

## Chapter 02 2024 Release

1. Award: 1.00 point

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Which one of the following items is classified as a tangible fixed asset?

- ☐ Accounts receivable
- ☐ Goodwill
- ☒ Office furniture
- ☐ Cash
- ☐ Inventory

### References

**Multiple Choice** Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic** Section: 2.1 The  
Balance Sheet

2.

Award: 1.00 point

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Which one of the following items is classified as a current asset?

- ☐ Accounts payable
- ☐ Patents
- ☒ Inventory
- ☐ Goodwill
- ☐ Office furniture

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
Balance Sheet

3.

Award: 1.00 point

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Which one of the following items is included when determining a firm's market value but is excluded when determining the firm's accounting value?

- ☐ Delivery vehicles purchased by the firm
- ☐ Land owned by the firm
- ☐ Cash payment due from a customer
- ☒ Acknowledgement of the firm's reputation
- ☐ Inventory held by the firm for future sale

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
Balance Sheet

4.

Award: 1.00 point

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Which one of the following items is a current liability?

- ☐ A loan payable to the bank in 4 years
- ☒ An invoice payable to a supplier in 45 days
- ☐ An amount due from a customer within 90 days
- ☐ A note payable to a lender in 18 months
- ☐ A past due amount due from a customer

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
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**Difficulty: 1 Basic**    Section: 2.1 The  
Balance Sheet

5.

Award: 1.00 point

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Which one of the following actions will decrease the value of a firm's net working capital?

- ☒ Donating inventory to charity
- ☐ Depreciating an asset
- ☐ Collecting an account receivable
- ☐ Purchasing inventory on credit
- ☐ Using cash to pay a supplier

#### References

**Multiple Choice** Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic** Section: 2.1 The  
Balance Sheet

6.

Award: 1.00 point

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Which one of the following statements concerning net working capital is correct?

- ☐ Net working capital increases when inventory is purchased with cash.
- ☐ Net working capital may be a negative value.
- ☐ Total assets must increase if net working capital increases.
- ☐ Net working capital excludes inventory.
- ☐ Net working capital is the amount of cash a firm currently has available for spending.

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
Balance Sheet

7.

Award: 1.00 point

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Which one of the following statements concerning net working capital is correct?

- ☐ A firm's ability to meet its current obligations increases as its net working capital decreases.
- ☐ An increase in net working capital must also increase current assets.
- ☐ Two firms with equal amounts of net working capital each have equal amounts of liquidity.
- ☒ Net working capital increases when inventory is sold for cash at a profit.
- ☐ Net working capital is a component of operating cash flow.

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2  
Intermediate**    Section: 2.1 The  
Balance Sheet

8.

Award: 1.00 point

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Which one of the following accounts is the most liquid?

- ☐ Inventory
- ☐ Building
- ☒ Accounts Receivable
- ☐ Equipment
- ☐ Land

#### References

**Multiple Choice** Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic** Section: 2.1 The  
Balance Sheet



9.

Award: 1.00 point

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Which one of the following transactions creates the greatest amount of liquidity?

- ☐ A \$500 account receivable is discounted and collected for \$480 today.
- ☐ \$500 worth of inventory is sold on credit today for \$515.
- ☒ \$500 worth of inventory is sold today for \$500 in cash.
- ☐ \$500 worth of inventory is discounted and sold today for \$485 in cash.
- ☐ A \$500 account receivable will be collected in full next week.

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2**                      Section: 2.1 The  
**Intermediate**                      Balance Sheet

10.

Award: 1.00 point

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Which one of the following statements related to liquidity is correct?

- ☐ Any asset that can be sold for cash is considered liquid.
- ☐ Inventory is more liquid than accounts receivable because inventory is tangible.
- ☐ Liquid assets are defined as assets that can be sold quickly regardless of the price obtained.
- ☐ Liquid assets are valuable to a firm.
- ☐ Liquid assets tend to earn a higher rate of return than illiquid assets.

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
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book value) and  
market value.

**Difficulty: 2  
Intermediate**    Section: 2.1 The  
Balance Sheet

11.

Award: 1.00 point

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Shareholders' equity:

- ☐ is referred to as a firm's financial leverage.
- ☐ is equal to total assets plus total liabilities.
- ☒ represents the residual value of a firm.
- ☐ includes patents, preferred stock, and common stock.
- ☐ decreases whenever new shares of stock are issued.

### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
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accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
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As the degree of financial leverage increases, the:

- ☐ probability a firm will encounter financial distress increases.
- ☐ dollar amount of a firm's total debt decreases.
- ☐ less debt a firm has per dollar of total assets.
- ☐ number of outstanding shares of stock decreases.
- ☐ accounts payable balance decreases.

### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
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accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
Balance Sheet

13.

Award: 1.00 point

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The book value of a firm is:

- ☐ equivalent to the firm's market value minus its liabilities.
- ☐ a financial, rather than an accounting, valuation.
- ☐ generally greater than the market value of the firm when fixed assets are included.
- ☒ based on historical transactions.
- ☐ adjusted to the market value whenever the market value exceeds the stated book value.

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
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14.

Award: 1.00 point

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The value of which one of the following items is excluded from the firm's book value but included in the firm's market value?

- ☐ The firm's transportation equipment
- ☐ Company-wide computer software
- ☐ The company's distribution warehouse
- ☐ Land the company acquired more than 50 years ago
- ☐ The collective experience of employees

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
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market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
Balance Sheet

15.

