new equity raised.

33) Which one of the following is an expense for accounting purposes but is not an operating cash flow for financial purposes?
A) Interest expense
B) Taxes
C) Cost of goods sold
D) Labor costs
E) Administrative expenses

34) Depreciation for a tax-paying firm:
A) increases expenses and lowers taxes.
B) increases the net fixed assets as shown on the balance sheet.
C) reduces both the net fixed assets and the costs of a firm.
D) is a noncash expense that increases the net income.
E) decreases net fixed assets, net income, and operating cash flows.

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35) Which one of the following statements related to an income statement is correct?
A) Interest expense increases the amount of tax due.
B) Depreciation does not affect taxes since it is a non-cash expense.
C) Net income is distributed to dividends and paid-in surplus.
D) Taxes reduce both net income and operating cash flow.
E) Interest expense is included in operating cash flow.

36) Which one of the following statements is correct concerning a corporation with taxable income of $125,000?
A) Taxable income minus dividends paid will equal the ending retained earnings for the year.
B) An increase in depreciation will increase the operating cash flow.
C) Net income divided by the number of shares outstanding will equal the dividends per share.
D) Interest paid will be included in both net income and operating cash flow.
E) An increase in the tax rate will increase both net income and operating cash flow.

37) Which one of the following will increase the cash flow from assets, all else equal?
A) Decrease in cash flow to stockholders
B) Decrease in operating cash flow
C) Decrease in the change in net working capital
D) Decrease in cash flow to creditors
E) Increase in net capital spending

38) For a tax-paying firm, an increase in _____ will cause the cash flow from assets to increase.
A) depreciation
B) net capital spending
C) the change in net working capital
D) taxes
E) production costs

39) Which one of the following must be true if a firm had a negative cash flow from assets?
A) The firm borrowed money.
B) The firm acquired new fixed assets.
C) The firm had a net loss for the period.
D) The firm utilized outside funding.
E) Newly issued shares of stock were sold.

40) An increase in the interest expense for a firm with a taxable income of $123,000 will:
A) increase net income.
B) increase gross income.
C) increase the cash flow from assets.
D) decrease the cash flow from equity.
E) decrease the operating cash flow.

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41) Which one of the following is excluded from the cash flow from assets?
A) Accounts payable
B) Inventory
C) Sales
D) Interest expense
E) Cost of goods sold

42) Net capital spending:
A) is equal to ending net fixed assets minus beginning net fixed assets.
B) is equal to zero if the decrease in the net fixed assets is equal to the depreciation expense.
C) reflects the net changes in total assets over a stated period of time.
D) is equivalent to the cash flow from assets minus the operating cash flow minus the change in net working capital.
E) is equal to the net change in the current accounts.

43) Which one of the following statements related to the cash flow to creditors must be correct?
A) If the cash flow to creditors is positive, then the firm must have borrowed more money than it repaid.
B) If the cash flow to creditors is negative, then the firm must have a negative cash flow from assets.
C) A positive cash flow to creditors represents a net cash outflow from the firm.
D) A positive cash flow to creditors means that a firm has increased its long-term debt.
E) If the cash flow to creditors is zero, then a firm has no long-term debt.

44) A positive cash flow to stockholders indicates which one of the following with certainty?
A) The dividends paid exceeded the net new equity raised.
B) The amount of the sale of common stock exceeded the amount of dividends paid.
C) No dividends were distributed, but new shares of stock were sold.
D) Both the cash flow to assets and the cash flow to creditors must be negative.
E) Both the cash flow to assets and the cash flow to creditors must be positive.

45) A firm has $680 in inventory, $2,140 in fixed assets, $210 in accounts receivables, $250 in accounts payable, and $80 in cash. What is the amount of the net working capital?
A) $970
B) $720
C) $640
D) $3,110
E) $2,860

46) A firm has net working capital of $560. Long-term debt is $3,970, total assets are $7,390, and fixed assets are $3,910. What is the amount of the total liabilities?
A) $2,050
B) $2,920
C) $4,130
D) $7,950
E) $6,890

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47) A firm has common stock of $6,200, paid-in surplus of $9,100, total liabilities of $8,400, current assets of $5,900, and fixed assets of $21,200. What is the amount of the shareholders' equity?
A) $6,900
B) $15,300
C) $18,700
D) $23,700
E) $35,500

48) Your firm has total assets of $4,900, fixed assets of $3,200, long-term debt of $2,900, and short-term debt of $1,400. What is the amount of net working capital?
A) −$100
B) $300
C) $600
D) $1,700
E) $1,800

49) Bonner Automotive has shareholders' equity of $218,700. The firm owes a total of $141,000 of which 40 percent is payable within the next year. The firm has net fixed assets of $209,800. What is the amount of the net working capital?
A) $149,900
B) $93,500
C) $125,600
D) −$47,500
E) $56,500

50) Four years ago, Ship Express purchased a mailing machine at a cost of $218,000. This equipment is currently valued at $97,400 on today's balance sheet but could actually be sold for $92,900. This is the only fixed asset the firm owns. Net working capital is $41,300 and long-term debt is $102,800. What is the book value of shareholders' equity?
A) $31,400
B) $47,700
C) $35,900
D) $249,400
E) $253,900

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51) The What-Not Shop owns the building in which it is located. This building initially cost $647,000 and is currently appraised at $819,000. The fixtures originally cost $148,000 and are currently valued at $65,000. The inventory has a book value of $319,000 and a market value equal to 1.1 times the book value. The shop expects to collect 96 percent of the $21,700 in accounts receivable. The shop has $26,800 in cash and total debt of $414,700. What is the market value of the shop's equity?
A) $867,832
B) $900,166
C) $695,832
D) $775,632
E) $1,190,332

52) The Widget Co. purchased all of its fixed assets three years ago for $4 million. These assets can be sold today for $2 million. The current balance sheet shows net fixed assets of $2,500,000, current liabilities of $1,375,000, and net working capital of $725,000. If all the current assets were liquidated today, the company would receive $1.9 million in cash. The book value of the total assets today is _____ and the market value of those assets is _____.
A) $4,600,000; $3,900,000
B) $4,600,000; $3,125,000
C) $5,000,000; $3,125,000
D) $5,000,000; $3,900,000
E) $6,500,000; $3,900,000

53) JJ Enterprises has inventory of $11,600, fixed assets of $22,400, total liabilities of $12,900, cash of $1,900, accounts receivable of $8,700, and long-term debt of $6,500. What is the net working capital?
A) $44,600
B) $15,700
C) $12,600
D) $15,800
E) $9,300

54) The River Side Stop has a current market value of $26,400 and owes its creditors $31,300. What is the market value of the shareholders' equity?
A) −$4,900
B) −$5,200
C) $0
D) $4,900
E) $5,200

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55) Jensen Enterprises paid $700 in dividends and $320 in interest this past year. Common stock remained constant at $6,800 and retained earnings decreased by $180. What is the net income for the year?
A) $180
B) $520
C) $1,020
D) $880
E) $1,200

56) Andre's Bakery has sales of $487,000 with costs of $263,000. Interest expense is $26,000 and depreciation is $42,000. The tax rate is 21 percent. What is the net income?
A) $142,750
B) $123,240
C) $109,000
D) $128,700
E) $134,550

