Test Bank for Essentials of Corporate Finance 10th Ross

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***Essentials of Corporate Finance, 10e* (Ross)**
Chapter 2 Financial Statements, Taxes, and Cash Flow

1) Net working capital is defined as:
A) the depreciated book value of a firm's fixed assets.
B) the value of a firm's current assets.
C) available cash minus current liabilities.
D) total assets minus total liabilities.
E) current assets minus current liabilities.

Answer: E
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Net working capital
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Remember
AACSB: Analytical Thinking

2) The accounting statement that measures the revenues, expenses, and net income of a firm over a period of time is called the:
A) statement of cash flows.
B) income statement.
C) GAAP statement.
D) balance sheet.
E) net working capital schedule.

Answer: B
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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3) The financial statement that summarizes a firm's accounting value as of a particular date is called the:
A) income statement.
B) cash flow statement.
C) liquidity position.
D) balance sheet.
E) periodic operating statement.

Answer: D
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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4) Which one of the following decreases net income but does not affect the operating cash flow of a firm that owes no taxes for the current year?
A) Indirect cost
B) Direct cost
C) Noncash item
D) Period cost
E) Variable cost

Answer: C
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Noncash items
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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5) Which one of the following terms is defined as the total tax paid divided by the total taxable income?
A) Average tax rate
B) Variable tax rate
C) Marginal tax rate
D) Absolute tax rate
E) Contingent tax rate

Answer: A
Difficulty: 1 Easy
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
Bloom's: Remember
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6) The tax rate that determines the amount of tax that will be due on the next dollar of taxable income earned is called the:
A) average tax rate.
B) variable tax rate.
C) marginal tax rate.
D) fixed tax rate.
E) ordinary tax rate.

Answer: C
Difficulty: 1 Easy
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
Bloom's: Remember
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7) Cash flow from assets is defined as:
A) the cash flow to shareholders minus the cash flow to creditors.
B) operating cash flow plus the cash flow to creditors plus the cash flow to shareholders.
C) operating cash flow minus the change in net working capital minus net capital spending.
D) operating cash flow plus net capital spending plus the change in net working capital.
E) cash flow to shareholders minus net capital spending plus the change in net working capital.

Answer: C
Difficulty: 1 Easy
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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8) Operating cash flow is defined as:
A) a firm's net profit over a specified period of time.
B) the cash that a firm generates from its normal business activities.
C) a firm's operating margin.
D) the change in the net working capital over a stated period of time.
E) the cash that is generated and added to retained earnings.

Answer: B
Difficulty: 1 Easy
Section: 2.4 Cash Flow
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Remember
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9) Which one of the following has nearly the same meaning as free cash flow?
A) Net income
B) Cash flow from assets
C) Operating cash flow
D) Cash flow to shareholders
E) Addition to retained earnings

Answer: B
Difficulty: 1 Easy
Section: 2.4 Cash Flow
Topic: Free cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Remember
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10) Cash flow to creditors is defined as:
A) interest paid minus net new borrowing.
B) interest paid plus net new borrowing.
C) operating cash flow minus net capital spending minus the change in net working capital.
D) dividends paid plus net new borrowing.
E) cash flow from assets plus net new equity.

Answer: A
Difficulty: 1 Easy
Section: 2.4 Cash Flow
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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11) Cash flow to stockholders is defined as:
A) cash flow from assets plus cash flow to creditors.
B) operating cash flow minus cash flow to creditors.
C) dividends paid plus the change in retained earnings.
D) dividends paid minus net new equity raised.
E) net income minus the addition to retained earnings.

Answer: D
Difficulty: 1 Easy
Section: 2.4 Cash Flow
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Remember
AACSB: Analytical Thinking

12) Which one of the following is an intangible fixed asset?
A) Inventory
B) Machinery
C) Copyright
D) Account receivable
E) Building

Answer: C
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Understand
AACSB: Analytical Thinking

13) Production equipment is classified as:
A) a net working capital item.
B) a current liability.
C) a current asset.
D) a tangible fixed asset.
E) an intangible fixed asset.

Answer: D
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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14) Net working capital includes:
A) a land purchase.
B) an invoice from a supplier.
C) non-cash expenses.
D) fixed asset depreciation.
E) the balance due on a 15-year mortgage.

Answer: B
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Net working capital
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Understand
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15) Over the past year, a firm decreased its current assets and increased its current liabilities. As a result, the firm's net working capital:
A) had to increase.
B) had to decrease.
C) remained constant.
D) could have either increased, decreased, or remained constant.
E) was unaffected as the changes occurred in the firm's current accounts.

Answer: B
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Net working capital
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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16) Net working capital increases when:
A) fixed assets are purchased for cash.
B) inventory is purchased on credit.
C) inventory is sold at cost.
D) a credit customer pays for his or her purchase.
E) inventory is sold at a profit.

Answer: E
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Net working capital
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Understand
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17) Shareholders' equity is equal to:
A) total assets plus total liabilities.
B) net fixed assets minus total liabilities.
C) net fixed assets minus long-term debt plus net working capital.
D) net working capital plus total assets.
E) total assets minus net working capital.

Answer: C
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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18) Paid-in surplus is classified as:
A) owners' equity.
B) net working capital.
C) a current asset.
D) a cash expense.
E) long-term debt.

Answer: A
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Remember
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19) Shareholders' equity is best defined as:
A) the residual value of a firm.
B) positive net working capital.
C) the net liquidity of a firm.
D) cash inflows minus cash outflows.
E) the cumulative profits of a firm over time.

Answer: A
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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20) All else held constant, the book value of owners' equity will decrease when:
A) the market value of inventory increases.
B) dividends exceed net income for a period.
C) cash is used to pay an accounts payable.
D) a long-term debt is repaid.
E) taxable income increases.

Answer: B
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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21) Net working capital decreases when:
A) a new 3-year loan is obtained with the proceeds used to purchase inventory.
B) a credit customer pays his or her bill in full.
C) depreciation increases.
D) a long-term debt is used to finance a fixed asset purchase.
E) a dividend is paid to current shareholders.

Answer: E
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Net working capital
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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22) A firm's liquidity level decreases when:
A) inventory is purchased with cash.
B) inventory is sold on credit.
C) inventory is sold for cash.
D) an account receivable is collected.
E) proceeds from a long-term loan are received.

