TT TEXTBOOK TESTBANKS

# Test Bank for Corporate Finance Core Principles and Applications 7th Ross

TEST BANK SAMPLE PREVIEW

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# Corporate Finance Core Principles and Applications Edition 7 by Ross

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

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

1) A firm has common stock of $82, paid-in surplus of $180, total liabilities of $370, current assets of $310, and net fixed assets of $520. What is the amount of the shareholders' equity?

A) $830
B) $500
C) $150
D) $632
E) $460

2) Recently, the owner of Martha's Wares encountered severe legal problems and is trying to sell her business. The company built a building at a cost of $1,250,000 that is currently appraised at $1,450,000. The equipment originally cost $730,000 and is currently valued at $477,000. The inventory is valued on the balance sheet at $420,000 but has a market value of only one-half of that amount. The owner expects to collect 97 percent of the $230,200 in accounts receivable. The firm has $10,600 in cash and owes a total of $1,450,000. The legal problems are personal and unrelated to the actual business. What is the market value of this firm?

A) $920,894
B) $687,000
C) $1,781,094
D) $1,361,094
E) $1,130,894



3) Ivan's, Incorporated, paid $466 in dividends and $578 in interest this past year. Common stock increased by $188 and retained earnings decreased by $114. What is the net income for the year?

A) $930
B) $352
C) $578
D) $466
E) $766

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4) The tax rates for a particular year are shown below:

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

What is the average tax rate for a firm with taxable income of $130,513?

A) 26.17%
B) 20.00%
C) 37.07%
D) 28.66%
E) 39.00%

5) The tax rates are as shown below:

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

Your firm currently has taxable income of $81,000. How much additional tax will you owe if you increase your taxable income by $22,200?



A) $7,548
B) $7,708
C) $7,318
D) $8,658
E) $7,328

6) Your firm has net income of $301 on total sales of $1,220. Costs are $680 and depreciation is $110. The tax rate is 30 percent. The firm does not have interest expenses. What is the operating cash flow?

A) $301
B) $430
C) $731
D) $411
E) $540

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7) Teddy's Pillows had beginning net fixed assets of $478 and ending net fixed assets of $564. Assets valued at $326 were sold during the year. Depreciation was $56. What is the amount of net capital spending?
   A) $30
   B) $86
   C) $294
   D) $468
   E) $142

8) At the beginning of the year, a firm has current assets of $317 and current liabilities of $221. At the end of the year, the current assets are $471 and the current liabilities are $261. What is the change in net working capital?
   A) −$114
   B) $194
   C) $0
   D) $154
   E) $114

9) At the beginning of the year, long-term debt of a firm is $308 and total debt is $339. At the end of the year, long-term debt is $269 and total debt is $349. The interest paid is $35. What is the amount of the cash flow to creditors?
   A) −$39
   B) $35
   C) $39
   D) −$74
   E) $74

10) Peggy Grey's Cookies has net income of $290. The firm pays out 30 percent of the net income to its shareholders as dividends. During the year, the company sold $74 worth of common stock. What is the cash flow to stockholders?
   A) $87.00
   B) $161.00
   C) $203.00
   D) $13.00
   E) $64.80

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11) A company has total equity of $1,995, net working capital of $185, long-term debt of $960, and current liabilities of $2,190. What is the company's net fixed assets?
    A) $2,955
    B) $5,145
    C) $2,375
    D) $2,770
    E) $3,225

12) Disturbed, Incorporated, had the following operating results for the past year: sales = $22,598; depreciation = $1,490; interest expense = $1,200; costs = $16,580. The tax rate for the year was 40 percent. What was the company's operating cash flow?
    A) $1,997
    B) $4,687
    C) $3,301
    D) $7,349
    E) $3,328



13) A company has net working capital of $2,077. If all its current assets were liquidated, the company would receive $6,001. What are the company's current liabilities?
    A) $7,733
    B) $8,078
    C) $3,924
    D) $4,963
    E) $4,039



14) You are examining a company's balance sheet and find that it has total assets of $19,988, a cash balance of $1,992, inventory of $4,657, current liabilities of $5,317 and accounts receivable of $2,519. What is the company's net working capital?
    A) $806
    B) $1,859
    C) $14,671
    D) $5,463
    E) $3,851