57) Hayes Bakery has sales of $30,600, costs of $15,350, an addition to retained earnings of $4,221, dividends paid of $469, interest expense of $1,300, and a tax rate of 21 percent. What is the amount of the depreciation expense?
A) $4,820.13
B) $5,500.89
C) $8,013.29
D) $8,180.01
E) $9,500.00

58) Last year, Kaylor Equipment had $15,900 of sales, $500 of net new equity, dividend payments of $75, an addition to retained earnings of $418, depreciation of $680, and $511 of interest expense. What are the earnings before interest and taxes at a tax rate of 21 percent?
A) $589.46
B) $1,135.05
C) $1,331.54
D) $1,560.85
E) $949.46

59) Galaxy Interiors income statement shows depreciation of $1,611, sales of $21,415, interest paid of $1,282, net income of $1,374, and costs of goods sold of $16,408. What is the amount of the noncash expenses?
A) $2,893
B) $1,282
C) $740
D) $1,611
E) $2,351

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60) Beach Front Industries has sales of $546,000, costs of $295,000, depreciation expense of $37,000, interest expense of $15,000, and a tax rate of 21 percent. The firm paid $59,000 in cash dividends. What is the addition to retained earnings?
A) $98,210
B) $81,700
C) $95,200
D) $103,460
E) $121,680

61) Keisler's has cost of goods sold of $11,518, interest expense of $315, dividends of $420, depreciation of $811, and a change in retained earnings of $296. What is the taxable income given a tax rate of 21 percent?
A) $955.38
B) $967.78
C) $906.33
D) $776.41
E) $646.15

62) What is the average tax rate for a firm with taxable income of $118,740 in 2017?

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

A) 26.68 percent
B) 34.87 percent
C) 24.89 percent
D) 36.67 percent
E) 39.00 percent

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63) For 2017, Nevada Mining had projected taxable income of $94,800. Its actual taxable income exceeded this projection by $21,000. How much additional tax did the firm owe due to the $21,000 increase in taxable income?

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

A) $7,930
B) $8,036
C) $8,150
D) $7,682
E) $8,197

64) In 2017, Boyer Enterprises had $76,700 in taxable income. What was the firm's average tax rate for the year?

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

A) 28.25 percent
B) 18.68 percent
C) 26.48 percent
D) 20.14 percent
E) 29.03 percent

65) Winston Industries had sales of $843,800 and costs of $609,900. The company paid $38,200 in interest and $35,000 in dividends. The depreciation was $76,400. The firm has a combined tax rate of 24 percent. What was the addition to retained earnings for the year?
A) $55,668
B) $57,240
C) $61,060
D) $56,200
E) $68,400

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66) RTF Oil has total sales of $911,400 and costs of $787,300. Depreciation is $52,600 and the tax rate is 21 percent. The firm is all-equity financed. What is the operating cash flow?
A) $108,410
B) $108,320
C) $109,924
D) $106,417
E) $109,085

67) Nielsen Auto Parts had beginning net fixed assets of $218,470 and ending net fixed assets of $209,411. During the year, assets with a book value of $6,943 were sold. Depreciation for the year was $42,822. What is the amount of net capital spending?
A) $33,763
B) $40,706
C) $58,218
D) $65,161
E) $67,408

68) At the beginning of the year, a firm had current assets of $121,306 and current liabilities of $124,509. At the end of the year, the current assets were $122,418 and the current liabilities were $103,718. What is the change in net working capital?
A) −$19,679
B) −$11,503
C) $19,387
D) $15,497
E) $21,903

69) At the beginning of the year, the long-term debt of a firm was $72,918 and total debt was $138,407. At the end of the year, long-term debt was $68,219 and total debt was $145,838. The interest paid was $6,430. What is the amount of the cash flow to creditors?
A) $1,731
B) −$1,001
C) $11,129
D) $13,861
E) $19,172

70) Ernie's Home Repair had beginning long-term debt of $51,207 and ending long-term debt of $36,714. The beginning and ending total debt balances were $59,513 and $42,612, respectively. The interest paid was $2,808. What is the amount of the cash flow to creditors?
A) −$11,685
B) −$11,272
C) $17,301
D) $17,418
E) $11,174

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71) *The Daily News* has projected annual net income of $272,600, of which 28 percent will be distributed as dividends. Assume the company will have net sales of $75,000 worth of common stock. What will be the cash flow to stockholders if the tax rate is 21 percent?
A) −$75,000
B) $1,328
C) $24,623.52
D) $76,328
E) $151,328

72) The Lakeside Inn had operating cash flow of $48,450. Depreciation was $6,700 and interest paid was $2,480. A net total of $2,620 was paid on long-term debt. The firm spent $24,000 on fixed assets and decreased net working capital by $1,330. What was the amount of the cash flow to stockholders?
A) $5,100
B) $7,830
C) $18,020
D) $19,998
E) $20,680

73) For the past year, Galaxy Interiors had depreciation of $2,419, beginning total assets of $23,616, and ending total assets of $21,878. Current assets decreased by $1,356. What was the amount of net capital spending for the year?
A) −$382
B) $2,037
C) $2,801
D) $1,993
E) $1,172

74) Carlisle Express paid $1,282 in interest and $975 in dividends last year. Current assets increased by $2,700, current liabilities decreased by $420, and long-term debt increased by $2,200. What was the cash flow to creditors?
A) −$530
B) −$918
C) $1,839
D) 2,132
E) $3,094

75) CBC Industries has sales of $21,415, interest paid of $1,282, costs of $9,740, and depreciation of $1,480. What is the operating cash flow if the tax rate is 22 percent?
A) $10,114.14
B) $9,900.86
C) $8,985.86
D) $8,536.67
E) $9,714.14

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76) Williamsburg Markets has an operating cash flow of $4,267 and depreciation of $1,611. Current assets decreased by $1,356 while current liabilities decreased by $2,662, and net fixed assets decreased by $382 during the year. What is free cash flow for the year?
A) $1,732
B) $2,247
C) $2,961
D) $3,915
E) $4,267

77) Up Towne Cleaners has taxable income of $48,900 and a tax rate of 21 percent. What is the change in retained earnings if the firm pays $20,200 in dividends for the year?
A) $18,942
B) $19,948
C) $19,374
D) $18,431
E) $18,574

78) For the year, B&K United increased current liabilities by $1,400, decreased cash by $1,200, increased net fixed assets by $340, increased accounts receivable by $200, and decreased inventory by $150. What is the annual change in net working capital?
A) −$2,550
B) −$70
C) $590
D) $550
E) −$2,210

79) TJH, Inc. purchased $145,000 in new equipment and sold equipment with a net book value of $68,400 during the year. What is the amount of net capital spending if the depreciation was $38,600?
A) $115,200
B) $76,600
C) $94,200
D) $38,000
E) −$38,000

80) Nu Furniture has sales of $241,000, depreciation of $32,200, interest expense of $35,700, costs of $103,400, and taxes of $14,637. What is the operating cash flow for the year?
A) $108,229
B) $121,367
C) $122,963
D) $117,766
E) $128,037

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81) HiWay Furniture has sales of $316,000, depreciation of $47,200, interest expense of $41,400, costs of $148,200, and taxes of $16,632. The firm has net capital spending of $36,400 and a decrease in net working capital of $14,300. What is the cash flow from assets for the year?
A) $145,985
B) $129,068
C) $119,655
D) $120,810
E) $134,585