Award: 1.00 point

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An entrepreneur purchased a restaurant that had equal market and book values. The purchase included the building, fixtures, and inventory. Which one of the following actions would be most likely to cause the market value of the restaurant to fall below its book value?

- ☐ A sudden and unexpected increase in inflation
- ☐ The replacement of old menu items with more desirable products
- ☒ A pandemic that required restaurants to limit the number of customers allowed inside
- ☐ Construction of new sidewalks and street lighting
- ☐ Addition of a movie theater and music venues nearby

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2**                      Section: 2.1 The  
**Intermediate**                      Balance Sheet

16.

Award: 1.00 point

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Which one of the following financial reports shows the accounting value of a firm's equity as of a particular date?

- ☐ Income statement
- ☐ Creditor's statement
- ☒ Balance sheet
- ☐ Statement of cash flows
- ☐ Dividend statement

#### References

**Multiple Choice** Learning Objective:  
02-01 Describe the difference between accounting value (or book value) and market value.

**Difficulty: 1 Basic** Section: 2.1 The Balance Sheet



17.

Award: 1.00 point

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Net working capital is defined as:

- ☐ total liabilities minus shareholders' equity.
- ☐ current liabilities minus shareholders' equity.
- ☐ fixed assets minus long-term liabilities.
- ☒ current assets minus current liabilities.
- ☐ total assets minus total liabilities.

### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
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book value) and  
market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
Balance Sheet

18.

Award: 1.00 point

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Which one of the following items defines the standards and procedures with which audited financial statements are prepared?

- ☒ Generally Accepted Accounting Principles
- ☐ Matching principle
- ☐ Cash flow identity
- ☐ Financial Accounting Reporting Principles
- ☐ Standard Accounting Value Guidelines

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 1 Basic**    Section: 2.1 The  
Balance Sheet

19.

Award: 1.00 point

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Which one of the following financial reports summarizes a firm's revenue and expenses during a period of time?

- ☒ Income statement
- ☐ Balance sheet
- ☐ Statement of cash flows
- ☐ Tax reconciliation statement
- ☐ Market value report

#### References

**Multiple Choice** Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 1 Basic** Section: 2.2 The  
Income Statement

## 20. Award: 1.00 point

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Which one of the following phrases accurately describes a noncash item?

- ☐ Fixed expenses
- ☐ Inventory that was purchased using credit
- ☐ Ownership of intangible assets such as patents
- ☒ Expenses that do not consume cash
- ☐ Sales that are made using store credit

### References

**Multiple Choice** Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 1 Basic** Section: 2.2 The  
Income Statement

21.

Award: 1.00 point

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According to Generally Accepted Accounting Principles:

- ☐ depreciation is recorded based on the market value principle.
- ☒ income is recorded based on the realization principle.
- ☐ costs are recorded based on the realization principle.
- ☐ depreciation is recorded based on the recognition principle.
- ☐ costs of goods sold are recorded based on the recognition principle.

### References

**Multiple Choice**    Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 1 Basic**    Section: 2.2 The  
Income Statement

22.

Award: 1.00 point

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Which one of the following items is most likely to be a fixed cost?

- ☐ Raw materials
- ☒ Rent
- ☐ Management bonuses
- ☐ Manufacturing wages
- ☐ Shipping and freight

#### References

**Multiple Choice** Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 1 Basic** Section: 2.2 The  
Income Statement

## 23. Award: 1.00 point

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Assuming accrual accounting is employed, which one of the following statements is correct?

- ☐ Interest is a noncash expense.
- ☐ Credit sales are recorded on the income statement when the cash from the sale is collected.
- ☐ The addition to retained earnings is equal to net income plus dividends paid.
- ☒ The costs of acquiring a product are expensed when the product is sold.
- ☐ Depreciation expenses increase a firm's marginal tax rate.

### References

**Multiple Choice**    Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2  
Intermediate**        Section: 2.2 The  
Income Statement

24.

Award: 1.00 point

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The \_\_\_\_\_ tax rate is the tax percentage applied to the last dollar of taxable income.

- ☒ marginal
- ☐ residual
- ☐ total
- ☐ average
- ☐ standard

#### References

**Multiple Choice** Learning Objective:  
02-03 Describe the  
difference between  
average and  
marginal tax rates.

**Difficulty: 1 Basic** Section: 2.3 Taxes



25.

Award: 1.00 point

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Total income taxes divided by total taxable income equals the \_\_\_\_\_ tax rate.

- ☐ deductible
- ☒ average
- ☐ total
- ☐ residual
- ☐ marginal

#### References

**Multiple Choice**    Learning Objective:  
02-03 Describe the  
difference between  
average and  
marginal tax rates.

**Difficulty: 1 Basic**    Section: 2.3 Taxes

26.

Award: 1.00 point

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Which one of the following statements related to corporate income taxes is correct?

- ☐ A corporation's marginal tax rate must be equal to or lower than its average tax rate.
- ☐ A corporation's taxes equal its taxable income multiplied by the marginal tax rate.
- ☐ Above a certain level, if the corporation earns additional income, it will be taxed at a higher rate.
- ☐ The marginal tax rate will always exceed a corporation's average tax rate.
- ☒ Corporations pay the same tax rate regardless of the amount of taxable income.

#### References

**Multiple Choice**    Learning Objective:  
02-03 Describe the  
difference between  
average and  
marginal tax rates.

**Difficulty: 2**                      Section: 2.3 Taxes  
**Intermediate**

27.

Award: 1.00 point

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Which one of the following statements concerning corporate income taxes is correct?