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15) You find the following financial information about a company: net working capital = $1,248; fixed assets = $6,601; total assets = $8,798; and long-term debt = $4,775. What are the company's total liabilities?
    A) $8,967
    B) $1,831
    C) $8,384
    D) $5,724
    E) $6,023

16) You find the following financial information about a company: net working capital = $1,368; fixed assets = $8,001; total assets = $12,038; and long-term debt = $4,667. What is the company's total equity?
    A) $9,331
    B) $10,696
    C) $6,006
    D) $4,037
    E) $4,702

17) Hoodoo Voodoo Company has total assets of $64,350, net working capital of $19,375, owners' equity of $31,555, and long-term debt of $21,945. What is the company's current assets?
    A) $31,555
    B) $53,500
    C) $30,225
    D) $34,125
    E) $44,975

18) A company has net working capital of $1,987, current assets of $6,350, equity of $21,990, and long-term debt of $10,460. What is the company's net fixed assets?
    A) $23,977
    B) $38,800
    C) $28,087
    D) $26,100
    E) $30,463

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19) Micro, Incorporated, started the year with net fixed assets of $74,425. At the end of the year, there was $95,475 in the same account, and the company's income statement showed depreciation expense of $12,605 for the year. What was the company's net capital spending for the year?
   A) $41,550
   B) $21,050
   C) $33,655
   D) $39,140
   E) $82,870

20) At the beginning of the year, Shinedown, Corporation, had a long-term debt balance of $46,255. During the year, the company repaid a long-term loan in the amount of $11,930. The company paid $4,415 in interest during the year, and opened a new long-term loan for $10,565. How much is the ending long-term debt account on the company's balance sheet?
   A) $44,890
   B) $52,405
   C) $47,620
   D) $5,780
   E) $49,305





21) At the beginning of the year, Nothing More, Corporation, had a long-term debt balance of $37,929. During the year, the company repaid a long-term loan in the amount of $10,839. The company paid $4,235 in interest during the year, and opened a new long-term loan for $9,525. What was the cash flow to creditors during the year?
   A) $13,330
   B) $6,604
   C) $5,549
   D) $1,314
   E) $5,290

22) For the past year, Momsen, Limited, had sales of $46,382, interest expense of $3,854, cost of goods sold of $16,659, selling and administrative expense of $11,766, and depreciation of $6,415. If the tax rate was 35 percent, what was the company's net income?
   A) $3,648
   B) $12,645
   C) $5,382
   D) $4,997
   E) $7,688

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23) For the past year, Kayla, Incorporated, has sales of $45,797, interest expense of $3,620, cost of goods sold of $16,134, selling and administrative expense of $11,481, and depreciation of $5,980. If the tax rate is 35 percent, what is the operating cash flow?

A) $15,178
B) $8,582
C) $5,578
D) $11,558
E) $13,805

24) HUD, Company had a beginning retained earnings of $30,605. For the year, the company had net income of $7,240 and paid dividends of $2,930. The company also issued $5,030 in new stock during the year. What is the ending retained earnings balance?

A) $33,535
B) $39,945
C) $35,635
D) $29,885
E) $34,915



25) At the beginning of the year, Vendors, Incorporated, had owners' equity of $48,485. During the year, net income was $4,925 and the company paid dividends of $3,585. The company also repurchased $7,335 in equity. What was the owners' equity account at the end of the year?



A) $37,565
B) $42,490
C) $36,225
D) $47,310
E) $41,150

26) At the beginning of the year, Vendors, Incorporated, had owners' equity of $49,265. During the year, net income was $5,625 and the company paid dividends of $3,965. The company also repurchased $7,915 in equity. What was the cash flow to stockholders for the year?

A) −$3,950
B) −$11,880
C) $3,950
D) $9,575
E) $11,880

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27) Simon's Hot Chicken purchased its building seven years ago at a price of $140,935. The building could be sold for $180,575 today. The company spent $66,855 on other fixed assets that could be sold for $59,305. The company has accumulated depreciation of $81,475 on its fixed assets. Currently, the company has current liabilities of $37,590 and net working capital of $19,165. What is the ending book value of net fixed assets?
   A) $126,315
   B) $170,200
   C) $163,905
   D) $158,405
   E) $207,790

28) Last year, Bad Tattoo Company had additions to retained earnings of $5,120 on sales of $96,540. The company had costs of $76,380, dividends of $3,220, and interest expense of $2,360. If the tax rate was 34 percent, what the depreciation expense?
   A) $12,921
   B) $5,164
   C) $8,340
   D) $5,561
   E) $6,512