Answer: A
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Liquidity
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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23) Highly liquid assets:
A) increase the probability a firm will face financial distress.
B) appear on the right side of a balance sheet.
C) generally produce a high rate of return.
D) can be sold quickly at close to full value.
E) include all intangible assets.

Answer: D
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Liquidity
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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24) Financial leverage:
A) increases as the net working capital increases.
B) is equal to the market value of a firm divided by the firm's book value.
C) is inversely related to the level of debt.
D) is the ratio of a firm's revenues to its fixed expenses.
E) increases the potential return to the stockholders.

Answer: E
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Capital structure
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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25) The market value:
A) of accounts receivable is generally higher than the book value of those receivables.
B) of an asset tends to provide a better guide to the actual worth of that asset than does the book value.
C) of fixed assets will always exceed the book value of those assets.
D) of an asset is reflected in the balance sheet.
E) of an asset is lowered each year by the amount of depreciation expensed for that asset.

Answer: B
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Market and book values
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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26) Which one of the following is included in the market value of a firm but not in the book value?
A) Raw materials
B) Partially built inventory
C) Long-term debt
D) Reputation of the firm
E) Value of a partially depreciated machine

Answer: D
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Market and book values
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Understand
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27) The market value of a firm's fixed assets:
A) will always exceed the book value of those assets.
B) is more predictable than the book value of those assets.
C) in addition to the firm's net working capital reflects the true value of a firm.
D) is decreased annually by the depreciation expense.
E) is equal to the estimated current cash value of those assets.

Answer: E
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Market and book values
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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28) Market values:
A) reflect expected selling prices given the current economic situation.
B) are affected by the accounting methods selected.
C) are equal to the initial cost minus the depreciation to date.
D) either remain constant or increase over time.
E) are equal to the greater of the initial cost or the current expected sales value.

Answer: A
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Market and book values
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Understand
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29) Which one of the following statements concerning the balance sheet is correct?
A) Total assets equal total liabilities minus total equity.
B) Net working capital is equal total assets minus total liabilities.
C) Assets are listed in descending order of liquidity.
D) Current assets are equal to total assets minus net working capital.
E) Shareholders' equity is equal to net working capital minus net fixed assets plus long-term debt.

Answer: C
Difficulty: 2 Medium
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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30) An income statement prepared according to GAAP:
A) reflects the net cash flows of a firm over a stated period of time.
B) reflects the financial position of a firm as of a particular date.
C) distinguishes variable costs from fixed costs.
D) records revenue when payment for a sale is received.
E) records expenses based on the matching principle.

Answer: E
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
Bloom's: Understand
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31) Net income increases when:
A) fixed costs increase.
B) depreciation increases.
C) the average tax rate increases.
D) revenue increases.
E) dividends cease.

Answer: D
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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32) Based on the recognition principle, revenue is recorded on the financial statements when the:

I. payment is collected for the sale of a good or service.
II. earnings process is virtually complete.
III. value of a sale can be reliably determined.
IV. product is physically delivered to the buyer.

A) I and II only
B) I and IV only
C) II and III only
D) II and IV only
E) I and III only

Answer: C
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Generally Accepted Accounting Principles (GAAP)
Learning Objective: 02-02 Distinguish accounting income from cash flow.
Bloom's: Remember
AACSB: Analytical Thinking

33) Given a profitable firm, depreciation:
A) increases net income.
B) increases net fixed assets.
C) decreases net working capital.
D) lowers taxes.
E) has no effect on net income.

Answer: D
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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34) The recognition principle states that:
A) costs should be recorded on the income statement whenever those costs can be reliably determined.
B) costs should be recorded when paid.
C) the costs of producing an item should be recorded when the sale of that item is recorded as revenue.
D) sales should be recorded when the payment for that sale is received.
E) sales should be recorded when the earnings process is virtually completed and the value of the sale can be determined.

Answer: E
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Generally Accepted Accounting Principles (GAAP)
Learning Objective: 02-02 Distinguish accounting income from cash flow.
Bloom's: Remember
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35) The matching principle states that:
A) costs should be recorded on the income statement whenever those costs can be reliably determined.
B) costs should be recorded when paid.
C) the costs of producing an item should be recorded when the sale of that item is recorded as revenue.
D) sales should be recorded when the payment for that sale is received.
E) sales should be recorded when the earnings process is virtually completed and the value of the sale can be determined.

Answer: C
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Generally Accepted Accounting Principles (GAAP)
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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36) Which one of these is correct?
A) Depreciation has no effect on taxes.
B) Interest paid is a noncash item.
C) Taxable income must be a positive value.
D) Net income is distributed either to dividends or retained earnings.
E) Taxable income equals net income × (1 + Average tax rate).

Answer: D
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
Bloom's: Remember
AACSB: Analytical Thinking

37) Firms that compile financial statements according to GAAP:
A) record income and expenses at the time they affect the firm's cash flows.
B) have no discretion over the timing of recording either revenue or expense items.
C) must record all expenses when incurred.
D) can still manipulate their earnings to some degree.
E) record both income and expenses as soon as the amount for each can be ascertained.

Answer: D
Difficulty: 2 Medium
Section: 2.2 The Income Statement
Topic: Generally Accepted Accounting Principles (GAAP)
Learning Objective: 02-02 Distinguish accounting income from cash flow.
Bloom's: Understand
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38) The concept of marginal taxation is best exemplified by which one of the following?
A) Kirby's paid $120,000 in taxes while its primary competitor paid only $80,000 in taxes.
B) Johnson's Retreat paid only $45,000 on total revenue of $570,000 last year.
C) Mitchell's Grocer increased its sales by $52,000 last year and had to pay an additional $16,000 in taxes.
D) Burlington Centre paid no taxes last year due to carryforward losses.
E) The Blue Moon paid $2.20 in taxes for every $10 of revenue last year.

Answer: C
Difficulty: 2 Medium
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
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39) Which one of the following will increase the cash flow from assets for a tax-paying firm, all else constant?
A) An increase in net capital spending
B) A decrease in the cash flow to creditors
C) An increase in depreciation
D) An increase in the change in net working capital
E) A decrease in dividends paid

Answer: C
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking

40) A negative cash flow to stockholders indicates a firm:
A) had a net loss for the year.
B) had a positive cash flow to creditors.
C) paid dividends that exceeded the amount of the net new equity.
D) repurchased more shares than it sold.
E) received more from selling stock than it paid out to shareholders.