- ☐ U.S. corporations are exempt from federal taxation.
- ☐ Corporations pay no tax on their first \$44,725 of income.
- ☒ The federal income tax is applied at a flat rate across all levels of taxable income.
- ☐ The marginal tax rate will always be lower than the average tax rate.
- ☐ The first 30 percent of corporate income is exempt from taxation.

#### References

**Multiple Choice**    Learning Objective:  
02-03 Describe the  
difference between  
average and  
marginal tax rates.

**Difficulty: 1 Basic**    Section: 2.3 Taxes

## 28. Award: 1.00 point

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The cash flow that is available for distribution to a corporation's creditors and stockholders is called the:

- ☐ operating cash flow.
- ☐ net capital spending.
- ☐ net working capital.
- ☒ cash flow from assets.
- ☐ earnings before interest and taxes.

### References

**Multiple Choice** Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic** Section: 2.4 Cash  
Flow

29.

Award: 1.00 point

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The cash flow that results from a company's ongoing, normal business activities is called:

- ☒ operating cash flow.
- ☐ capital spending.
- ☐ net working capital.
- ☐ cash flow from assets.
- ☐ earnings before interest and taxes.

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow

30.

Award: 1.00 point

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Cash flow from assets is also known as the firm's:

- ☐ capital structure.
- ☐ earnings before interest and taxes.
- ☐ hidden cash flow.
- ☒ free cash flow.
- ☐ increase in transaction value.

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow

31.

Award: 1.00 point

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The cash flow defined as interest payments less any net new borrowing is called the:

- ☐ operating cash flow.
- ☐ capital spending cash flow.
- ☐ net working capital.
- ☐ cash flow from assets.
- ☒ cash flow to creditors.

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow

32.

Award: 1.00 point

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Cash flow to stockholders is defined as:

- ☐ the total amount of interest and dividends paid during the past year.
- ☐ the change in total equity over the past year.
- ☐ cash flow from assets plus the cash flow to creditors.
- ☐ operating cash flow minus the cash flow to creditors.
- ☐ dividend payments less net new equity raised.

### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow



33.

Award: 1.00 point

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Which one of the following items is called an expense for accounting purposes but is not part of operating cash flow for financial purposes?

- ☒ Interest expense
- ☐ Taxes
- ☐ Cost of goods sold
- ☐ Labor costs
- ☐ Administrative expenses

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

34.

Award: 1.00 point

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For a firm that must pay income taxes, depreciation expense:

- ☒ increases expenses and lowers taxes.
- ☐ increases the net fixed assets as shown on the balance sheet.
- ☐ reduces both the net fixed assets and the costs of a firm.
- ☐ is a noncash expense that increases the net income.
- ☐ decreases net fixed assets, net income, and operating cash flows.

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow

35.

Award: 1.00 point

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Which one of the following statements related to an income statement is correct?

- ☐ Interest expense increases the amount of tax due.
- ☐ Depreciation does not affect taxes since it is a noncash expense.
- ☐ Net income is distributed as dividends and paid-in surplus.
- ☒ Income taxes reduce both net income and operating cash flow.
- ☐ Interest expense is included in operating cash flow.

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow

36.

Award: 1.00 point

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For a corporation that earned positive taxable income, which one of the following statements is correct?

- ☐ Taxable income minus dividends paid will equal the ending retained earnings for the year.
- ☒ An increase in depreciation expense will increase the operating cash flow.
- ☐ Net income divided by the number of shares outstanding will equal the dividends per share.
- ☐ Interest paid will be included in both net income and operating cash flow.
- ☐ An increase in the tax rate will increase both net income and operating cash flow.

### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**                      Section: 2.4 Cash  
**Intermediate**                Flow

37.

Award: 1.00 point

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Which of the following actions could cause a company's change in net working capital to be negative for a given year?

- ☐ Increase the dividends paid to stockholders
- ☐ Pay off long-term debt before the due date
- ☐ Purchase additional inventory with cash
- ☒ Borrow money from the bank using a note payable in nine months
- ☐ Use long-term debt to buy a building

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**            Section: 2.4 Cash  
**Intermediate**        Flow

38.

Award: 1.00 point

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Assuming a firm earns taxable income, an increase in \_\_\_\_\_ will cause the cash flow from assets to increase.

- ☒ depreciation expense
- ☐ net capital spending
- ☐ the change in net working capital
- ☐ income tax expense
- ☐ production costs

#### References

**Multiple Choice** Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic** Section: 2.4 Cash  
Flow

39.

Award: 1.00 point

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Which one of the following must be true if a profitable firm had a negative cash flow from assets?

- ☐ The firm borrowed money.
- ☒ The firm obtained external funding
- ☐ The firm increased its investment in net working capital.
- ☐ The firm acquired new fixed assets.
- ☐ Newly issued shares of stock were sold.

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**                      Section: 2.4 Cash  
**Intermediate**                      Flow

40.

Award: 1.00 point

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Which one of the following items is excluded from the calculation of the cash flow from assets?

- ☐ Accounts payable
- ☐ Inventory
- ☐ Sales
- ☒ Interest expense
- ☐ Cost of goods sold

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow



41.

Award: 1.00 point

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Net capital spending:

- ☐ is equal to ending net fixed assets minus beginning net fixed assets.
- ☐ is equal to zero if the decrease in the net fixed assets is equal to the depreciation expense.
- ☐ reflects the net changes in total assets over a stated period of time.
- ☐ is equivalent to the cash flow from assets minus the operating cash flow minus the change in net working capital.
- ☐ is equal to the net change in the current accounts.

#### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow

42.

Award: 1.00 point

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Which one of the following statements related to the cash flow to creditors must be correct?

- ☐ If the cash flow to creditors is positive, the firm must have borrowed more money than it repaid.
- ☐ If the cash flow to creditors is negative, the firm must have a negative cash flow from assets.
- ☒ A positive cash flow to creditors represents a net cash outflow from the firm.
- ☐ A positive cash flow to creditors means that a firm has increased its long-term debt.
- ☐ If the cash flow to creditors is zero, a firm has no long-term debt.

### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 1 Basic**    Section: 2.4 Cash  
Flow

43.

Award: 1.00 point

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A positive cash flow to stockholders indicates which one of the following with certainty?

- ☐ The dividends paid exceeded the net new equity raised.
- ☐ The amount of the sale of common stock exceeded the amount of dividends paid.
- ☐ No dividends were distributed, but new shares of stock were sold.
- ☐ Both the cash flow to assets and the cash flow to creditors must be negative.
- ☐ Both the cash flow to assets and the cash flow to creditors must be positive.

### References

**Multiple Choice**    Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**                      Section: 2.4 Cash  
**Intermediate**                      Flow

44.

Award: 1.00 point

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A firm's balance sheet shows \$735 in inventory, \$1,180 in fixed assets, \$220 in accounts receivables, \$315 in accounts payable, and \$95 in cash. How much net working capital does the firm have?

- ☐ \$1,915
- ☒ \$735
- ☐ \$1,050
- ☐ \$865
- ☐ \$1,365

$$\text{NWC} = \$735 + 220 + 95 - 315$$

$$\text{NWC} = \$735$$

### References

**Multiple Choice**      Learning Objective:  
02-01 Describe the  
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**Difficulty: 2  
Intermediate**      Section: 2.1 The  
Balance Sheet

45.

Award: 1.00 point

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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?

- ☐ \$2,050
- ☐ \$2,920
- ☐ \$4,130
- ☐ \$7,950
- ☒ \$6,890

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

### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the  
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book value) and  
market value.

**Difficulty: 2**                      Section: 2.1 The  
**Intermediate**                      Balance Sheet

46.

Award: 1.00 point

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A 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?

- ☐ -\$100
- ☒ \$300
- ☐ \$600
- ☐ \$1,700
- ☐ \$1,800

$$\text{NWC} = \$4,900 - 3,200 - 1,400$$

$$\text{NWC} = \$300$$

### References

**Multiple Choice**      Learning Objective:  
02-01 Describe the  
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market value.

**Difficulty: 2  
Intermediate**      Section: 2.1 The  
Balance Sheet

47.

Award: 1.00 point

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A firm has shareholders' equity of \$218,700. The firm owes a total of \$141,000, only 40 percent of which is payable within the next 12 months. The firm has net fixed assets of \$209,800. What is the amount of net working capital?

- ☐ \$149,900
- ☒ \$93,500
- ☐ \$125,600
- ☐ -\$47,500
- ☐ \$56,500

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

### References

**Multiple Choice**      Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2**              Section: 2.1 The  
**Intermediate**              Balance Sheet

## 48. Award: 1.00 point

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A firm purchased equipment four years ago at a cost of \$218,000. The equipment is reported on today's balance sheet at a net value of \$97,400 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?

- ☐ \$31,400
- ☐ \$47,700
- ☒ \$35,900
- ☐ \$249,400
- ☐ \$253,900

Equity BV = \$97,400 + 41,300 – 102,800  
Equity BV = \$35,900

### References

**Multiple Choice**      Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2  
Intermediate**      Section: 2.1 The  
Balance Sheet



49.

Award: 1.00 point

A firm owns the building in which it conducts business. The building cost \$647,000 to purchase and is currently appraised at \$819,000. The fixtures inside the building 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 firm expects to collect 96 percent of its \$21,700 in accounts receivable. The shop has \$26,800 in cash and total debt of \$414,700. What is the market value of its equity?

- ☒ \$867,832
- ☐ \$900,166
- ☐ \$695,832
- ☐ \$775,632
- ☐ \$1,190,332

Equity MV = \$819,000 + 65,000 + 1.1(\$319,000) + .96(\$21,700) + 26,800 - 414,700  
Equity MV = \$867,832

### References

**Multiple Choice**      Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2  
Intermediate**      Section: 2.1 The  
Balance Sheet

50.

Award: 1.00 point

A firm purchased the entirety 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 \_\_\_\_\_.

- ☒ \$4,600,000; \$3,900,000
- ☐ \$4,600,000; \$3,125,000
- ☐ \$5,000,000; \$3,125,000
- ☐ \$5,000,000; \$3,900,000
- ☐ \$6,500,000; \$3,900,000

$$BV = (\$725,000 + 1,375,000) + \$2,500,000$$
$$BV = \$4,600,000$$

$$MV = \$1,900,000 + 2,000,000$$
$$MV = \$3,900,000$$

### References

**Multiple Choice**      Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2**              Section: 2.1 The  
**Intermediate**          Balance Sheet

51.

Award: 1.00 point

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A firm has inventory of \$980, fixed assets of \$2,295, total liabilities of \$1,300, cash of \$700, accounts receivable of \$4,200, and long-term debt of \$570. What is the amount of net working capital?