29) Thornton, Incorporated, had taxable income of $129,242 for the year. The company's marginal tax rate was 34 percent and its average tax rate was 24.5 percent. How much did the company have to pay in taxes for the year?
   A) $43,942
   B) $31,664
   C) $28,719
   D) $30,421
   E) $30,077

30) Red Barchetta Company paid $27,545 in dividends and $28,374 in interest over the past year. During the year, net working capital increased from $13,530 to $18,244. The company purchased $42,110 in fixed assets and had a depreciation expense of $16,850. During the year, the company issued $25,025 in new equity and paid off $21,035 in long-term debt. What was the company's cash flow from assets?
   A) $53,277
   B) $51,929
   C) $50,950
   D) $45,789
   E) $52,326

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31) Evil Pop Company began the year with net fixed assets of $17,573 and had $18,932 in the account at the end of the year. During the year, the company paid $4,366 in interest and expensed $3,865 in depreciation. The company purchased $9,050 in fixed assets during the year. How much in fixed assets did the company sell during the year?

A) $858
B) $6,043
C) $3,826
D) $4,246
E) $9,622

32) The Primus Corporation began the year with $7,496 in its long-term debt account and ended the year with $9,180 in long-term debt. The company paid $1,083 in interest during the year and issued $2,460 in new long-term debt. How much in long-term debt must the company have paid off during the year?

A) $1,684
B) $776
C) $539
D) −$1,684
E) −$601





33) Rousey, Incorporated, had a cash flow to creditors of $17,145 and a cash flow to stockholders of $7,811 over the past year. The company also had net fixed assets of $49,805 at the beginning of the year and $57,250 at the end of the year. Additionally, the company had a depreciation expense of $12,348 and an operating cash flow of $51,404. What was the change in net working capital during the year?

A) $6,655
B) $5,930
C) $7,445
D) $9,334
E) $5,223

34) A company is obligated to pay its creditors $6,955 at the end of the year. If the value of the company's assets equals $7,287 at that time, what is the value of shareholders' equity?

A) $14,242
B) −$332
C) −$166
D) $332
E) $0

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35) Maynard Enterprises paid $1,860 in dividends and $1,900 in interest over the past year. The common stock account increased by $1,680 and retained earnings decreased by $770. What was the company's net income?

A) $2,770
B) $910
C) $1,090
D) $2,630
E) $2,450

36) Mariota Industries has sales of $351,180 and costs of $168,590. The company paid $29,190 in interest and $13,750 in dividends. It also increased retained earnings by $67,286 during the year. If the company's depreciation was $18,095, what was its average tax rate?

A) 66.97%
B) 15.45%
C) 40.11%
D) 24.93%
E) 31.90%



37) During the past year, a company had cash flow to creditors, an operating cash flow, and net capital spending of $28,783, $63,269, and $25,020, respectively. The net working capital at the beginning of the year was $10,960 and it was $12,250 at the end of the year. What was the company's cash flow to stockholders during the year?



A) $8,176
B) $6,430
C) $1,290
D) $10,756
E) $9,466

38) During the past year, a company had cash flow to stockholders, an operating cash flow, and net capital spending of $15,819, $37,652, and $16,780, respectively. The net working capital at the beginning of the year was $6,561 and it was $8,030 at the end of the year. What was the company's cash flow to creditors during the year?

A) $1,469
B) $1,838
C) $3,584
D) $5,053
E) $6,522

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39) Hurricane Industries had a net income of $129,650 and paid 40 percent of this amount to shareholders in dividends. During the year, the company sold $80,250 in new common stock. What was the company's cash flow to stockholders?

A) $28,390
B) $51,860
C) −$28,390
D) −$51,860
E) $49,400

40) A company has $579 in inventory, $1,858 in net fixed assets, $258 in accounts receivable, $113 in cash, and $298 in accounts payable. What are the company's total current assets?

A) $950
B) $692
C) $1,248
D) $990
E) $2,808

41) A company has $1,392 in inventory, $4,845 in net fixed assets, $676 in accounts receivable, $306 in cash, $642 in accounts payable, $1,069 in long-term debt, and $5,440 in equity. What are the company's total assets?

A) $12,659
B) $7,861
C) $10,285
D) $7,219
E) $8,208

42) A company has $1,308 in inventory, $4,737 in net fixed assets, $604 in accounts receivable, $258 in cash, $546 in accounts payable, and $5,332 in equity. What is the company's long-term debt?