82) At the beginning of the year, Trees Galore had current liabilities of $15,932 and total debt of $68,847. By year end, current liabilities were $13,870 and total debt was $72,415. What is the amount of net new borrowing for the year?
A) $5,630
B) −$2,480
C) $3,568
D) $4,677
E) −$2,062

83) JJ Enterprises has current assets of $10,406, long-term debt of $4,780, and current liabilities of $9,822 at the beginning of the year. At year end, current assets are $11,318, long-term debt is $5,010, and current liabilities are $9,741. The firm paid $277 in interest and $320 in dividends during the year. What is the cash flow to creditors for the year?
A) −$47
B) −$507
C) −$97
D) $47
E) $507

84) BK Enterprises neither sold nor repurchased any shares of stock during the year. The firm had annual sales of $7,202, depreciation of $1,196, cost of goods sold of $4,509, interest expense of $318, taxes of $248, beginning-of-year shareholders' equity of $4,808, and end-of-year shareholders' equity of $4,922. What is the amount of dividends paid during the year?
A) $817
B) $1,009
C) $864
D) $709
E) $515

85) Carlisle Carpets has cost of goods sold of $92,511, interest expense of $4,608, dividends paid of $3,200, depreciation of $14,568, an increase in retained earnings of $11,920, and a tax rate of 21 percent. What is the operating cash flow?
A) $34,296.00
B) $42,122.42
C) $36,462.58
D) $31,543.10
E) $36,741.42

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86) Webster World has sales of $13,800, costs of $5,800, depreciation expense of $1,100, and interest expense of $700. What is the operating cash flow if the tax rate is 23 percent?
A) $6,016
B) $5,969
C) $6,574
D) $7,036
E) $7,100

87) Webster's has beginning net fixed assets of $684,218, ending net fixed assets of $679,426, and depreciation expense of $48,859. What is the net capital spending for the year if the tax rate is 25 percent?
A) $42,920
B) $53,651
C) $44,067
D) $35,255
E) $48,600

88) Global Tours has beginning current assets of $1,360, beginning current liabilities of $940, ending current assets of $1,720, and ending current liabilities of $1,080. What is the change in net working capital?
A) $220
B) $170
C) $190
D) $940
E) $1,060

89) The Beach Shoppe has beginning total debt of $682,400 and ending total debt of $697,413. Current liabilities increased by $18,915 during the year. What was the cash flow to creditors if the firm paid $34,215 in interest during the year?
A) $384
B) $287
C) $38,117
D) $20,228
E) $19,202

90) The Outlet started the year with $650,000 in the common stock account and $1,318,407 in the additional paid-in surplus account. The end-of-year balance sheet showed $720,000 and $1,299,310 in the same two accounts, respectively. What is the cash flow to stockholders if the firm paid $68,500 in dividends?
A) −$17,597
B) $17,597
C) −$1,500
D) $1,500
E) $68,500

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91) During the year, RIT Corp. had sales of $565,600. Costs of goods sold, administrative and selling expenses, and depreciation expenses were $476,000, $58,800, and $42,800, respectively. In addition, the company had an interest expense of $112,000 and a tax rate of 22 percent. What is the operating cash flow for the year? Ignore any tax loss carry-forward provisions.
A) $17,920
B) $21,840
C) $30,800
D) $52,600
E) $77,840

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Fundamentals of Corporate Finance, 12e **(Ross)**
Chapter 2 Financial Statements, Taxes, and Cash Flow

1) Which one of the following is classified as a tangible fixed asset?
A) Accounts receivable
B) Production equipment
C) Cash
D) Patent
E) Inventory

Answer: B
Difficulty: 1 Easy
Topic: Balance sheet
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

2) Which one of the following is a current asset?
A) Accounts payable
B) Trademark
C) Accounts receivable
D) Notes payable
E) Equipment

Answer: C
Difficulty: 1 Easy
Topic: Balance sheet
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
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3) Which one of the following is included in a firm's market value but yet is excluded from the firm's accounting value?
A) Real estate investment
B) Good reputation of the company
C) Equipment owned by the firm
D) Money due from a customer
E) An item held by the firm for future sale

Answer: B
Difficulty: 1 Easy
Topic: Market and book values
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

4) Which one of the following is a current liability?
A) Note payable to a supplier in 13 months
B) Amount due from a customer in two weeks
C) Account payable to a supplier that is due next week
D) Loan payable to the bank in 18 months
E) Amount due from a customer that is past due

Answer: C
Difficulty: 1 Easy
Topic: Balance sheet
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
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Accessibility: Keyboard Navigation

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5) Which one of the following will decrease the value of a firm's net working capital?
A) Using cash to pay a supplier
B) Depreciating an asset
C) Collecting an accounts receivable
D) Purchasing inventory on credit
E) Selling inventory at a loss

Answer: E
Difficulty: 1 Easy
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

6) Which one of the following statements concerning net working capital is correct?
A) Net working capital increases when inventory is purchased with cash.
B) Net working capital excludes inventory.
C) Total assets must increase if net working capital increases.
D) Net working capital may be a negative value.
E) Net working capital is the amount of cash a firm currently has available for spending.

Answer: D
Difficulty: 1 Easy
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
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7) Which one of the following statements concerning net working capital is correct?
A) A firm's ability to meet its current obligations increases as the firm's net working capital decreases.
B) An increase in net working capital must also increase current assets.
C) Net working capital increases when inventory is sold for cash at a profit.
D) Firms with equal amounts of net working capital are also equally liquid.
E) Net working capital is a part of the operating cash flow.

Answer: C
Difficulty: 1 Easy
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

8) Which one of the following accounts is the most liquid?
A) Inventory
B) Building
C) Accounts Receivable
D) Equipment
E) Land

Answer: C
Difficulty: 1 Easy
Topic: Liquidity
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
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9) Which one of the following represents the most liquid asset?
A) $100 account receivable that is discounted and collected for $96 today
B) $100 of inventory that is sold today on credit for $103
C) $100 of inventory that is discounted and sold for $97 cash today
D) $100 of inventory that is sold today for $100 cash
E) $100 of accounts receivable that will be collected in full next week

Answer: D
Difficulty: 1 Easy
Topic: Liquidity
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

10) Which one of the following statements related to liquidity is correct?
A) Liquid assets tend to earn a high rate of return.
B) Liquid assets are valuable to a firm.
C) Liquid assets are defined as assets that can be sold quickly regardless of the price obtained.
D) Inventory is more liquid than accounts receivable because inventory is tangible.
E) Any asset that can be sold is considered liquid.

Answer: B
Difficulty: 1 Easy
Topic: Liquidity
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
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11) Shareholders' equity:
A) is referred to as a firm's financial leverage.
B) is equal to total assets plus total liabilities.
C) decreases whenever new shares of stock are issued.
D) includes patents, preferred stock, and common stock.
E) represents the residual value of a firm.

Answer: E
Difficulty: 1 Easy
Topic: Balance sheet
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

12) As the degree of financial leverage increases, the:
A) probability a firm will encounter financial distress increases.
B) amount of a firm's total debt decreases.
C) less debt a firm has per dollar of total assets.
D) number of outstanding shares of stock increases.
E) accounts payable balance decreases.