- ☐ \$4,580
- ☐ \$6,875
- ☐ \$6,305
- ☒ \$5,150
- ☐ \$1,725

$$\text{NWC} = \$700 + 4,200 + 980 - (\$1,300 - 570)$$
$$\text{NWC} = \$5,150$$

#### References

**Multiple Choice**    Learning Objective:  
02-01 Describe the difference between accounting value (or book value) and market value.

**Difficulty: 2 Intermediate**    Section: 2.1 The Balance Sheet

52.

Award: 1.00 point

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A firm has a market value of \$32,780 and owes its creditors \$34,960. What is the market value of the shareholders' equity?

- ☐ -\$2,180
- ☐ -\$4,360
- ☒ \$0
- ☐ \$2,180
- ☐ \$4,360

Shareholders' equity =  $\text{Max} [(\$32,780 - \$34,960), 0]$

Shareholders' equity = 0

Since the market value of equity cannot be negative, the answer is zero.

### References

**Multiple Choice**      Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2  
Intermediate**      Section: 2.1 The  
Balance Sheet

53.

Award: 1.00 point

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A firm 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?

- ☐ \$180
- ☒ \$520
- ☐ \$1,020
- ☐ \$880
- ☐ \$1,200

Net income = \$700 – 180

Net income = \$520

#### References

**Multiple Choice**      Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2  
Intermediate**      Section: 2.2 The  
Income Statement

54.

Award: 1.00 point

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A firm has sales of \$373,000 and costs of \$218,000. Interest expense is \$21,000 and depreciation is \$37,000. The tax rate is 21 percent. What is the amount of net income?

- ☐ \$97,000
- ☒ \$76,630
- ☐ \$105,860
- ☐ \$93,220
- ☐ \$101,450

Net income =  $(\$373,000 - 218,000 - 21,000 - 37,000)(1 - .21)$   
Net income = \$76,630

#### References

**Multiple Choice**      Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2  
Intermediate**      Section: 2.2 The  
Income Statement

55.

Award: 1.00 point

A firm has sales of \$30,600, costs of \$15,350, 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 depreciation expense?

- ☐ \$4,820.13
- ☐ \$5,500.89
- ☒ \$8,013.29
- ☐ \$8,180.01
- ☐ \$9,500.00

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

### References

**Multiple Choice**    Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2**            Section: 2.2 The  
**Intermediate**        Income Statement

56.

Award: 1.00 point

A firm had \$15,900 of sales, \$500 of net new equity, dividend payments of \$75, 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?

- ☐ \$589.46
- ☒ \$1,135.05
- ☐ \$1,331.54
- ☐ \$1,560.85
- ☐ \$949.46

Net income = \$75 + 418

Net income = \$493

Taxable income =  $\$493 \div (1 - .21)$

Taxable income = \$624.05

EBIT = \$624.05 + 511

EBIT = \$1,135.05

### References

**Multiple Choice** Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2  
Intermediate** Section: 2.2 The  
Income Statement



57.

Award: 1.00 point

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A firm had 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?

- ☐ \$2,893
- ☐ \$1,282
- ☐ \$740
- ☒ \$1,611
- ☐ \$2,351

Noncash expenses = Depreciation = \$1,611

#### References

**Multiple Choice**      Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2  
Intermediate**      Section: 2.2 The  
Income Statement

58.

Award: 1.00 point

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A firm 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?

- ☒ \$98,210
- ☐ \$81,700
- ☐ \$95,200
- ☐ \$103,460
- ☐ \$121,680

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

### References

**Multiple Choice**    Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2**                      Section: 2.2 The  
**Intermediate**                  Income Statement

59.

Award: 1.00 point

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A firm 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. Given a tax rate of 21 percent, what is the taxable income?

- ☐ \$955.38
- ☐ \$967.78
- ☒ \$906.33
- ☐ \$776.41
- ☐ \$646.15

Net income = \$296 + 420

Net income = \$716

Taxable income =  $\$716 \div (1 - .21)$

Taxable income = \$906.33

### References

**Multiple Choice**      Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2  
Intermediate**      Section: 2.2 The  
Income Statement

60.

Award: 1.00 point

Based on the partial tax table below, what is the average tax rate for a sole proprietor with a taxable income of \$147,000? Ignore any standard or itemized deductions.

Taxable Income	Tax Rate
\$ 0 – 11,000	10%
11,000 – 44,725	12
44,725 – 95,375	22
95,375 – 182,100	24

- ☐ 18.43%
- ☒ 19.51%
- ☐ 24.00%
- ☐ 14.90%
- ☐ 21.00%

$$\text{Income Tax} = [(\$11,000 - 0) \times 10\%] + [(\$44,725 - 11,000) \times 12\%] + [(\$95,375 - 44,725) \times 22\%] + [(\$147,000 - 95,375) \times 24\%] = \$28,680$$

$$\text{Average tax rate} = \$28,680 \div \$147,000$$

$$\text{Average tax rate} = .1951, \text{ or } 19.51\%$$

### References

**Multiple Choice** Learning Objective:  
02-03 Describe the  
difference between  
average and  
marginal tax rates.

**Difficulty: 2**  
**Intermediate** Section: 2.3 Taxes

61.

Award: 1.00 point

A partner in a firm is expected to earn a taxable income of \$80,000. Her actual taxable income exceeded this projection by \$25,000. Based on the tax table below, how much additional tax did she owe due to the \$25,000 increase in taxable income?