A) $1,575
B) $1,029
C) $1,066
D) $1,517
E) $1,208

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43) Lola Corporation has shareholders' equity of $131,750. The company has a total debt of $123,425, of which 60 percent is payable in the next 12 months. The company also has net fixed assets of $169,055. What is the company's net working capital?

A) $8,325
B) $12,065
C) $16,377
D) $45,630
E) $13,054

44) Smashed Pumpkins Company paid $104 in dividends and $540 in interest over the past year. The company increased retained earnings by $450 and had accounts payable of $546. Sales for the year were $16,125 and depreciation was $704. The tax rate was 35 percent. What was the company's EBIT?

A) $1,232
B) $1,392
C) $852
D) $1,663
E) $5,644



45) Kerch Company had beginning net fixed assets of $216,462, ending net fixed assets of $211,638, and depreciation of $40,399. During the year, the company sold fixed assets with a book value of $7,894. How much did the company purchase in new fixed assets?



A) $32,505
B) $34,123
C) $35,575
D) $41,306
E) $43,469

46) Adison Winery had beginning long-term debt of $39,231 and ending long-term debt of $44,624. The beginning and ending total debt balances were $48,529 and $53,564, respectively. The company paid interest of $4,309 during the year. What was the company's cash flow to creditors?

A) $5,393
B) $9,344
C) $726
D) −$1,084
E) −$726

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47) A company has net working capital of $817. Long-term debt is $4,348, total assets are $6,561, and fixed assets are $4,218. What is the amount of total liabilities?

A) $5,744
B) $7,378
C) $5,874
D) $8,566
E) $5,165

48) Muffy's Muffins had net income of $2,850. The firm retains 60 percent of net income. During the year, the company sold $745 in common stock. What was the cash flow to shareholders?

A) $1,885
B) $395
C) $965
D) $2,455
E) $1,140

49) A firm has $728 in inventory, $1,365 in fixed assets, $473 in accounts receivable, $251 in net working capital, and $141 in cash. What is the amount of current liabilities?

A) $1,593
B) $865
C) $637
D) $1,091
E) $950





50) A balance sheet has total assets of $1,474, fixed assets of $1,031, long-term debt of $549, and short-term debt of $156. What is the net working capital?

A) $287
B) $925
C) $443
D) $393
E) $326

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51) A current asset is best defined as
   A) an asset with a market value that exceeds its book value.
   B) an asset the firm expects to purchase within the next year.
   C) the amount of cash on hand the firm currently shows on its balance sheet.
   D) cash, plus any other assets owned by the firm that should convert to cash within the year.
   E) the value of fixed assets that the firm expects to sell within the next year.

52) The long-term debts of a firm are liabilities
   A) owed to the firm's stockholders.
   B) that do not come due for at least 12 months.
   C) owed to the firm's suppliers.
   D) that come due within the next 12 months.
   E) the firm expects to incur within the next 12 months.

53) A(n) _____________ asset is one that can be quickly converted into cash without significant loss in value.
   A) tangible
   B) fixed
   C) intangible
   D) liquid
   E) long-term





54) Current assets include
   A) inventory and accounts receivable.
   B) accounts payable and cash.
   C) cash and intangible assets.
   D) inventory and accounts payable.
   E) buildings and equipment.

55) Which of the following is an example of a current liability?
   A) A mortgage loan secured by collateral, payable monthly for 30 years
   B) An unsecured loan from the bank, payable monthly for 36 months
   C) All amounts that are payable by customers to the firm
   D) All amounts that are payable from the firm to suppliers of inventory
   E) A past due accounts receivable from a customer

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56) Of the following accounts, which one is generally the most liquid?

A) Patents
B) Buildings
C) Accounts receivable
D) Equipment
E) Inventory

57) Which one of the following statements concerning liquidity is correct?

A) Fixed assets are more liquid than current assets.
B) Balance sheet accounts are listed in order of decreasing liquidity.
C) Liquid assets tend to have market values far in excess of their book values.
D) The less liquidity a firm has, the lower the probability the firm will encounter financial difficulties.
E) Trademarks and patents are highly liquid.