Answer: A
Difficulty: 1 Easy
Topic: Financial and operating leverage
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
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13) The book value of a firm is:
A) equivalent to the firm's market value provided that the firm has some fixed assets.
B) based on historical cost.
C) generally greater than the market value when fixed assets are included.
D) more of a financial than an accounting valuation.
E) adjusted to the market value whenever the market value exceeds the stated book value.

Answer: B
Difficulty: 1 Easy
Topic: Market and book values
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

14) The value of which one of the following is included in the market value of a firm but is excluded from the firm's book value?
A) Office equipment
B) Copyright
C) Distribution warehouse
D) Employee's experience
E) Land acquired over 25 years ago

Answer: D
Difficulty: 1 Easy
Topic: Market and book values
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Understand
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15) You recently purchased a grocery store. At the time of the purchase, the store's market value and its book value were equal. The purchase included the building, fixtures, and inventory. Which one of the following is most apt to cause the market value of this store to be less than its book value?
A) A sudden and unexpected increase in inflation
B) The replacement of old inventory items with more desirable products
C) Improvements to the surrounding area by other store owners
D) Construction of a new restricted access highway located between the store and the surrounding residential areas
E) Addition of a stop light at the main entrance to the store's parking lot

Answer: D
Difficulty: 2 Medium
Topic: Market and book values
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

16) Which one of the following is the financial statement that shows the accounting value of a firm's equity as of a particular date?
A) Income statement
B) Creditor's statement
C) Balance sheet
D) Statement of cash flows
E) Dividend statement

Answer: C
Difficulty: 1 Easy
Topic: Balance sheet
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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17) Net working capital is defined as:
A) total liabilities minus shareholders' equity.
B) current liabilities minus shareholders' equity.
C) fixed assets minus long-term liabilities.
D) total assets minus total liabilities.
E) current assets minus current liabilities.

Answer: E
Difficulty: 1 Easy
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

18) Which one of these sets forth the common set of standards and procedures by which audited financial statements are prepared?
A) Matching principle
B) Cash flow identity
C) Generally Accepted Accounting Principles
D) Financial Accounting Reporting Principles
E) Standard Accounting Value Guidelines

Answer: C
Difficulty: 1 Easy
Topic: Generally Accepted Accounting Principles (GAAP)
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Remember
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19) Which one of the following is the financial statement that summarizes a firm's revenue and expenses over a period of time?
A) Income statement
B) Balance sheet
C) Statement of cash flows
D) Tax reconciliation statement
E) Market value report

Answer: A
Difficulty: 1 Easy
Topic: Income statement
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

20) Noncash items refer to:
A) fixed expenses.
B) inventory items purchased using credit.
C) the ownership of intangible assets such as patents.
D) expenses that do not directly affect cash flows.
E) sales that are made using store credit.

Answer: D
Difficulty: 1 Easy
Topic: Noncash items
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

21) Which one of the following is true according to generally accepted accounting principles?
A) Depreciation is recorded based on the market value principle.
B) Income is recorded based on the realization principle.
C) Costs are recorded based on the realization principle.
D) Depreciation is recorded based on the recognition principle.
E) Costs of goods sold are recorded based on the recognition principle.

Answer: B
Difficulty: 1 Easy
Topic: Generally Accepted Accounting Principles (GAAP)
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Remember
AACSB: Reflective Thinking
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22) Which one of these is most apt to be a fixed cost?
A) Raw materials
B) Manufacturing wages
C) Management bonuses
D) Office salaries
E) Shipping and freight

Answer: D
Difficulty: 1 Easy
Topic: Fixed and variable costs
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

23) Which one of the following statements is correct assuming accrual accounting is used?
A) The addition to retained earnings is equal to net income plus dividends paid.
B) Credit sales are recorded on the income statement when the cash from the sale is collected.
C) The labor costs for producing a product are expensed when the product is sold.
D) Interest is a non-cash expense.
E) Depreciation increases the marginal tax rate.

Answer: C
Difficulty: 1 Easy
Topic: Income statement
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

24) The percentage of the next dollar you earn that must be paid in taxes is referred to as the _____ tax rate.
A) mean
B) residual
C) total
D) average
E) marginal

Answer: E
Difficulty: 1 Easy
Topic: Taxes
Learning Objective: 02-03 Describe the difference between average and marginal tax rates.
Bloom's: Remember
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25) The _____ tax rate is equal to total taxes divided by total taxable income.
A) deductible
B) residual
C) total
D) average
E) marginal

Answer: D
Difficulty: 1 Easy
Topic: Taxes
Learning Objective: 02-03 Describe the difference between average and marginal tax rates.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

26) Which one of the following statements related to corporate taxes is correct?
A) A company's marginal tax rate must be equal to or lower than its average tax rate.
B) The tax for a company is computed by multiplying the marginal tax rate times the taxable income.
C) Additional income is taxed at a firm's average tax rate.
D) The marginal tax rate will always exceed a company's average tax rate.
E) The marginal tax rate for a company can be either higher than or equal to the average tax rate.

Answer: E
Difficulty: 1 Easy
Topic: Taxes
Learning Objective: 02-03 Describe the difference between average and marginal tax rates.
Bloom's: Understand
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27) Which one of the following statements concerning corporate income taxes is correct for 2018?
A) All corporations are exempt from federal taxation.
B) Corporations pay no tax on their first $50,000 of income.
C) The federal income tax on corporations is a flat-rate tax with the same rate applying to all levels of taxable income.
D) The marginal tax rate will always be lower than the average tax rate.
E) The first 25 percent of corporate income is exempt from taxation.

Answer: C
Difficulty: 1 Easy
Topic: Taxes
Learning Objective: 02-03 Describe the difference between average and marginal tax rates.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

28) The cash flow that is available for distribution to a corporation's creditors and stockholders is called the:
A) operating cash flow.
B) net capital spending.
C) net working capital.
D) cash flow from assets.
E) cash flow to stockholders.

Answer: D
Difficulty: 1 Easy
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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29) Which term relates to the cash flow that results from a company's ongoing, normal business activities?
A) Operating cash flow
B) Capital spending
C) Net working capital
D) Cash flow from assets
E) Cash flow to creditors

Answer: A
Difficulty: 1 Easy
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Remember
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

30) Cash flow from assets is also known as the firm's:
A) capital structure.
B) equity structure.
C) hidden cash flow.
D) free cash flow.
E) historical cash flow.

Answer: D
Difficulty: 1 Easy
Topic: Free cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

31) The cash flow related to interest payments less any net new borrowing is called the:
A) operating cash flow.
B) capital spending cash flow.
C) net working capital.
D) cash flow from assets.
E) cash flow to creditors.

Answer: E
Difficulty: 1 Easy
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
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32) Cash flow to stockholders is defined as:
A) the total amount of interest and dividends paid during the past year.
B) the change in total equity over the past year.
C) cash flow from assets plus the cash flow to creditors.
D) operating cash flow minus the cash flow to creditors.
E) dividend payments less net new equity raised.

Answer: E
Difficulty: 1 Easy
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

33) Which one of the following is an expense for accounting purposes but is not an operating cash flow for financial purposes?
A) Interest expense
B) Taxes
C) Cost of goods sold
D) Labor costs
E) Administrative expenses

Answer: A
Difficulty: 1 Easy
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

34) Depreciation for a tax-paying firm:
A) increases expenses and lowers taxes.
B) increases the net fixed assets as shown on the balance sheet.
C) reduces both the net fixed assets and the costs of a firm.
D) is a noncash expense that increases the net income.
E) decreases net fixed assets, net income, and operating cash flows.