Taxable Income	Tax Rate
\$ 0 – 11,000	10%
11,000 – 44,725	12
44,725 – 95,375	22
95,375 – 182,100	24

- ☐ \$6,250.00
- ☐ \$6,000.00
- ☐ \$6,125.50
- ☒ \$5,692.50
- ☐ \$4,894.50

Additional tax =  $.22(\$95,375 - 80,000) + .24[(\$80,000 + \$25,000) - 95,375]$

Additional tax = \$5,692.50

### References

**Multiple Choice** Learning Objective:  
02-03 Describe the  
difference between  
average and  
marginal tax rates.

**Difficulty: 2**  
**Intermediate** Section: 2.3 Taxes

62.

Award: 10.00 points

An investor earned \$168,000 in taxable income from a firm. Based on the partial tax table below, how much will the investor owe in income taxes? Ignore any standard or itemized deductions.

Taxable Income	Tax Rate
\$ 0 – 11,000	10%
11,000 – 44,725	12
44,725 – 95,375	22
95,375 – 182,100	24

- ☐ \$17,430.00
- ☐ \$40,320.00
- ☒ \$33,720.00
- ☐ \$26,946.00
- ☐ \$35,280.00

Income Tax =  $[(\$11,000 - 0) \times 10\%] + [(\$44,725 - 11,000) \times 12\%] + [(\$95,375 - 44,725) \times 22\%] + [(\$168,000 - 95,375) \times 24\%] = \$33,720$

### References

**Multiple Choice**    Learning Objective:  
02-03 Describe the  
difference between  
average and  
marginal tax rates.

**Difficulty: 2**            Section: 2.3 Taxes  
**Intermediate**

## 63. Award: 1.00 point

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A firm 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?

- ☒ \$55,668
- ☐ \$57,240
- ☐ \$61,060
- ☐ \$56,200
- ☐ \$68,400

$$\begin{aligned}\text{EBT} &= \$843,800 - 609,900 - 76,400 - 38,200 \\ \text{EBT} &= \$119,300\end{aligned}$$

$$\begin{aligned}\text{Net income} &= \$119,300(1 - .24) \\ \text{Net income} &= \$90,668\end{aligned}$$

$$\begin{aligned}\text{Addition to retained earnings} &= \$90,668 - 35,000 \\ \text{Addition to retained earnings} &= \$55,668\end{aligned}$$

### References

**Multiple Choice**    Learning Objective:  
02-02 Describe the  
difference between  
accounting income  
and cash flow.

**Difficulty: 2**                      Section: 2.2 The  
**Intermediate**                      Income Statement

64.

Award: 1.00 point

---

A firm has total sales of \$715,000 and costs of \$250,600. Depreciation is \$11,800, interest expense is 11,850, and the tax rate is 21 percent. What is the operating cash flow?

- ☒ \$371,843
- ☐ \$369,354
- ☐ \$359,993
- ☐ \$360,043
- ☐ \$464,481

$$\begin{aligned}\text{EBIT} &= \$715,000 - 250,600 - 11,800 \\ \text{EBIT} &= \$452,600\end{aligned}$$

$$\begin{aligned}\text{Tax} &= (\$452,600 - 11,850)(.21) \\ \text{Tax} &= \$92,558\end{aligned}$$

$$\begin{aligned}\text{OCF} &= \$452,600 + 11,800 - 92,558 \\ \text{OCF} &= \$371,843\end{aligned}$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow



65.

Award: 1.00 point

---

A firm 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?

- ☒ \$33,763
- ☐ \$40,706
- ☐ \$58,218
- ☐ \$65,161
- ☐ \$67,408

Net capital spending =  $\$209,411 - 218,470 + 42,822$   
Net capital spending = \$33,763

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**      Section: 2.4 Cash  
**Intermediate**      Flow

66.

Award: 1.00 point

---

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?

- ☐ -\$19,679
- ☐ -\$11,503
- ☐ \$19,387
- ☐ \$15,497
- ☒ \$21,903

Change in NWC =  $(\$122,418 - 103,718) - (\$121,306 - 124,509)$   
Change in NWC = \$21,903

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

67.

Award: 1.00 point

---

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?

- ☐ \$1,731
- ☐ -\$1,001
- ☒ \$11,129
- ☐ \$13,861
- ☐ \$19,172

$$\begin{aligned}\text{CFC} &= \$6,430 - (\$68,219 - 72,918) \\ \text{CFC} &= \$11,129\end{aligned}$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

## 68. Award: 1.00 point

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A firm 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?

- ☐ -\$11,685
- ☐ -\$11,272
- ☒ \$17,301
- ☐ \$17,418
- ☐ \$11,174

$$\begin{aligned}\text{CFC} &= \$2,808 - (\$36,714 - 51,207) \\ \text{CFC} &= \$17,301\end{aligned}$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

69.

Award: 1.00 point

---

A firm is expecting annual net income of \$272,600, of which 28 percent will be distributed as dividends. The company will sell \$75,000 worth of common stock. What will be the cash flow to stockholders if the tax rate is 21 percent?

- ☐ -\$75,000
- ☒ \$1,328
- ☐ \$24,623.52
- ☐ \$76,328
- ☐ \$151,328

$$\text{CFS} = .28(\$272,600) - \$75,000$$
$$\text{CFS} = \$1,328$$

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

70.

Award: 1.00 point

A firm 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?

- ☐ \$5,100
- ☐ \$7,830
- ☐ \$18,020
- ☐ \$19,998
- ☒ \$20,680

$$\begin{aligned}\text{CFA} &= \$48,450 - (-\$1,330) - 24,000 \\ \text{CFA} &= \$25,780\end{aligned}$$

$$\begin{aligned}\text{CFC} &= \$2,480 - (-\$2,620) \\ \text{CFC} &= \$5,100\end{aligned}$$

$$\begin{aligned}\text{CFS} &= \$25,780 - 5,100 \\ \text{CFS} &= \$20,680\end{aligned}$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

71.