58) Liquidity is

A) a measure of the use of debt in a firm's capital structure.
B) equal to current assets minus current liabilities.
C) equal to the market value of a firm's total assets minus its current liabilities.
D) generally associated with intangible assets.
E) valuable to a firm even though liquid assets tend to be less profitable to own than illiquid assets.



59) Book value is

A) based on historical cost.
B) equivalent to market value for firms with fixed assets.
C) more of a financial than an accounting valuation.
D) the amount a willing buyer will pay for an asset.
E) adjusted to market value annually, prior to the annual report being issued.

60) When financial managers consider the value of an asset, they are normally concerned with

A) the historical cost of the asset.
B) the book value of the asset.
C) the value of the asset as shown on the balance sheet.
D) the market value of the asset.
E) the difference between the market value and book value of the asset.

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61) All other things being equal, which of the following actions will increase the value of stockholders' equity?
   A) A decrease in retained earnings
   B) An increase in accumulated depreciation
   C) A decrease in inventory
   D) An increase in long-term debt
   E) An increase in property, plant and equipment

62) Which one of the following statements is correct?
   A) Long-term debt is the residual difference between assets and liabilities.
   B) Net income that is not paid out in dividends decreases retained earnings.
   C) Long-term debt requires a payout of cash within a stated time period.
   D) Stockholders' equity is stated at market value on the balance sheet.
   E) Stockholders' equity increases as the liquidity of a firm increases.



63) The carrying value of assets, also called the book value of assets
   A) is the best measure of a company's value to an investor.
   B) represents an average market value over time.
   C) is always higher than the replacement cost of the assets.
   D) is determined under GAAP and is based on the historical cost of the assets.
   E) is determined under GAAP and is based on the current market value of the assets.



64) Stockholders’ equity is equal to
   A) net working capital plus long-term liabilities.
   B) current assets plus fixed assets minus long-term liabilities.
   C) total assets plus total liabilities.
   D) current assets plus fixed assets minus total liabilities.
   E) net working capital plus total fixed assets.

65) The income statement
   A) measures a firm's performance as of a specific date.
   B) reports the after-tax income of a firm.
   C) excludes deferred taxes.
   D) reports dividends as an expense.
   E) determines the value of a firm to its stockholders.

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66) Depreciation expense is

A) a contra-expense that is added to income, thus increasing income tax expense.
B) deducted from income, which increases income tax expense.
C) shown as an expense, but is ignored during the calculation of income taxes.
D) deducted from income, which decreases income tax expense.
E) a noncash expense, and as such, it does not impact income tax expense.

67) Depreciation

A) reduces both the net fixed assets and the operating costs of a firm.
B) decreases net fixed assets, net income, and operating cash flows.
C) is a noncash expense that decreases the firm's selling, general, and administrative expenses.
D) is a noncash expense that reduces a firm's pretax income.
E) increases the net fixed assets as shown on the balance sheet.



68) Noncash items refer to

A) the credit sales of a firm.
B) the accounts payable of a firm.
C) all accounts on the balance sheet other than cash on hand.
D) the costs incurred for the purchase of intangible fixed assets.
E) expenses that do not consume cash, and are charged against revenues.



69) Assume both current and deferred taxes are positive values. Given this, deferred taxes will

A) reduce the current tax expense and thus increase net income.
B) increase expenses and increase operating cash flows.
C) increase expenses and lower operating cash flows.
D) reduce net income but not affect the operating cash flows.
E) reduce both net income and operating cash flows.

70) Which of the following actions will increase earnings per share?

A) Decreasing the cost per unit of inventory sold
B) Increasing depreciation expense
C) Decreasing the sales price of each unit sold
D) Increasing the corporate tax rate
E) Decreasing dividend payments

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71) Revenue is recorded on an income statement when
   A) payment for a sale has been received in full.
   B) an order for goods is placed.
   C) an exchange of goods or services has occurred and the earnings process is completed.
   D) an order for goods or services is placed and an initial payment is received.
   E) goods are placed in inventory and are ready for future delivery.

72) Expenses are recorded on an income statement based on
   A) the dates they are paid.
   B) the date the expenses are expected.
   C) the matching principle.
   D) their invoice dates.
   E) the average time principle.

73) Earnings per share is computed as
   A) net income divided by total stockholders' equity.
   B) EBIT divided by total stockholders' equity.
   C) pretax income minus deferred taxes, divided by total shares outstanding.
   D) the addition to retained earnings divided by total shares outstanding.
   E) net income divided by total shares outstanding.