Answer: A
Difficulty: 1 Easy
Topic: Depreciation
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
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35) Which one of the following statements related to an income statement is correct?
A) Interest expense increases the amount of tax due.
B) Depreciation does not affect taxes since it is a non-cash expense.
C) Net income is distributed to dividends and paid-in surplus.
D) Taxes reduce both net income and operating cash flow.
E) Interest expense is included in operating cash flow.

Answer: D
Difficulty: 1 Easy
Topic: Taxes
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

36) Which one of the following statements is correct concerning a corporation with taxable income of $125,000?
A) Taxable income minus dividends paid will equal the ending retained earnings for the year.
B) An increase in depreciation will increase the operating cash flow.
C) Net income divided by the number of shares outstanding will equal the dividends per share.
D) Interest paid will be included in both net income and operating cash flow.
E) An increase in the tax rate will increase both net income and operating cash flow.

Answer: B
Difficulty: 2 Medium
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

37) Which one of the following will increase the cash flow from assets, all else equal?
A) Decrease in cash flow to stockholders
B) Decrease in operating cash flow
C) Decrease in the change in net working capital
D) Decrease in cash flow to creditors
E) Increase in net capital spending

Answer: C
Difficulty: 1 Easy
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

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38) For a tax-paying firm, an increase in _____ will cause the cash flow from assets to increase.
A) depreciation
B) net capital spending
C) the change in net working capital
D) taxes
E) production costs

Answer: A
Difficulty: 1 Easy
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

39) Which one of the following must be true if a firm had a negative cash flow from assets?
A) The firm borrowed money.
B) The firm acquired new fixed assets.
C) The firm had a net loss for the period.
D) The firm utilized outside funding.
E) Newly issued shares of stock were sold.

Answer: D
Difficulty: 1 Easy
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
Accessibility: Keyboard Navigation

40) An increase in the interest expense for a firm with a taxable income of $123,000 will:
A) increase net income.
B) increase gross income.
C) increase the cash flow from assets.
D) decrease the cash flow from equity.
E) decrease the operating cash flow.

Answer: C
Difficulty: 2 Medium
Topic: Depreciation
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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41) Which one of the following is excluded from the cash flow from assets?
A) Accounts payable
B) Inventory
C) Sales
D) Interest expense
E) Cost of goods sold

Answer: D
Difficulty: 1 Easy
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
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42) Net capital spending:
A) is equal to ending net fixed assets minus beginning net fixed assets.
B) is equal to zero if the decrease in the net fixed assets is equal to the depreciation expense.
C) reflects the net changes in total assets over a stated period of time.
D) is equivalent to the cash flow from assets minus the operating cash flow minus the change in net working capital.
E) is equal to the net change in the current accounts.

Answer: B
Difficulty: 1 Easy
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
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43) Which one of the following statements related to the cash flow to creditors must be correct?
A) If the cash flow to creditors is positive, then the firm must have borrowed more money than it repaid.
B) If the cash flow to creditors is negative, then the firm must have a negative cash flow from assets.
C) A positive cash flow to creditors represents a net cash outflow from the firm.
D) A positive cash flow to creditors means that a firm has increased its long-term debt.
E) If the cash flow to creditors is zero, then a firm has no long-term debt.

Answer: C
Difficulty: 1 Easy
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
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44) A positive cash flow to stockholders indicates which one of the following with certainty?
A) The dividends paid exceeded the net new equity raised.
B) The amount of the sale of common stock exceeded the amount of dividends paid.
C) No dividends were distributed, but new shares of stock were sold.
D) Both the cash flow to assets and the cash flow to creditors must be negative.
E) Both the cash flow to assets and the cash flow to creditors must be positive.

Answer: A
Difficulty: 1 Easy
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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45) A firm has $680 in inventory, $2,140 in fixed assets, $210 in accounts receivables, $250 in accounts payable, and $80 in cash. What is the amount of the net working capital?
A) $970
B) $720
C) $640
D) $3,110
E) $2,860

Answer: B
Explanation: NWC = $680 + 210 + 80 − 250
NWC = $720
Difficulty: 2 Medium
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Analyze
AACSB: Analytical Thinking
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46) A firm has net working capital of $560. Long-term debt is $3,970, total assets are $7,390, and fixed assets are $3,910. What is the amount of the total liabilities?
A) $2,050
B) $2,920
C) $4,130
D) $7,950
E) $6,890

Answer: E
Explanation: Current assets = $7,390 − 3,910
Current assets = $3,480

Current liabilities = $3,480 − 560
Current liabilities = $2,920

Total liabilities = $2,920 + 3,970
Total liabilities = $6,890
Difficulty: 2 Medium
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
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47) A firm has common stock of $6,200, paid-in surplus of $9,100, total liabilities of $8,400, current assets of $5,900, and fixed assets of $21,200. What is the amount of the shareholders' equity?
A) $6,900
B) $15,300
C) $18,700
D) $23,700
E) $35,500

Answer: C
Explanation: Shareholders' equity = $5,900 + 21,200 − 8,400
Shareholders' equity = $18,700

The amount of retained earnings is not provided, so you must use total assets minus total liabilities to derive the correct answer.
Difficulty: 2 Medium
Topic: Balance sheet
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Analyze
AACSB: Analytical Thinking
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48) Your firm has total assets of $4,900, fixed assets of $3,200, long-term debt of $2,900, and short-term debt of $1,400. What is the amount of net working capital?
A) −$100
B) $300
C) $600
D) $1,700
E) $1,800

Answer: B
Explanation: NWC = $4,900 − 3,200 − 1,400
NWC = $300
Difficulty: 2 Medium
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
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49) Bonner Automotive has shareholders' equity of $218,700. The firm owes a total of $141,000 of which 40 percent is payable within the next year. The firm has net fixed assets of $209,800. What is the amount of the net working capital?
A) $149,900
B) $93,500
C) $125,600
D) −$47,500
E) $56,500

Answer: B
Explanation: Current liabilities = .40($141,000)
Current liabilities = $56,400

Total assets = $218,700 + 141,000
Total assets = $359,700

Current assets = $359,700 − 209,800
Current assets = $149,900

NWC = $149,900 − 56,400
NWC = $93,500
Difficulty: 2 Medium
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
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50) Four years ago, Ship Express purchased a mailing machine at a cost of $218,000. This equipment is currently valued at $97,400 on today's balance sheet but could actually be sold for $92,900. This is the only fixed asset the firm owns. Net working capital is $41,300 and long-term debt is $102,800. What is the book value of shareholders' equity?
A) $31,400
B) $47,700
C) $35,900
D) $249,400
E) $253,900

Answer: C
Explanation: Equity BV = $97,400 + 41,300 − 102,800
Equity BV = $35,900
Difficulty: 2 Medium
Topic: Market and book values
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Analyze
AACSB: Analytical Thinking
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51) The What-Not Shop owns the building in which it is located. This building initially cost $647,000 and is currently appraised at $819,000. The fixtures originally cost $148,000 and are currently valued at $65,000. The inventory has a book value of $319,000 and a market value equal to 1.1 times the book value. The shop expects to collect 96 percent of the $21,700 in accounts receivable. The shop has $26,800 in cash and total debt of $414,700. What is the market value of the shop's equity?
A) $867,832
B) $900,166
C) $695,832
D) $775,632
E) $1,190,332