Award: 1.00 point

---

A firm 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?

- ☐ -\$382
- ☒ \$2,037
- ☐ \$2,801
- ☐ \$1,993
- ☐ \$1,172

Net capital spending =  $\$21,878 - 23,616 + 1,356 + 2,419$   
Net capital spending = \$2,037

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

72.

Award: 1.00 point

---

A firm 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?

- ☐ -\$530
- ☒ -\$918
- ☐ \$1,839
- ☐ 2,132
- ☐ \$3,094

$$\begin{aligned}\text{CFC} &= \$1,282 - 2,200 \\ \text{CFC} &= -\$918\end{aligned}$$

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow



73.

Award: 1.00 point

---

A firm has sales of \$665,000, interest paid of \$11,850, costs of \$240,200, and depreciation of \$13,600. What is the operating cash flow if the total tax rate is 23 percent?

- ☐ \$330,224.00
- ☐ \$319,349.50
- ☐ \$321,099.50
- ☐ \$420,989.50
- ☒ \$332,949.50

$EBIT = \$665,000 - 240,200 - 13,600$   
 $EBIT = \$411,200$

$Tax = (\$411,200 - 11,850)(.23)$   
 $Tax = \$91,850.50$

$OCF = \$411,200 + 13,600 - 91,850.50$   
 $OCF = \$332,949.50$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

74.

Award: 1.00 point

A firm has 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?

- ☒ \$1,732
- ☐ \$2,247
- ☐ \$2,961
- ☐ \$3,915
- ☐ \$4,267

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

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

75.

Award: 1.00 point

---

A firm 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?

- ☐ \$18,942
- ☐ \$19,948
- ☐ \$19,374
- ☒ \$18,431
- ☐ \$18,574

Change in retained earnings =  $(\$48,900)(1 - .21) - \$20,200$   
Change in retained earnings = \$18,431

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

76.

Award: 1.00 point

---

A firm 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 change in net working capital?

- ☒ -\$2,550
- ☐ -\$70
- ☐ \$590
- ☐ \$550
- ☐ -\$2,210

Change in NWC =  $-\$1,400 - 1,200 + 200 - 150$   
Change in NWC =  $-\$2,550$

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

77.

Award: 1.00 point

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A firm purchased \$145,000 in new equipment and sold equipment with a net book value of \$68,400. Depreciation expense was \$38,600. What was the amount of net capital spending?

- ☐ \$115,200
- ☒ \$76,600
- ☐ \$94,200
- ☐ \$38,000
- ☐ -\$38,000

Net capital spending = \$145,000 – 68,400

Net capital spending = \$76,600

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

78.

Award: 1.00 point

A firm has sales of \$705,000, depreciation of \$17,600, interest expense of \$2,090, costs of \$144,000, and a tax rate of 21 percent. What is the operating cash flow?

- ☐ \$436,018
- ☐ \$418,899
- ☒ \$447,325
- ☐ \$434,409
- ☐ \$432,451

$$\begin{aligned}\text{EBIT} &= \$705,000 - 144,000 - 17,600 \\ \text{EBIT} &= \$543,400\end{aligned}$$

$$\begin{aligned}\text{Tax} &= (\$543,400 - 2,090)(.21) \\ \text{Tax} &= \$113,675\end{aligned}$$

$$\begin{aligned}\text{OCF} &= \$543,400 + 17,600 - 113,675 \\ \text{OCF} &= \$447,325\end{aligned}$$

### References

**Multiple Choice** Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2** Section: 2.4 Cash  
**Intermediate** Flow

79.

Award: 1.00 point

A firm 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?

- ☐ \$145,985
- ☒ \$129,068
- ☐ \$119,655
- ☐ \$120,810
- ☐ \$134,585

$$\text{OCF} = \$316,000 - 148,200 - 16,632$$
$$\text{OCF} = \$151,168$$

$$\text{CFA} = \$151,168 - 36,400 - (-\$14,300)$$
$$\text{CFA} = \$129,068$$

### References

**Multiple Choice** Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2** Section: 2.4 Cash  
**Intermediate** Flow

80.

Award: 1.00 point

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At the beginning of the year, a firm 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?

- ☒ \$5,630
- ☐ -\$2,480
- ☐ \$3,568
- ☐ \$4,677
- ☐ -\$2,062

Net new borrowing =  $(\$72,415 - 13,870) - (\$68,847 - 15,932)$   
Net new borrowing = \$5,630

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**      Section: 2.4 Cash  
**Intermediate**      Flow



81.

Award: 1.00 point

A firm had 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 was the cash flow to creditors for the year?

- ☐ -\$47
- ☐ -\$507
- ☐ -\$97
- ☒ \$47
- ☐ \$507

$$\begin{aligned}\text{CFC} &= \$277 - (\$5,010 - 4,780) \\ \text{CFC} &= \$47\end{aligned}$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

82.

Award: 1.00 point

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A firm did not sell nor repurchase 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?

- ☒ \$817
- ☐ \$1,009
- ☐ \$864
- ☐ \$709
- ☐ \$515

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.

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

83.

Award: 1.00 point

A firm 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?