74) Which one of the following expenditures is both a product cost and a fixed cost in the short run?
   A) Monthly electric bill for manufacturing facility
   B) Salary for company CEO
   C) Overtime pay for production employees
   D) Sales commission paid based on monthly sales
   E) Monthly lease payment for production equipment

75) A taxpayer's _____________ tax rate is the percentage of the highest taxable dollar of income you earned that is payable as a tax.
   A) deductible
   B) residual
   C) marginal
   D) average
   E) total

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76) The ______________ tax rate equals the total taxes a taxpayer must pay, divided by their total taxable income.

A) average
B) marginal
C) total
D) deductible
E) residual

77) When making a financial decision, the most relevant tax rate is the ______________ rate.

A) average
B) fixed
C) marginal
D) total
E) variable

78) ______________ refers to the difference between a firm's current assets and its current liabilities.

A) Operating cash flow
B) Capital spending
C) Net working capital
D) Cash flow from assets
E) Cash flow to creditors





79) Assume a firm starts its year with positive net working capital. During the year, the firm acquires more short-term debt than it does short-term assets. This means that

A) the ending net working capital might be positive, negative, or equal to zero.
B) both accounts receivable and inventory decreased during the year.
C) the beginning current assets were less than the beginning current liabilities.
D) accounts payable increased and inventory decreased during the year.
E) the ending net working capital will be negative.

80) ______________ is calculated by adding back noncash expenses to earnings before interest and taxes, subtracting taxes, and adjusting for any changes in total assets or current liabilities that affect cash flows.

A) Distributable cash flow
B) Capital spending
C) Cash flow from assets
D) Cash flow from investing activities
E) Cash flow to creditors

# Corporate Finance Core Principles and Applications Edition 7 by Ross

81) _____________ equals a firm's interest payments minus any net new borrowing.

A) Operating cash flow
B) Distributable cash flow
C) Net working capital
D) Cash flow to stockholders
E) Cash flow to creditors

82) _____________ equals a firm's dividend payments minus any net new equity raised.

A) Operating cash flow
B) Capital spending
C) Net working capital
D) Cash flow to stockholders
E) Cash flow from creditors

83) A new firm has positive net income and a marginal tax rate of 21 percent. Accordingly, an increase in _____________ will cause the firm's operating cash flow to increase.

A) fixed assets
B) taxes
C) net working capital
D) cost of goods sold
E) depreciation





84) The cash flow to creditors increases when

A) cash is used to reduce accounts payable.
B) new shares of stock are sold for cash.
C) interest is paid on outstanding debt.
D) an asset is sold for cash.
E) a long-term debt is incurred.

85) Cash flow to stockholders must be positive when

A) the net sale of common stock exceeds the dividends paid.
B) no income is distributed but new shares of stock are issued.
C) both the cash flow to assets and the cash flow to creditors are negative.
D) both the cash flow to assets and the cash flow to creditors are positive.
E) the dividends paid exceeds the net new equity raised.

# Corporate Finance Core Principles and Applications Edition 7 by Ross

86) What is the formula for computing operating cash flow?

A) EBIT + Depreciation − Current taxes
B) EBIT + Depreciation − Interest expense − Current taxes
C) EBIT + NWC − Depreciation
D) EBIT − Depreciation + Current taxes
E) EBIT − Change in NWC + Depreciation − Current taxes

87) Capital spending refers to

A) the net purchases and sales of fixed assets.
B) total cash flows to stockholders, less interest and dividends paid.
C) net income plus depreciation.
D) the net reduction in long-term debt.
E) the change in current assets minus the change in current liabilities.

88) Cash flow to stockholders is best defined as

A) the total dividends paid.
B) the cash flow from assets plus the cash flow to creditors.
C) cash dividends paid, plus repurchases of equity, minus new equity financing.
D) repurchases of equity, less cash dividends paid, plus new equity sold.
E) the net change in common stock and capital surplus.





89) Free cash flow is

A) equal to net income.
B) equal to net income plus taxes.
C) a term used to describe an increase in net working capital.
D) cash that is available to distribute to creditors and equity holders.
E) another term for operating cash flow.

90) The cash flow of a firm, also referred to as cash flow from assets, must be equal to the cash flow to

A) debt holders minus the cash flow to equity holders.
B) equity holders plus the cash flow to debt holders.
C) the government plus the cash flow to equity holders.
D) equity holders minus the cash flow to debt holders.
E) the government, plus the cash flow to debt holders, plus the cash flow to equity holders.