Answer: E
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking

41) If a firm has a negative cash flow from assets every year for several years, the firm:
A) may be continually increasing in size.
B) must also have a negative cash flow from operations each year.
C) is operating at a high level of efficiency.
D) is repaying debt every year.
E) has annual net losses.

Answer: A
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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42) An increase in which one of the following will increase operating cash flow for a profitable, tax-paying firm?
A) Fixed expenses
B) Marginal tax rate
C) Net capital spending
D) Inventory
E) Depreciation

Answer: E
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking

43) Tressler Industries opted to repurchase 5,000 shares of stock last year in lieu of paying a dividend. The cash flow statement for last year must have which one of the following assuming that no new shares were issued?
A) Positive operating cash flow
B) Negative cash flow from assets
C) Positive net income
D) Negative operating cash flow
E) Positive cash flow to stockholders

Answer: E
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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44) Net capital spending is equal to:
A) ending net fixed assets minus beginning net fixed assets plus depreciation.
B) beginning net fixed assets minus ending net fixed assets plus depreciation.
C) ending net fixed assets minus beginning net fixed assets minus depreciation.
D) ending total assets minus beginning total assets plus depreciation.
E) ending total assets minus beginning total assets minus depreciation.

Answer: A
Difficulty: 1 Easy
Section: 2.4 Cash Flow
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Remember
AACSB: Analytical Thinking

45) What is the maximum average tax rate for corporations?
A) 38 percent
B) 25 percent
C) 33 percent
D) 39 percent
E) 35 percent

Answer: E
Difficulty: 2 Medium
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
Bloom's: Understand
AACSB: Analytical Thinking

46) Which one of the following changes during a year will increase cash flow from assets but not affect the operating cash flow?
A) Increase in depreciation
B) Increase in accounts receivable
C) Increase in accounts payable
D) Decrease in cost of goods sold
E) Increase in sales

Answer: C
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
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47) Cash flow to creditors increases when:
A) interest rates on debt decline.
B) accounts payable decrease.
C) long-term debt is repaid.
D) current liabilities are repaid.
E) new long-term loans are acquired.

Answer: C
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking

48) Which one of the following indicates that a firm has generated sufficient internal cash flow to finance its entire operations for the period?
A) Positive operating cash flow
B) Negative cash flow to creditors
C) Positive cash flow to stockholders
D) Negative net capital spending
E) Positive cash flow from assets

Answer: E
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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49) Wes Motors has total assets of $98,300, net working capital of $11,300, owners' equity of $41,600, and long-term debt of $38,600. What is the value of the current assets?
A) $21,600
B) $18,100
C) $28,900
D) $29,400
E) $6,800

Answer: D
Explanation: Current liabilities = $98,300 − 38,600 − 41,600 = $18,100
Current assets = $11,300 + 18,100 = $29,400
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Analyze
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50) Jackson Automotive has net working capital of $22,600, current assets of $56,500, equity of $62,700, and long-term debt of $31,900. What is the amount of the net fixed assets?
A) $9,300
B) $49,400
C) $94,600
D) $103,900
E) $72,000

Answer: E
Explanation: Net fixed assets = $31,900 + 62,700 − 22,600 = $72,000
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Analyze
AACSB: Analytical Thinking

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51) Mahalo Tours currently has $10,500 in cash. The company owes $26,900 to suppliers for merchandise and $47,500 to the bank for a long-term loan. Customers owe the company $33,000 for their purchases. The inventory has a book value of $62,400 and an estimated market value of $65,600. If the store compiled a balance sheet as of today, what would be the book value of the current assets?
A) $100,700
B) $79,500
C) $85,700
D) $105,900
E) $117,500

Answer: D
Explanation: Current assets = $10,500 + 33,000 + 62,400 = $105,900
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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52) Donut Delite has total assets of $31,300, long-term debt of $8,600, net fixed assets of $19,300, and owners' equity of $21,100. What is the value of the net working capital?
A) $9,800
B) $10,400
C) $18,900
D) $21,300
E) $23,200

Answer: B
Explanation: Net working capital = $21,100 + 8,600 − 19,300 = $10,400
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Net working capital
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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53) Michael's Bakery had $236,400 in net fixed assets at the beginning of the year. During the year, the company purchased $53,200 in new equipment. It also sold, at a price of $22,000, some old equipment that had a book value of $5,900. The depreciation expense for the year was $13,400. What is the net fixed asset balance at the end of the year?
A) $260,000
B) $283,700
C) $276,200
D) $270,300
E) $289,600

Answer: D
Explanation: Ending net fixed assets = $236,400 + 53,200 − 5,900 − 13,400 = $270,300
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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54) Plenti-Good Foods has ending net fixed assets of $98,700 and beginning net fixed assets of $84,900. During the year, the firm sold assets with a total book value of $13,200 and also recorded $9,800 in depreciation expense. How much did the company spend to buy new fixed assets?
A) −$23,900
B) $9,200
C) $36,800
D) $40,700
E) $37,400

Answer: C
Explanation: New fixed asset purchases = $98,700 + 9,800 + 13,200 − 84,900 = $36,800
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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55) Taylor Industries has current liabilities of $54,900 and accounts receivable of $88,700. The firm has total assets of $395,000 and net fixed assets of $265,100. The owners' equity has a book value of $147,500. What is the amount of the net working capital?
A) $77,400
B) $75,000
C) $33,800
D) −$8,500
E) −$2,400

Answer: B
Explanation: Net working capital = $395,000 − 265,100 − 54,900 = $75,000
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Net working capital
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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56) Dockside Warehouse has net working capital of $42,400, total assets of $519,300, and net fixed assets of $380,200. What is the value of the current liabilities?
A) $61,700
B) $88,400
C) $102,900
D) $96,700
E) $111,500

Answer: D
Explanation: Current liabilities = $519,300 − 380,200 − 42,400 = $96,700
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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57) Blythe Industries reports the following account balances: inventory of $417,600, equipment of $2,028,300, accounts payable of $224,700, cash of $51,900, and accounts receivable of $313,900. What is the amount of the current assets?
A) $46,700
B) $56,000
C) $783,400
D) $975,000
E) $699,700