- ☒ \$34,296.00
- ☐ \$42,122.42
- ☐ \$36,462.58
- ☐ \$31,543.10
- ☐ \$36,741.42

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 × .21  
Taxes = \$4,019.24

OCF = \$23,747.24 + 14,568 - 4,019.24  
OCF = \$34,296.00

### References

**Multiple Choice** Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2** Section: 2.4 Cash  
**Intermediate** Flow

84.

Award: 1.00 point

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A firm has sales of \$575,000, costs of \$231,400, depreciation expense of \$16,600, interest expense of \$12,450, and an average tax rate of 22 percent. How much operating cash flow did the firm generate?

- ☐ \$271,660
- ☒ \$274,399
- ☐ \$257,799
- ☐ \$362,787
- ☐ \$261,949

$$\begin{aligned}\text{EBIT} &= \$575,000 - 231,400 - 16,600 \\ \text{EBIT} &= \$327,000\end{aligned}$$

$$\begin{aligned}\text{Tax} &= (\$327,000 - 12,450)(.22) \\ \text{Tax} &= \$69,201\end{aligned}$$

$$\begin{aligned}\text{OCF} &= \$327,000 + 16,600 - 69,201 \\ \text{OCF} &= \$274,399\end{aligned}$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

85.

Award: 1.00 point

A firm 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 21 percent?

- ☐ \$42,920
- ☐ \$53,651
- ☒ \$44,067
- ☐ \$35,255
- ☐ \$48,600

Net capital spending =  $\$679,426 - 684,218 + 48,859$   
Net capital spending = \$44,067

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

86.

Award: 1.00 point

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A firm 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?

- ☒ \$220
- ☐ \$170
- ☐ \$190
- ☐ \$940
- ☐ \$1,060

Change in NWC =  $(\$1,720 - 1,080) - (\$1,360 - 940)$   
Change in NWC = \$220

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**      Section: 2.4 Cash  
**Intermediate**      Flow

87.

Award: 1.00 point

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A firm 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?

- ☐ \$384
- ☐ \$287
- ☒ \$38,117
- ☐ \$20,228
- ☐ \$19,202

$$\text{CFC} = \$34,215 - (\$697,413 - 682,400 - 18,915)$$
$$\text{CFC} = \$38,117$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

88.

Award: 1.00 point

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A firm 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?

- ☐ -\$17,597
- ☒ \$17,597
- ☐ -\$1,500
- ☐ \$1,500
- ☐ \$68,500

$$\text{CFS} = \$68,500 - [(\$720,000 + 1,299,310) - (\$650,000 + 1,318,407)]$$
$$\text{CFS} = \$17,597$$

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow



89.

Award: 1.00 point

During the year, a firm had sales of \$459,000. Costs were \$388,000 and depreciation expense was \$102,800. In addition, the company had interest expense of \$79,250 and a tax rate of 21 percent. What is the operating cash flow for the year? Ignore any tax loss carry-forward provisions.

- ☐ \$77,768
- ☐ \$47,679
- ☐ \$15,071
- ☒ \$94,321
- ☐ \$72,733

$$\begin{aligned}\text{EBIT} &= \$459,000 - 388,000 - 102,800 \\ \text{EBIT} &= -\$31,800\end{aligned}$$

$$\begin{aligned}\text{Tax} &= (-\$31,800 - 79,250)(.21) \\ \text{Tax} &= -\$23,321\end{aligned}$$

$$\begin{aligned}\text{OCF} &= -\$31,800 + 102,800 + 23,321 \\ \text{OCF} &= \$94,321\end{aligned}$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

90.

Award: 10.00 points

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A firm reported sales of \$350,000, interest expense of \$2,330, costs of \$140,000, and depreciation expense of \$17,800. The firm's average income tax rate is 21 percent. How much operating cash flow did the firm generate?

- ☒ \$170,127
- ☐ \$148,530
- ☐ \$164,000
- ☐ \$165,794
- ☐ \$162,236

$$\begin{aligned}\text{EBIT} &= \$350,000 - 140,000 - 17,800 \\ \text{EBIT} &= \$192,200\end{aligned}$$

$$\begin{aligned}\text{Tax} &= (\$192,200 - 2,330)(.21) \\ \text{Tax} &= \$39,873\end{aligned}$$

$$\begin{aligned}\text{OCF} &= \$192,200 + 17,800 - 39,873 \\ \text{OCF} &= \$170,127\end{aligned}$$

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

91.

Award: 1.00 point

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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 total shareholders' equity?

- ☐ \$6,900
- ☐ \$15,300
- ☒ \$18,700
- ☐ \$23,700
- ☐ \$35,500

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.

### References

**Multiple Choice**      Learning Objective:  
02-01 Describe the  
difference between  
accounting value (or  
book value) and  
market value.

**Difficulty: 2  
Intermediate**      Section: 2.1 The  
Balance Sheet

92.

Award: 1.00 point

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For the past year, a firm had depreciation expense 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?

- ☐ -\$382
- ☒ \$2,037
- ☐ \$2,801
- ☐ \$1,993
- ☐ \$1,172

Net capital spending =  $\$21,878 - 23,616 + 1,356 + 2,419$   
Net capital spending = \$2,037

### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow

93.

Award: 1.00 point

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A firm 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?

- ☐ \$115,200
- ☒ \$76,600
- ☐ \$94,200
- ☐ \$38,000
- ☐ -\$38,000

Net capital spending = \$145,000 – 68,400  
Net capital spending = \$76,600

#### References

**Multiple Choice**      Learning Objective:  
02-04 Determine a  
firm's cash flow from  
its financial  
statements.

**Difficulty: 2**              Section: 2.4 Cash  
**Intermediate**          Flow