Answer: A
Explanation: Equity MV = $819,000 + 65,000 + 1.1($319,000) + .96($21,700) + 26,800 − 414,700
Equity MV = $867,832
Difficulty: 2 Medium
Topic: Market and book values
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
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52) The Widget Co. purchased all of its fixed assets three years ago for $4 million. These assets can be sold today for $2 million. The current balance sheet shows net fixed assets of $2,500,000, current liabilities of $1,375,000, and net working capital of $725,000. If all the current assets were liquidated today, the company would receive $1.9 million in cash. The book value of the total assets today is _____ and the market value of those assets is _____.
A) $4,600,000; $3,900,000
B) $4,600,000; $3,125,000
C) $5,000,000; $3,125,000
D) $5,000,000; $3,900,000
E) $6,500,000; $3,900,000

Answer: A
Explanation: BV = ($725,000 + 1,375,000) + 2,500,000
BV = $4,600,000

MV = $1,900,000 + 2,000,000
MV = $3,900,000
Difficulty: 2 Medium
Topic: Market and book values
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Analyze
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53) JJ Enterprises has inventory of $11,600, fixed assets of $22,400, total liabilities of $12,900, cash of $1,900, accounts receivable of $8,700, and long-term debt of $6,500. What is the net working capital?
A) $44,600
B) $15,700
C) $12,600
D) $15,800
E) $9,300

Answer: D
Explanation: NWC = $1,900 + 8,700 + 11,600 − ($12,900 − 6,500)
NWC = $15,800
Difficulty: 2 Medium
Topic: Net working capital
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
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54) The River Side Stop has a current market value of $26,400 and owes its creditors $31,300. What is the market value of the shareholders' equity?
A) −$4,900
B) −$5,200
C) $0
D) $4,900
E) $5,200

Answer: C
Explanation: Shareholders' equity = Max [($26,400 − 31,300), 0]
Shareholders' equity = 0

Since the market value of equity cannot be negative, the answer is zero.
Difficulty: 2 Medium
Topic: Market and book values
Learning Objective: 02-01 Describe the difference between accounting value (or "book" value) and market value.
Bloom's: Analyze
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55) Jensen Enterprises paid $700 in dividends and $320 in interest this past year. Common stock remained constant at $6,800 and retained earnings decreased by $180. What is the net income for the year?
A) $180
B) $520
C) $1,020
D) $880
E) $1,200

Answer: B
Explanation: Net income = $700 − 180
Net income = $520
Difficulty: 2 Medium
Topic: Income statement
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
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56) Andre's Bakery has sales of $487,000 with costs of $263,000. Interest expense is $26,000 and depreciation is $42,000. The tax rate is 21 percent. What is the net income?
A) $142,750
B) $123,240
C) $109,000
D) $128,700
E) $134,550

Answer: B
Explanation: Net income = ($487,000 − 263,000 − 26,000 − 42,000)(1 − .21)
Net income = $123,240
Difficulty: 2 Medium
Topic: Income statement
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

57) Hayes Bakery has sales of $30,600, costs of $15,350, an addition to retained earnings of $4,221, dividends paid of $469, interest expense of $1,300, and a tax rate of 21 percent. What is the amount of the depreciation expense?
A) $4,820.13
B) $5,500.89
C) $8,013.29
D) $8,180.01
E) $9,500.00

Answer: C
Explanation: Net income = $4,221 + 469
Net income = $4,690

EBT = $4,690/(1 − .21)
EBT = $5,936.71

EBIT = $5,936.71 + 1,300
EBIT = $7,236.71

Depreciation = $30,600 − 15,350 − 7,236.71
Depreciation = $8,013.29
Difficulty: 2 Medium
Topic: Income statement
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
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58) Last year, Kaylor Equipment had $15,900 of sales, $500 of net new equity, dividend payments of $75, an addition to retained earnings of $418, depreciation of $680, and $511 of interest expense. What are the earnings before interest and taxes at a tax rate of 21 percent?
A) $589.46
B) $1,135.05
C) $1,331.54
D) $1,560.85
E) $949.46

Answer: B
Explanation: Net income = $75 + 418
Net income = $493

Taxable income = $493/(1 − .21)
Taxable income = $624.05

EBIT = $624.05 + 511
EBIT = $1,135.05
Difficulty: 2 Medium
Topic: Income statement
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

59) Galaxy Interiors income statement shows depreciation of $1,611, sales of $21,415, interest paid of $1,282, net income of $1,374, and costs of goods sold of $16,408. What is the amount of the noncash expenses?
A) $2,893
B) $1,282
C) $740
D) $1,611
E) $2,351

Answer: D
Explanation: Noncash expenses = Depreciation = $1,611
Difficulty: 1 Easy
Topic: Noncash items
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Understand
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60) Beach Front Industries has sales of $546,000, costs of $295,000, depreciation expense of $37,000, interest expense of $15,000, and a tax rate of 21 percent. The firm paid $59,000 in cash dividends. What is the addition to retained earnings?
A) $98,210
B) $81,700
C) $95,200
D) $103,460
E) $121,680

Answer: A
Explanation: Net income = ($546,000 − 295,000 − 37,000 − 15,000)(1 − .21)
Net income = $157,210

Addition to retained earnings = $157,210 − 59,000
Addition to retained earnings = $98,210
Difficulty: 2 Medium
Topic: Income statement
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

61) Keisler's has cost of goods sold of $11,518, interest expense of $315, dividends of $420, depreciation of $811, and a change in retained earnings of $296. What is the taxable income given a tax rate of 21 percent?
A) $955.38
B) $967.78
C) $906.33
D) $776.41
E) $646.15

Answer: C
Explanation: Net income = $296 + 420
Net income = $716

Taxable income = $716/(1 − .21)
Taxable income = $906.33
Difficulty: 2 Medium
Topic: Income statement
Learning Objective: 02-02 Describe the difference between accounting income and cash flow.
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62) What is the average tax rate for a firm with taxable income of $118,740 in 2017?

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

A) 26.68 percent
B) 34.87 percent
C) 24.89 percent
D) 36.67 percent
E) 39.00 percent

Answer: C
Explanation: Tax = .15($50,000) + .25($25,000) + .34($25,000) + .39($118,740 − 100,000)
Tax = $29,558.60

Average tax rate = $29,558.60/$118,740
Average tax rate = .2489, or 24.89%
Difficulty: 2 Medium
Topic: Taxes
Learning Objective: 02-03 Describe the difference between average and marginal tax rates.
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63) For 2017, Nevada Mining had projected taxable income of $94,800. Its actual taxable income exceeded this projection by $21,000. How much additional tax did the firm owe due to the $21,000 increase in taxable income?

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

A) $7,930
B) $8,036
C) $8,150
D) $7,682
E) $8,197

Answer: A
Explanation: Additional tax = .34($100,000 − 94,800) + .39[$21,000 − ($100,000 − 94,800)]
Additional tax = $7,930
Difficulty: 2 Medium
Topic: Taxes
Learning Objective: 02-03 Describe the difference between average and marginal tax rates.
Bloom's: Apply
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64) In 2017, Boyer Enterprises had $76,700 in taxable income. What was the firm's average tax rate for the year?