# Corporate Finance Core Principles and Applications Edition 7 by Ross

91) Which one of the following items is handled differently in calculating cash flows for accounting purposes versus financial purposes?
   A) Change in net working capital
   B) Depreciation expense
   C) Interest expense
   D) Deferred taxes
   E) Dividends paid

92) ______________ refers to the cash flow resulting from a firm's ongoing, normal business activities.
   A) Cash flow from assets
   B) Net working capital
   C) Capital spending
   D) Cash flow from operating activities
   E) Cash flow from investing activities

93) ______________ refers to the changes in net fixed assets.
   A) Cash flow from assets
   B) Net working capital
   C) Cash flow from investing activities
   D) Cash flow from operating activities
   E) Cash flow to creditors





94) A change in which one of the following accounts will appear as an investing activity in an accounting statement of cash flows?
   A) Accounts payable
   B) Inventory
   C) Interest expense
   D) Fixed assets
   E) Sales

95) A change in which one of the following accounts is treated as a cash flow from operating activities in an accounting statement of cash flows?
   A) Long-term debt
   B) Inventory
   C) Dividends
   D) Fixed assets
   E) Depreciation

# Corporate Finance Core Principles and Applications Edition 7 by Ross

96) On an accounting statement of cash flows, the cash flow from operating activities decreases when

A) fixed assets are sold.
B) interest expense increases.
C) dividends increase.
D) depreciation increases.
E) accounts receivables decrease.

97) A firm has total equity of $2,011, net working capital of $175, long-term debt of $890, and current liabilities of $420. What is the amount of the net fixed assets?

A) $2,325
B) $2,974
C) $2,726
D) $3,075
E) $2,825

98) A firm has $480 in inventory, $1,860 in fixed assets, $520 in accounts receivables, $190 in net working capital, and $120 in cash. What is the amount of the current liabilities?

A) $550
B) $770
C) $820
D) $760
E) $930





99) A firm has equipment with a book value of $1,380 that could be sold today at a 20 percent discount. Its inventory is valued at $360 and could be sold to a competitor for 90 percent of that value. The firm has $45 in cash. Customers owe them $240, of which 97 percent is collectible. What is the accounting value of its liquid assets?

A) $601.80
B) $350.00
C) $2,025.00
D) $645.00
E) $1,705.80

# Corporate Finance Core Principles and Applications Edition 7 by Ross

100) A corporation spent $3,300 to purchase equipment two years ago. This equipment is valued at $2,357 on today's balance sheet but could actually be sold for $2,750. Net working capital is $860 and long-term debt is $1,650. Assuming this equipment is the firm's only fixed asset, what is the book value of shareholders' equity?

A) $1,960
B) $1,800
C) $1,567
D) $2,510
E) $1,633

101) A firm started the year with retained earnings of $8,700 and ended the year with retained earnings of $8,250. During the year, the firm earned a net income of $3,100. How much did the firm pay in dividends?

A) $3,650
B) $3,550
C) $2,650
D) $2,550
E) $550



102) A firm reported net income of $880, interest expense of $160, sales of $7,260, addition to retained earnings of $810, selling and general expenses of $4,270, and depreciation expense of $260. The company's tax rate was 21 percent. What was the amount of dividends paid?



A) $2,230
B) $1,690
C) $1,420
D) $810
E) $70

103) Assume sales are $1,100, cost of goods sold is $510, depreciation expense is $80, interest paid is $40, selling and general expenses are $230, dividends paid is $45, and the firm's tax rate is 21 percent. What is the addition to retained earnings?

A) $203.40
B) $144.60
C) $166.20
D) $109.60
E) $158.40

# Corporate Finance Core Principles and Applications Edition 7 by Ross

104) Assume a firm has $33,600 in sales, $17,200 in cost of goods sold, $2,300 in depreciation, $980 in interest expense, and $5,800 in selling, general, and administrative expenses. The firm owes no taxes for this year. What is the amount of the period costs that are included in the operating cash flow?

A) $25,300
B) $3,280
C) $23,980
D) $23,000
E) $5,800

105) A firm has annual costs of goods sold of $42,600, interest expense of $650, selling and administrative expenses of $7,800, dividends paid of $1,200, depreciation of $1,100, and a tax rate of 21 percent. The firm added $2,500 to retained earnings during the year. What is the firm’s taxable income?