Answer: C
Explanation: Current assets = $51,900 + 313,900 + 417,600 = $783,400
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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58) Donner United has total owners' equity of $18,800. The firm has current assets of $23,100, current liabilities of $12,200, and total assets of $36,400. What is the value of the long-term debt?
A) $5,400
B) $12,500
C) $13,700
D) $29,800
E) $43,000

Answer: A
Explanation: Long-term debt = $36,400 − 18,800 − 12,200 = $5,400
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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59) Cornerstone Markets has beginning long-term debt of $64,500, which is the principal balance of a loan payable to Centre Bank. During the year, the company paid a total of $16,300 to the bank, including $4,100 of interest. The company also borrowed $11,000. What is the value of the ending long-term debt?
A) $45,100
B) $53,300
C) $58,200
D) $63,300
E) $85,900

Answer: D
Explanation: Ending long-term debt = $64,500 − 16,300 + 4,100 + 11,000 = $63,300
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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60) Marenelle Construction has beginning retained earnings of $284,300. For the year, the company earned net income of $13,700 and paid dividends of $9,000. The company also issued $25,000 worth of new stock. What is the value of the retained earnings account at the end of the year?
A) $287,204
B) $289,454
C) $294,134
D) $289,000
E) $314,000

Answer: D
Explanation: Retained earnings = $284,300 + 13,700 − 9,000 = $289,000
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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61) Leslie Printing has net income of $26,310 for the year. At the beginning of the year, the firm had common stock of $55,000, paid-in surplus of $11,200, and retained earnings of $48,420. At the end of the year, the firm had total equity of $142,430. The firm paid dividends of $32,500. What is the amount of the net new equity raised during the year?
A) $34,000
B) $42,500
C) $25,000
D) $21,500
E) $0

Answer: A
Explanation: Net new equity = $142,430 − 55,000 − 11,200 − ($48,420 + 26,310 − 32,500) = $34,000
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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62) Kahlan Opinion Surveys had beginning retained earnings of $24,600. During the year, the company reported sales of $105,700, costs of $78,300, depreciation of $9,000, dividends of $1,200, and interest paid of $635. The tax rate is 30 percent. What is the retained earnings balance at the end of the year?
A) $38,835.50
B) $36,082.15
C) $36,121.44
D) $37,671.44
E) $35,721.45

Answer: A
Explanation: EBT = $105,700 − 78,300 − 9,000 − 635 = $17,765
Net Income = $17,765 × .70 = 12,436
Balance of Retained Earnings = $24,600 +12,436 − 1,200 = $38,835.50
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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63) Bleu Berri Farms had equity of $58,900 at the beginning of the year. During the year, the company earned net income of $8,200 and paid $2,500 in dividends. Also during the year, the company repurchased $3,500 of stock from one of its shareholders. What is the value of the owners' equity at year end?
A) $61,100
B) $67,600
C) $64,900
D) $64,400
E) $68,100

Answer: A
Explanation: Ending owners' equity = $58,900 + 8,200 − 2,500 − 3,500 = $61,100
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Analyze
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64) Gino's Winery has net working capital of $29,800, net fixed assets of $64,800, current liabilities of $34,700, and long-term debt of $23,000. What is the value of the owners' equity?
A) $36,900
B) $66,700
C) $71,600
D) $89,400
E) $106,300

Answer: C
Explanation: Owners' equity = $29,800 + 64,800 − 23,000 = $71,600
Difficulty: 1 Easy
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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65) Pier Imports has cash of $41,100 and accounts receivable of $54,200, all of which is expected to be collected. The inventory cost $82,300 and can be sold today for $116,500. The fixed assets were purchased at a total cost of $234,500 of which $118,900 has been depreciated. The fixed assets can be sold today for $138,000. What is the total book value of the firm's assets?
A) $327,800
B) $293,200
C) $346,800
D) $412,100
E) $415,600

Answer: B
Explanation: Total book value = $41,100 + 54,200 + 82,300 + 234,500 − 118,900 = $293,200
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Market and book values
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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66) Lester's Fried Chick'n purchased its building 11 years ago at a cost of $189,000. The building is currently valued at $209,000. The firm has other fixed assets that cost $56,000 and are currently valued at $32,000. To date, the firm has recorded a total of $49,000 in depreciation on the various assets it currently owns. Current liabilities are $36,600 and net working capital is $18,400. What is the total book value of the firm's assets?
A) $251,000
B) $241,000
C) $232,600
D) $214,400
E) $379,000

Answer: A
Explanation: Book value = $189,000 + 56,000 − 49,000 + 18,400 + 36,600 = $251,000
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Market and book values
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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67) Lew's Auto Repair has cash of $18,600, accounts receivable of $34,500, accounts payable of $28,900, inventory of $97,800, long-term debt of $142,000, and net fixed assets of $363,800. The firm estimates that if it wanted to cease operations today it could sell the inventory for $85,000 and the fixed assets for $349,000. The firm could collect 100 percent of its receivables as they are secured. What is the market value of the firm's assets?
A) $332,800
B) $458,200
C) $374,200
D) $495,500
E) $487,100

Answer: E
Explanation: Market value = $18,600 + 34,500 + 85,000 + 349,000 = $487,100
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Market and book values
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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68) Marcie's has sales of $179,600,depreciation of $14,900, costs of goods sold of $138,200, and other costs of $28,400. The tax rate is 35 percent. What is the net income?
A) −$1,900
B) $382
C) $1,204
D) $14,660
E) $13,665

Answer: A
Explanation: EBT = 179,600 − 138,200 − 28,400 − 14,900 = −$1,900.
EBT is negative so tax is zero
Net Income = −$1,900
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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69) AV Sales has net revenue of $513,000 and costs of $406,800. The depreciation expense is $43,800,interest paid is $11,200, and dividends for the year are$4,500. The tax rate is 33 percent. What is the addition to retained earnings?
A) $38,804
B) $34,304
C) $28,120
D) $29,804
E) $30,450

Answer: D
Explanation:
Addition to retained earnings = [($513,000 − 406,800 − 43,800 − 11,200)(1 − .33)] − $4,500
Addition to retained earnings = $29,804
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
Bloom's: Analyze
AACSB: Analytical Thinking