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

A) 28.25 percent
B) 18.68 percent
C) 26.48 percent
D) 20.14 percent
E) 29.03 percent

Answer: B
Explanation: Tax = .15($50,000) + .25($25,000) + .34($76,700 − 75,000)
Tax = $14,328

Average tax rate = $14,328/$76,700
Average tax rate = .1868 or 18.68%
Difficulty: 2 Medium
Topic: Taxes
Learning Objective: 02-03 Describe the difference between average and marginal tax rates.
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65) Winston Industries had sales of $843,800 and costs of $609,900. The company paid $38,200 in interest and $35,000 in dividends. The depreciation was $76,400. The firm has a combined tax rate of 24 percent. What was the addition to retained earnings for the year?
A) $55,668
B) $57,240
C) $61,060
D) $56,200
E) $68,400

Answer: A
Explanation: EBT = $843,800 − 609,900 − 76,400 − 38,200
EBT = $119,300

Net income = $119,300(1 − .24)
Net income = $90,668

Addition to retained earnings = $90,668– 35,000
Addition to retained earnings = $55,668
Difficulty: 2 Medium
Topic: Taxes
Learning Objective: 02-03 Describe the difference between average and marginal tax rates.
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66) RTF Oil has total sales of $911,400 and costs of $787,300. Depreciation is $52,600 and the tax rate is 21 percent. The firm is all-equity financed. What is the operating cash flow?
A) $108,410
B) $108,320
C) $109,924
D) $106,417
E) $109,085

Answer: E
Explanation: EBIT = $911,400 − 787,300 − 52,600
EBIT = $71,500

Tax = $71,500(.21)
Tax = $15,015

OCF = $71,500 + 52,600 − 15,015
OCF = $109,085
Difficulty: 2 Medium
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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67) Nielsen Auto Parts had beginning net fixed assets of $218,470 and ending net fixed assets of $209,411. During the year, assets with a book value of $6,943 were sold. Depreciation for the year was $42,822. What is the amount of net capital spending?
A) $33,763
B) $40,706
C) $58,218
D) $65,161
E) $67,408

Answer: A
Explanation: Net capital spending = $209,411 − 218,470 + 42,822
Net capital spending = $33,763
Difficulty: 2 Medium
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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68) At the beginning of the year, a firm had current assets of $121,306 and current liabilities of $124,509. At the end of the year, the current assets were $122,418 and the current liabilities were $103,718. What is the change in net working capital?
A) −$19,679
B) −$11,503
C) $19,387
D) $15,497
E) $21,903

Answer: E
Explanation: Change in NWC = ($122,418 − 103,718) − ($121,306 − 124,509)
Change in NWC = $21,903
Difficulty: 2 Medium
Topic: Net working capital
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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69) At the beginning of the year, the long-term debt of a firm was $72,918 and total debt was $138,407. At the end of the year, long-term debt was $68,219 and total debt was $145,838. The interest paid was $6,430. What is the amount of the cash flow to creditors?
A) $1,731
B) −$1,001
C) $11,129
D) $13,861
E) $19,172

Answer: C
Explanation: CFC = $6,430 − ($68,219 − 72,918)
CFC = $11,129
Difficulty: 2 Medium
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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70) Ernie's Home Repair had beginning long-term debt of $51,207 and ending long-term debt of $36,714. The beginning and ending total debt balances were $59,513 and $42,612, respectively. The interest paid was $2,808. What is the amount of the cash flow to creditors?
A) −$11,685
B) −$11,272
C) $17,301
D) $17,418
E) $11,174

Answer: C
Explanation: CFC = $2,808 − ($36,714 − 51,207)
CFC = $17,301
Difficulty: 2 Medium
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

71) *The Daily News* has projected annual net income of $272,600, of which 28 percent will be distributed as dividends. Assume the company will have net sales of $75,000 worth of common stock. What will be the cash flow to stockholders if the tax rate is 21 percent?
A) −$75,000
B) $1,328
C) $24,623.52
D) $76,328
E) $151,328

Answer: B
Explanation: CFS = .28($272,600) − $75,000
CFS = $1,328
Difficulty: 2 Medium
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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72) The Lakeside Inn had operating cash flow of $48,450. Depreciation was $6,700 and interest paid was $2,480. A net total of $2,620 was paid on long-term debt. The firm spent $24,000 on fixed assets and decreased net working capital by $1,330. What was the amount of the cash flow to stockholders?
A) $5,100
B) $7,830
C) $18,020
D) $19,998
E) $20,680

Answer: E
Explanation: CFA = $48,450 − (−$1,330) − 24,000
CFA = $25,780

CFC = $2,480 − (−$2,620)
CFC = $5,100

CFS = $25,780 − 5,100
CFS = $20,680
Difficulty: 2 Medium
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

73) For the past year, Galaxy Interiors had depreciation of $2,419, beginning total assets of $23,616, and ending total assets of $21,878. Current assets decreased by $1,356. What was the amount of net capital spending for the year?
A) −$382
B) $2,037
C) $2,801
D) $1,993
E) $1,172

Answer: B
Explanation: Net capital spending = $21,878 − 23,616 + 1,356 + 2,419
Net capital spending = $2,037
Difficulty: 2 Medium
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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74) Carlisle Express paid $1,282 in interest and $975 in dividends last year. Current assets increased by $2,700, current liabilities decreased by $420, and long-term debt increased by $2,200. What was the cash flow to creditors?
A) −$530
B) −$918
C) $1,839
D) 2,132
E) $3,094

Answer: B
Explanation: CFC = $1,282 − 2,200
CFC = −$918
Difficulty: 2 Medium
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

75) CBC Industries has sales of $21,415, interest paid of $1,282, costs of $9,740, and depreciation of $1,480. What is the operating cash flow if the tax rate is 22 percent?
A) $10,114.14
B) $9,900.86
C) $8,985.86
D) $8,536.67
E) $9,714.14

Answer: E
Explanation: Tax = ($21,415 − 9,740 − 1,480 − 1,282)(.22)
Tax = $1,960.86

OCF = $21,415 − 9,740 − 1,960.86
OCF = $9,714.14
Difficulty: 2 Medium
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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76) Williamsburg Markets has an operating cash flow of $4,267 and depreciation of $1,611. Current assets decreased by $1,356 while current liabilities decreased by $2,662, and net fixed assets decreased by $382 during the year. What is free cash flow for the year?
A) $1,732
B) $2,247
C) $2,961
D) $3,915
E) $4,267

Answer: A
Explanation: Change in NWC = −$1,356 − (−$2,662)
Change in NWC = $1,306

NCS = −$382 + 1,611
NCS = $1,229

FCF = CFA = $4,267 − 1,306 − 1,229
FCF = $1,732
Difficulty: 2 Medium
Topic: Free cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

77) Up Towne Cleaners has taxable income of $48,900 and a tax rate of 21 percent. What is the change in retained earnings if the firm pays $20,200 in dividends for the year?
A) $18,942
B) $19,948
C) $19,374
D) $18,431
E) $18,574

Answer: D
Explanation: Change in retained earnings = ($48,900)(1 − .21) − $20,200
Change in retained earnings = $18,431
Difficulty: 2 Medium
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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78) For the year, B&K United increased current liabilities by $1,400, decreased cash by $1,200, increased net fixed assets by $340, increased accounts receivable by $200, and decreased inventory by $150. What is the annual change in net working capital?
A) −$2,550
B) −$70
C) $590
D) $550
E) −$2,210

Answer: A
Explanation: Change in NWC = −$1,400 − 1,200 + 200 − 150
Change in NWC = −$2,550
Difficulty: 2 Medium
Topic: Net working capital
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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79) TJH, Inc. purchased $145,000 in new equipment and sold equipment with a net book value of $68,400 during the year. What is the amount of net capital spending if the depreciation was $38,600?
A) $115,200
B) $76,600
C) $94,200
D) $38,000
E) −$38,000

Answer: B
Explanation: Net capital spending = $145,000 − 68,400
Net capital spending = $76,600
Difficulty: 2 Medium
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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80) Nu Furniture has sales of $241,000, depreciation of $32,200, interest expense of $35,700, costs of $103,400, and taxes of $14,637. What is the operating cash flow for the year?
A) $108,229
B) $121,367
C) $122,963
D) $117,766
E) $128,037

Answer: C
Explanation: OCF = $241,000 − 103,400 − 14,637
OCF = $122,963
Difficulty: 2 Medium
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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81) HiWay Furniture has sales of $316,000, depreciation of $47,200, interest expense of $41,400, costs of $148,200, and taxes of $16,632. The firm has net capital spending of $36,400 and a decrease in net working capital of $14,300. What is the cash flow from assets for the year?
A) $145,985
B) $129,068
C) $119,655
D) $120,810
E) $134,585

Answer: B
Explanation: OCF = $316,000 − 148,200 − 16,632
OCF = $151,168

CFA = $151,168 − 36,400 − (−$14,300)
CFA = $129,068
Difficulty: 2 Medium
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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82) At the beginning of the year, Trees Galore had current liabilities of $15,932 and total debt of $68,847. By year end, current liabilities were $13,870 and total debt was $72,415. What is the amount of net new borrowing for the year?
A) $5,630
B) −$2,480
C) $3,568
D) $4,677
E) −$2,062

Answer: A
Explanation: Net new borrowing = ($72,415 − 13,870) − ($68,847 − 15,932)
Net new borrowing = $5,630
Difficulty: 2 Medium
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
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83) JJ Enterprises has current assets of $10,406, long-term debt of $4,780, and current liabilities of $9,822 at the beginning of the year. At year end, current assets are $11,318, long-term debt is $5,010, and current liabilities are $9,741. The firm paid $277 in interest and $320 in dividends during the year. What is the cash flow to creditors for the year?
A) −$47
B) −$507
C) −$97
D) $47
E) $507

Answer: D
Explanation: CFC = $277 − ($5,010 − 4,780)
CFC = $47
Difficulty: 2 Medium
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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84) BK Enterprises neither sold nor repurchased any shares of stock during the year. The firm had annual sales of $7,202, depreciation of $1,196, cost of goods sold of $4,509, interest expense of $318, taxes of $248, beginning-of-year shareholders' equity of $4,808, and end-of-year shareholders' equity of $4,922. What is the amount of dividends paid during the year?
A) $817
B) $1,009
C) $864
D) $709
E) $515

Answer: A
Explanation: Net income = $7,202 − 4,509 − 1,196 − 318 − 248
Net income = $931

Dividends paid = $931 − (4,922 − 4,808)
Dividends paid = $817

Since no stock was sold or repurchased, the change in shareholders' equity equals the change in retained earnings.
Difficulty: 2 Medium
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
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85) Carlisle Carpets has cost of goods sold of $92,511, interest expense of $4,608, dividends paid of $3,200, depreciation of $14,568, an increase in retained earnings of $11,920, and a tax rate of 21 percent. What is the operating cash flow?
A) $34,296.00
B) $42,122.42
C) $36,462.58
D) $31,543.10
E) $36,741.42

Answer: A
Explanation: Net income = $3,200 + 11,920
Net income = $15,120

Taxable income = $15,120/(1 − .21)
Taxable income = $19,139.24

EBIT = $19,139.24 + 4,608
EBIT = $23,747.24

Taxes = $19,139.24 − 15,120
Taxes = $4,019.24

OCF = $23,747.24 + 14,568 − 4,019.24
OCF = $34,296.00
Difficulty: 2 Medium
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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86) Webster World has sales of $13,800, costs of $5,800, depreciation expense of $1,100, and interest expense of $700. What is the operating cash flow if the tax rate is 23 percent?
A) $6,016
B) $5,969
C) $6,574
D) $7,036
E) $7,100

Answer: C
Explanation: EBIT = $13,800 − 5,800 − 1,100
EBIT = $6,900

Taxable income = $6,900 − 700
Taxable income = $6,200

Tax = .23($6,200)
Tax = $1,426

OCF = $6,900 + 1,100 − 1,426
OCF = $6,574
Difficulty: 2 Medium
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

87) Webster's has beginning net fixed assets of $684,218, ending net fixed assets of $679,426, and depreciation expense of $48,859. What is the net capital spending for the year if the tax rate is 25 percent?
A) $42,920
B) $53,651
C) $44,067
D) $35,255
E) $48,600

Answer: C
Explanation: Net capital spending = $679,426 − 684,218 + 48,859
Net capital spending = $44,067
Difficulty: 2 Medium
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Apply
AACSB: Knowledge Application
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88) Global Tours has beginning current assets of $1,360, beginning current liabilities of $940, ending current assets of $1,720, and ending current liabilities of $1,080. What is the change in net working capital?
A) $220
B) $170
C) $190
D) $940
E) $1,060

Answer: A
Explanation: Change in NWC = ($1,720 − 1,080) − ($1,360 − 940)
Change in NWC = $220
Difficulty: 2 Medium
Topic: Net working capital
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Apply
AACSB: Knowledge Application
Accessibility: Keyboard Navigation

89) The Beach Shoppe has beginning total debt of $682,400 and ending total debt of $697,413. Current liabilities increased by $18,915 during the year. What was the cash flow to creditors if the firm paid $34,215 in interest during the year?
A) $384
B) $287
C) $38,117
D) $20,228
E) $19,202

Answer: C
Explanation: CFC = $34,215 − ($697,413 − 682,400 − 18,915)
CFC = $38,117
Difficulty: 2 Medium
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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90) The Outlet started the year with $650,000 in the common stock account and $1,318,407 in the additional paid-in surplus account. The end-of-year balance sheet showed $720,000 and $1,299,310 in the same two accounts, respectively. What is the cash flow to stockholders if the firm paid $68,500 in dividends?
A) −$17,597
B) $17,597
C) −$1,500
D) $1,500
E) $68,500

Answer: B
Explanation: CFS = $68,500 − [($720,000 + 1,299,310) − ($650,000 + 1,318,407)]
CFS = $17,597
Difficulty: 2 Medium
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
Accessibility: Keyboard Navigation

91) During the year, RIT Corp. had sales of $565,600. Costs of goods sold, administrative and selling expenses, and depreciation expenses were $476,000, $58,800, and $42,800, respectively. In addition, the company had an interest expense of $112,000 and a tax rate of 22 percent. What is the operating cash flow for the year? Ignore any tax loss carry-forward provisions.
A) $17,920
B) $21,840
C) $30,800
D) $52,600
E) $77,840

Answer: C
Explanation: EBIT = Net income = $565,600 − 476,000 − 58,800 − 42,800
EBIT = −$12,000

OCF = −$12,000 + 42,800 − 0
OCF = $30,800
Difficulty: 2 Medium
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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