70) Last year, The Pizza Joint added $6,230 to retained earnings from sales of $104,650. The company had costs of $87,300, dividends of $2,500, and interest paid of $1,620. Given a tax rate of 34 percent, what was the amount of the depreciation expense?
A) $2,407
B) $1,908
C) $2,503
D) $3,102
E) $3,414

Answer: C
Explanation: Earnings before interest and taxes = [($6,230 + 2,500) / (1 − .34)] + $1,620 = $14,847
Depreciation = $104,650 − 87,300 − 14,847 = $2,503
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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71) Holly Farms has sales of $509,600, costs of $448,150, depreciation expense of $36,100, and interest paid of $12,400. The tax rate is 28 percent. How much net income did the firm earn for the period?
A) $7,778
B) $9,324
C) $10,380
D) $8,671
E) $5,886

Answer: B
Explanation: Net income = ($509,600 − 448,150 − 36,100 − 12,400)(1 − .28) = $9,324
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
Bloom's: Analyze
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72) For the year, Movers United has net income of $31,800, net new equity of $7,500, and an addition to retained earnings of $24,200. What is the amount of the dividends paid?
A) $100
B) $7,500
C) $7,600
D) $15,100
E) $16,700

Answer: C
Explanation: Dividends paid = $31,800 − 24,200 = $7,600
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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73) Thorkfeld Company incurred depreciation expenses of $28,900 last year. The sales were $755,000 and the addition to retained earnings was $10,200. The firm paid interest of $6,200 and dividends of $5,000. The tax rate was 33 percent. What was the amount of the costs incurred by the company?
A) $691,013
B) $707,413
C) $704,700
D) $697,213
E) $719,900

Answer: D
Explanation:
Earnings before interest and taxes = [($5,000 + 10,200) / (1 − .33)] + $6,200 = $28,886.57
Costs = $755,000 − 28,900 − 28,886.57 = $697,213.43
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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74) For the year, Uptowne Furniture had sales of $818,790, costs of $748,330, and interest paid of $24,450. The depreciation expense was $56,100 and the tax rate was 34 percent. At the beginning of the year, the firm had retained earnings of $172,270 and common stock of $260,000. At the end of the year, retained earnings was $158,713 and common stock was $280,000. Any tax losses can be used. What is the amount of the dividends paid for the year?
A) $5,266
B) $6,466
C) $7,566
D) $7,066
E) $6,898

Answer: E
Explanation: Net income = [($818,790 − 748,330 − 56,100 − 24,450)(1 − .34)] = −$6,659
Dividends paid = −$6,659 − ($158,713 − 172,270) = $6,898
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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75) Neiger Flours owes $9,741 in taxes on taxable income of $61,509. If the firm earns $100 more in income, it will owe an additional $22 in taxes. What is the average tax rate on income of $61,609?
A) 15.00 percent
B) 30.33 percent
C) 33.33 percent
D) 35.00 percent
E) 15.85 percent

Answer: E
Explanation: Average tax rate = ($9741 + 22) / $61,609 = .1585, or 15.85 percent
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
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76) Ezmerelda Jewelers has a marginal tax rate of 32 percent and an average tax rate of 20.9 percent. If the firm owes $34,330 in taxes, how much taxable income did it earn?
A) $127,584
B) $116,649
C) $164,258
D) $157,500
E) $168,500

Answer: C
Explanation: Taxable income = $34,330 / .209 = $164,258.37
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
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77) Victoria Photography, a sole proprietorship owes $190,874 in taxes on a taxable income of $608,606. The company has determined that it will owe $195,246 in tax if its taxable income rises to $620,424. What is the marginal tax rate at this level of income?
A) 39 percent
B) 38 percent
C) 37 percent
D) 35 percent
E) 32 percent

Answer: C
Explanation: Marginal tax rate = ($195,246 − 190,874) / ($620,424 − 608,606) = .37, or 37 percent
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
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78) Use the following tax table to answer this question:

Taxable Income			Tax Rate
$ 0	-	9,525	10%
9,525	-	38,700	12
38,700	-	82,500	22
82,500	-	157,500	24
157,500	-	200,000	32
200,000	-	500,000	35
500,000	+		37

Andrews Dried Fruit, LLC has taxable income of $630,000. How much does it owe in taxes?
A) $141,750
B) $154,800
C) $198,790
D) $$220,500
E) $$233,100

Answer: C
Explanation: Total tax = .10($9,525) + .12($29,175) + .22($43,800) + .24($75,000) + .32($42,500) + .35(300,000) + .37(630,000 − 500,000) = $198,790 Total
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
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79) Use the following tax table to answer this question:

Taxable Income			Tax Rate
$ 0	-	9,525	10%
9,525	-	38,700	12
38,700	-	82,500	22
82,500	-	157,500	24
157,500	-	200,000	32
200,000	-	500,000	35
500,000	+		37

Stacey's Fabrics, a sole proprietorship earned $260,000 in taxable income for the year. How much tax does the company owe?
A) $96,220
B) $91,000
C) $66,690
D) $62,400
E) $57,200

Answer: C
Explanation: Total tax = .10($9,525) + .12($29,175) + .22($43,800) + .24($75,000) + .32($42,500) + .35($260,000 − $200,000) = $66,690 Total
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
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80) The Plaza Cafe has an operating cash flow of $83,770, depreciation expense of $43,514, and taxes paid of $21,590. A partial listing of its balance sheet accounts is as follows:

	Beginning Balance	Ending Balance
Current assets	$ 138,590	$ 129,204
Net fixed assets	599,608	597,913
Current liabilities	143,215	139,827
Long-term debt	408,660	402,120

What is the amount of the cash flow from assets?
A) $26,359
B) $47,949
C) $61,487
D) $43,909
E) $35,953

Answer: B
Explanation: Cash flow from assets = $83,770 − ($597,913 − 599,608 + 43,514) − [($129,204 − 139,827) − ($138,590 − 143,215)] = $47,949
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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81) National Importers paid $38,600 in dividends and $24,615 in interest over the past year while net working capital increased from $15,506 to $17,411. The company purchased $38,700 in net new fixed assets and had depreciation expenses of $14,784. During the year, the firm issued $20,000 in net new equity and paid off $23,800 in long-term debt. What is the amount of the cash flow from assets?
A) $21,811
B) $41,194
C) $36,189
D) $26,410
E) $67,015

Answer: E
Explanation: Cash flow from assets = ($24,615 + 23,800) + ($38,600 − 20,000) = $67,015
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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82) The Pretzel Factory has net sales of $821,300 and costs of $698,500. The depreciation expense is $28,400 and the interest paid is $8,400. What is the amount of the firm's operating cash flow if the tax rate is 34 percent?
A) $87,620
B) $89,540
C) $91,220
D) $93,560
E) $95,240

Answer: D
Explanation:
EBIT = $821,300 − 698,500 − 28,400 = $94,400
Tax = ($94,400 − 8,400) × .34 = $29,240
OCF = $94,400 + 28,400 − 29,240 = $93,560
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
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83) Outdoor Sports paid $12,500 in dividends and $9,310 in interest over the past year. Sales totaled $361,820 with costs of $267,940. The depreciation expense was $16,500 and the tax rate was 35 percent. What was the amount of the operating cash flow?
A) $64,232
B) $65,306
C) $57,556
D) $70,056
E) $70,568

Answer: D
Explanation:
EBIT = $361,820 − 267,940 − 16,500 = $77,380
Tax = ($77,380 − 9,310) × .35 = $23,824.50
OCF = $77,380 + 16,500 − 23,824.50 = $70,056
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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84) The balance sheet of a firm shows beginning net fixed assets of $348,200 and ending net fixed assets of $371,920. The depreciation expense for the year is $46,080 and the interest expense is $11,460. What is the amount of the net capital spending?
A) −$22,360
B) −$4,780
C) $23,720
D) $58,340
E) $69,800

Answer: E
Explanation: Net capital spending = $371,920 − 348,200 + 46,080 = $69,800
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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85) The financial statements of Blue Fin Marina reflect depreciation expenses of $41,600 and interest expenses of $27,900 for the year. The current assets increased by $31,800 and the net fixed assets increased by $28,600. What is the amount of the net capital spending for the year?
A) $13,000
B) $21,600
C) $28,600
D) $60,400
E) $70,200

Answer: E
Explanation: Net capital spending = $28,600 + 41,600 = $70,200
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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86) Andre's Dog House had current assets of $67,200 and current liabilities of $71,100 last year. This year, the current assets are $82,600 and the current liabilities are $85,100. The depreciation expense for the past year is $9,600 and the interest paid is $8,700. What is the amount of the change in net working capital?
A) −$2,800
B) −$1,400
C) $1,400
D) $2,100
E) $2,800

Answer: C
Explanation:
Change in net working capital = ($82,600 − 85,100) − ($67,200 − 71,100) = $1,400
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Change in net working capital
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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87) The balance sheet of Binger, Inc. has the following balances:

	Beginning balance	Ending balance
Cash	$ 30,300	$ 32,800
Accounts receivable	48,200	51,600
Inventory	126,500	129,200
Net fixed assets	611,900	574,300
Accounts payable	43,200	53,600
Long-term debt	415,000	304,200

What is the amount of the change in net working capital?
A) −$1,800
B) −$7,400
C) $1,800
D) −$8,100
E) $8,100

Answer: A
Explanation: Change in net working capital = ($32,800 + 51,600 + 129,200 − 53,600) − ($30,300 + 48,200 + 126,500 − 43,200) = −$1,800
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Change in net working capital
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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88) During the past year, Yard Services paid $36,800 in interest along with $2,000 in dividends. The company issued $3,000 of stock and $16,000 of new debt. The company reduced the balance due on its old debt by $18,400. What is the amount of the cash flow to creditors?
A) $8,200
B) $55,200
C) $2,400
D) $39,200
E) $15,800

Answer: D
Explanation: Cash flow to creditors = $36,800 − 16,000 + 18,400 = $39,200
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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89) A firm has earnings before interest and taxes of $27,130, net income of $16,220, and taxes of $5,450 for the year. While the firm paid out $31,600 to pay off existing debt it then later borrowed $42,000. What is the amount of the cash flow to creditors?
A) −$14,040
B) $0
C) −$4,940
D) $14,040
E) $4,660

Answer: C
Explanation:
Interest = $27,130 − 16,220 − 5,450 = $5,460
Cash flow to creditors = $5,460 + 31,600 − 42,000 = −$4,940
Difficulty: 3 Hard
Section: 2.4 Cash Flow
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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90) A balance sheet shows beginning values of $56,300 for current liabilities and$289,200 for long-term debt. The ending values are $61,900 and $318,400, respectively. The income statement shows interest paid of $29,700 and dividends of $19,000. What is the amount of the net new borrowing?
A) $29,200
B) $40,450
C) $34,800
D) $70,150
E) $58,900

Answer: A
Explanation: Net new borrowing = $318,400 − 289,200 = $29,200
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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91) For the past year, LP Gas, Inc., had cash flow from assets of $38,100 of which $21,500 flowed to the firm's stockholders. The interest paid was $2,300. What is the amount of the net new borrowing?
A) −$14,300
B) −$9,700
C) $12,300
D) $14,300
E) $18,900

Answer: A
Explanation:
Cash flow to creditors = $38,100 − 21,500 = $16,600
Net new borrowing = $2,300 − 16,600 = −$14,300
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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92) Six months ago, Benders Gym repurchased $140,000 of its common stock. The company pays regular dividends totaling $18,500 per quarter. What is the amount of the cash flow to stockholders for the past year if 1,200 new shares were issued and sold for $38 a share?
A) −$10,000
B) −$20,400
C) $28,500
D) $74,000
E) $168,400

Answer: E
Explanation:
Cash flow to stockholders = ($18,500 × 4) − [(1,200 × $38) − $140,000] = $168,400
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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93) The Underground Cafe has an operating cash flow of $187,000 and a cash flow to creditors of $71,400 for the past year. The firm reduced its net working capital by $28,000 and incurred net capital spending of $47,900. What is the amount of the cash flow to stockholders for the last year?
A) −$171,500
B) −$86,700
C) $21,200
D) $95,700
E) $39,700

Answer: D
Explanation:
Cash flow to stockholders = [$187,000 − 47,900 − (−$28,000)] − $71,400 = $95,700
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow to stockholders
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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94) Donegal's has compiled the following information:

Sales	$ 406,300
Interest paid	21,200
Long-term debt	248,700
Owners' equity	211,515
Depreciation	23,800
Accounts receivable	24,400
Other costs	38,600
Inventory	41,500
Accounts payable	22,600
Cost of goods sold	218,900
Cash	16,300
Taxes	34,100

What is the operating cash flow for the year?
A) $90,900
B) $96,700
C) $114,700
D) $93,500
E) $102,600

Answer: C
Explanation: Operating cash flow = $406,300 − 218,900 − 38,600 − 34,100 = $114,700
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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95) Home Supply, Inc. has compiled the following information:

	2015	2016
Interest paid	$ 10,500	$ 11,400
Long-term debt	287,400	293,500
Sales	614,200	718,900
Common stock	280,000	294,500
Accounts payable	42,600	58,700
Depreciation	38,400	43,700
Accounts receivable	54,200	59,000
Inventory	121,600	128,300
Other costs	46,800	42,100
Taxes	16,100	20,200
Cash	18,200	9,500
Retained earnings	65,400	89,800
Net fixed assets	481,400	539,700
Costs of goods sold	471,100	562,300

For 2016, the cash flow from assets is _____ and the cash flow to stockholders is _____.
A) $5,600; $300
B) $5,600; $15,100
C) $5,600; $14,500
D) $6,300; $300
E) $6,300; $14,500

Answer: A
Explanation:
2016 operating cash flow = $718,900 − 562,300 − 42,100 − 20,200 = $94,300
Change in net working capital = ($9,500 + 59,000 + 128,300 − 58,700) − ($18,200 + 54,200 + 121,600 − 42,600) = −$13,300
Net capital spending = $539,700 − 481,400 + 43,700 = $102,000
Cash flow from assets = $94,300 −102,000 − (−$13,300) = $5,600
Cash flow to creditors = $11,400 − ($293,500 − 287,400) = $5,300
Addition to retained earnings = $89,800 − 65,400 = $24,400
Net income = $718,900 − 562,300 − 42,100 − 43,700 − 11,400 − 20,200 = $39,200
Dividends paid = $39,200 − 24,400 = $14,800
Cash flow to stockholders = $14,800 − ($294,500 − 280,000) = $300
Cash flow from assets = $5,300 + 300 = $5,600
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flows
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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96) The Carpentry Shop has sales of $398,600, costs of $254,800, depreciation expense of $26,400, interest expense of $1,600, and a tax rate of 34 percent. What is the net income for this firm?
A) $61,930
B) $66,211
C) $67,516
D) $76,428
E) $83,219

Answer: D
Explanation: Net income = ($398,600 − 254,800 − 26,400 − 1,600) (1 − .34) = $76,428
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
Bloom's: Analyze
AACSB: Analytical Thinking

97) Andersen's Nursery has sales of $318,400, costs of $199,400, depreciation expense of $28,600, interest expense of $1,100, and a tax rate of 35 percent. The firm paid out $23,400 in dividends. What is the addition to retained earnings?
A) $36,909
B) $34,645
C) $44,141
D) $37,208
E) $40,615

Answer: B
Explanation: Addition to retained earnings = [($318,400 − 199,400 − 28,600 − 1,100)(1 − .35)] − $23,400
Addition to retained earnings = $34,645
Difficulty: 3 Hard
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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98) Roscoe's fixed assets were purchased three years ago for $1.8 million. These assets can be sold to Stewart's today for $1.2 million. Roscoe's current balance sheet shows net fixed assets of $960,000, current liabilities of $348,000, and net working capital of $121,000. If all the current assets were liquidated today, the company would receive $518,000 cash. The book value of the firm's assets today is _____ and the market value is _____.
A) $1,081,000; $1,308,000
B) $1,081,000; $1,718,000
C) $1,307,000; $1,429,000
D) $1,429,000; $1,308,000
E) $1,429,000; $1,718,000

Answer: E
Explanation: Book value = $121,000 + 348,000 + 960,000 = $1,429,000
Market value = $518,000 + 1,200,000 = $1,718,000
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Market and book values
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Analyze
AACSB: Analytical Thinking

99) Daniel's Market has sales of $43,800, costs of $40,400, depreciation expense of $2,500, and interest expense of $1,100. If the tax rate is 34 percent, what is the operating cash flow, OCF? Assume tax losses can be carried forward and utilized.
A) $3,332
B) $3,279
C) $3,511
D) $3,468
E) $3,013

Answer: D
Explanation: EBIT = $43,800 − 40,400 − 2,500 = $900
Tax = ($900 − 1,100) × .34 = −$68
OCF = $900 + 2,500 − (−$68) = $3,468
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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100) On December 31, 2015, The Play House had net fixed assets of $812,650 while the December 31, 2016 balance sheet showed net fixed assets of $784,900. Depreciation for 2016 was $84,900. What was the firm's net capital spending for 2016?
A) $51,600
B) $42,410
C) $57,150
D) $54,400
E) $46,620

Answer: C
Explanation: Net capital spending = $784,900 − 812,650 + 84,900 = $57,150
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Capital spending
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
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101) Suzette's Market had long-term debt of $638,100 at the beginning of the year compared to $574,600 at year-end. If the interest expense was $42,300, what was the firm's cash flow to creditors?
A) $21,200
B) $26,700
C) $54,900
D) $102,400
E) $105,800

Answer: E
Explanation: Cash flow to creditors = $42,300 − ($574,600 − 638,100) = $105,800
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow to creditors
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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102) Assume a company has sales of $423,800, production costs of $297,400, other expenses of $18,500, depreciation expense of $36,300, interest expense of $2,100, taxes of $23,600, and dividends of $12,000. In addition, you're told that during the year the firm issued $4,500 in new equity and redeemed $6,500 in outstanding long-term debt. If net fixed assets increased by $7,400 during the year, what was the addition to net working capital?
A) $11,500
B) $24,500
C) $15,800
D) $37,500
E) $30,400

Answer: B
Explanation: OCF = $423,800 − 297,400 − 18,500 − 23,600 = $84,300
NCS = $7,400 + 36,300 = $43,700
CFA = CFC + CFS = [$2,100 − (−6,500)] + [$12,000 − 4,500] = $16,100
Add to NWC = OCF − NCS − CFA = $84,300 − 43,700 − 16,100 = $24,500
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Change in net working capital
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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103) Daisy Co. has $267,000 in taxable income and Binget Co. has $1,600,000 in taxable income. Suppose both firms have identified a new project that will increase taxable income by $10,000. The additional project will increase Daisy Co.'s taxes by _____ and Binget Co.'s taxes by _____.

Taxable Income			Tax Rate
$ 0	-	9,525	10%
9,525	-	38,700	12
38,700	-	82,500	22
82,500	-	157,500	24
157,500	-	200,000	32
200,000	-	500,000	35
500,000	+		37

A) $1,500; $1,500
B) $3,400; $3,400
C) $3,400; $3,700
D) $3,500; $3,700
E) $3,700; $3,700

Answer: D
Explanation: Daisy Co. tax = $10,000 × 0.35 = $3,500
Binget Co. tax = $10,000 × .37 = $3,700
Difficulty: 3 Hard
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
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104) Dixie's sales for the year were $1,678,000. Cost of goods sold, administrative and selling expenses, and depreciation expenses were $1,141,000, $304,000, and $143,000, respectively. In addition, the company had an interest expense of $74,000 and a tax rate of 34 percent. What is the operating cash flow for the year?
A) $227,560
B) $271,420
C) $223,330
D) $285,400
E) $217,700

Answer: A
Explanation: EBIT = ($1,678,000 − 1,141,000 − 304,000 − 143,000 = $90,000
Tax = ($90,000 − 74,000) × .34 = $5,440
OCF = $90,000 + 143,000 − 5,440 = $227,560
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Operating cash flow
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking

105) For Year 2016, Precision Masters had sales of $42,900, cost of goods sold of $26,800, depreciation expense of $1,900, interest expense of $1,300, and dividends paid of $1,000. At the beginning of the year, net fixed assets were $14,300, current assets were $8,700, and current liabilities were $6,600. At the end of the year, net fixed assets were $13,900, current assets were $9,200, and current liabilities were $7,400. The tax rate was 34 percent. What is the cash flow from assets for 2016?
A) $9,914
B) $11,114
C) $9,360
D) $10,514
E) $11,970

Answer: D
Explanation: EBIT = [($42,900 − 26,800 − 1,900) = $14,200
Taxes = ($14,200 − 1,300)(.34)= $4,386
OCF = $14,200 + 1,900 − 4,386 = $11,714
CFA = $11,714 − ($13,900 − 14,300 + 1,900) − [($9,200 − 7,400) − ($8,700 − 6,600)] = $10,514
Difficulty: 3 Hard
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
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106) The passage of the Tax Cuts and Jobs Act of 2017 created a revised progressive tax structure, which applies to all of the following except:
A) Unmarried Individuals
B) Sole Proprietorships
C) LLCs
D) Partnerships
E) Corporations

Answer: E
Difficulty: 1 Easy
Section: 2.3 Taxes
Topic: Taxes
Learning Objective: 02-03 Explain the difference between average and marginal tax rates.
Bloom's: Remember
AACSB: Analytical Thinking

107) Generally Accepted Accounting Principles, as they relate to the Income Statement includes the recognition principle: to recognize revenue when the earnings process is virtually complete and the value of an exchange of goods or services is known or can be reliably determined.

Which of the following statements is true with regard to this principle?
A) Income and expense items can be recorded at any time the company deems appropriate.
B) Revenue is recognized at the time of sale. Costs associated with the sale of that product likewise would be recognized at that time.
C) Revenues must be reported only when cash is collected.
D) Expenses can be smoothed to make earnings appear greater.

Answer: B
Difficulty: 1 Easy
Section: 2.2 The Income Statement
Topic: Income statement
Learning Objective: 02-02 Distinguish accounting income from cash flow.
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108) The term "free cash flow" is another term to describe:
A) Operating Cash Flow.
B) Cash that comes "free" to the company.
C) Cash Flow from Assets.
D) Increases in cash account each year.

Answer: C
Difficulty: 2 Medium
Section: 2.4 Cash Flow
Topic: Cash flow from assets
Learning Objective: 02-04 Determine a firm's cash flow from its financial statements.
Bloom's: Understand
AACSB: Analytical Thinking

109) Sunny Disposition, Inc. has net working capital of $32,500, current assets of $59,000, equity of $74,500, and long-term debt of $42,500. What is the amount of the net fixed assets?
A) $58,000
B) $111,000
C) $94,600
D) $63,900
E) $84,500

Answer: E
Explanation: Net fixed assets = $42,500 + 74,500 − 32,500 = $84,500
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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110) Kat Outfitting currently has $22,500 in cash. The company owes $49,500 to suppliers for merchandise and $52,500 to the bank for a long-term loan. Customers owe the company $41,000 for their purchases. The inventory has a book value of $76,800 and an estimated market value of $72,000. If the store compiled a balance sheet as of today, what would be the book value of the current assets?
A) $135,500
B) $79,500
C) $86,000
D) $140,300
E) $144,000

Answer: D
Explanation: Current assets = $22,500 + 41,000 + 76,800 = $140,300
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
Bloom's: Analyze
AACSB: Analytical Thinking

111) Zoey Pet Supply had $314,000 in net fixed assets at the beginning of the year. During the year, the company purchased $98,200 in new equipment. It also sold, at a price of $10,000, some old equipment that had a book value of $12,500. The depreciation expense for the year was $24,500. What is the net fixed asset balance at the end of the year?
A) $260,000
B) $283,700
C) $424,200
D) $375,200
E) $277,000

Answer: D
Explanation: Ending net fixed assets = $314,000 + 98,200 − 12,500 − 24,500 = $375,200
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Balance sheet
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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112) Joie's Fashions has current liabilities of $45,600 and accounts receivable of $59,700. The firm has total assets of $275,000 and net fixed assets of $205,500. The owners' equity has a book value of $107,500. What is the amount of the net working capital?
A) $121,900
B) $23,900
C) $9,800
D) $83,600
E) −$35,800

Answer: B
Explanation: Net working capital = $275,000 − 205,500 − 45,600 = $23,900
Difficulty: 3 Hard
Section: 2.1 The Balance Sheet
Topic: Net working capital
Learning Objective: 02-01 Differentiate between accounting value (or book value) and market value.
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