A) $2,181.30
B) $2,923.00
C) $3,700.00
D) $5,606.06
E) $4,683.54



106) A company has annual sales of $11,800, dividends of $270, interest expense of $320, cost of goods sold of $7,230, addition to retained earnings of $510, selling and administrative expenses of $1,940, and a tax rate of 21 percent. What is the amount of the depreciation expense?

A) $1,307.34
B) $1,385.82
C) $1,128.18
D) $1,322.66
E) $1,474.24

107) Assume sales are $2,220; cost of goods sold is $1,055, general expenses are $630, depreciation expense is $210, and the tax rate is 21 percent. The firm paid $40 in interest expense. What is the net income amount?

A) $225.15
B) $417.35
C) $185.25
D) $140.35
E) $216.75

# Corporate Finance Core Principles and Applications Edition 7 by Ross

108) Assume EBIT is $1,480, depreciation expense is $260, cost of goods sold is $1,250, dividends paid is $70, interest expense is $160, and sales is $7,260. What is the taxable income?

A) $5,850
B) $5,590
C) $1,580
D) $1,320
E) $720

109) A corporation has sales of $610,000 and costs of $480,000. Interest expense is $40,000, dividends paid is $37,000, and depreciation is $60,000. The tax rate is 21 percent and there are 8,500 shares of stock outstanding. What is the earnings per share?

A) $1.99
B) $2.79
C) $3.53
D) $4.28
E) $2.67

110) Given the tax rates as shown, what is the average tax rate for a sole proprietorship with taxable income of $96,000?



| Taxable Income | | Tax Rate |
|---|---|---|
| $0- | 10,275 | 10% |
| $10,275- | 41,775 | 12% |
| $41,775- | 89,075 | 22% |
| $89,075- | 170,050 | 24% |
| $170,050- | 215,950 | 32% |
| $215,950 | 539,900 | 35% |
| $539,900 | infinity | 37% |

A) 17.31%
B) 24.00%
C) 17.58%
D) 10.99%
E) 21.00%

# Corporate Finance Core Principles and Applications Edition 7 by Ross

111) Assume the tax rates are as shown. An LLC has taxable income of $75,000. How much additional tax will the firm owe if it increases its taxable income by $20,000?

| Taxable Income | | Tax Rate |
|---|---|---|
| $0- | 10,275 | 10% |
| $10,275- | 41,775 | 12% |
| $41,775- | 89,075 | 22% |
| $89,075- | 170,050 | 24% |
| $170,050- | 215,950 | 32% |
| $215,950 | 539,900 | 35% |
| $539,900 | infinity | 37% |

A) $4,518.50
B) $4,400.00
C) $4,800.00
D) $3,096.50
E) $8,731.50



112) Assume the tax rates are as shown. A Limited Liability Partnership has taxable income of $102,000. How much must the firm pay in taxes?

| Taxable Income | | Tax Rate |
|---|---|---|
| $0- | 10,275 | 10% |
| $10,275- | 41,775 | 12% |
| $41,775- | 89,075 | 22% |
| $89,075- | 170,050 | 24% |
| $170,050- | 215,950 | 32% |
| $215,950 | 539,900 | 35% |
| $539,900 | infinity | 37% |



A) $3,102.00
B) $24,480.00
C) $18,315.50
D) $11,993.30
E) $21,420.00

113) Total assets are $2,630, fixed assets are $1,825, long-term debt is $1,015, and short-term debt is $530. What is the amount of net working capital?

A) $1,295
B) $275
C) $1,085
D) $350
E) $400

# Corporate Finance Core Principles and Applications Edition 7 by Ross

114) A firm has current assets of $340 and current liabilities of $190 at the end of the year. At the beginning of the year, the current assets were $415 and the current liabilities were $210. What is the change in net working capital?

A) −$55

B) −$95

C) $0

D) $55

E) $95

115) A firm has reported the following balance sheets:

| | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| Cash | $ 900 | $ 900 |
| Other current assets | 2,900 | 1,900 |
| Net fixed assets | 3,400 | 2,000 |
| Total assets | $ 7,200 | $ 4,800 |
| **Liabilities and Equity** | | |
| Accounts payable | $ 1,900 | $ 1,600 |
| Long-term debt | 2,100 | 1,300 |
| Stockholders' equity | 3,200 | 1,900 |
| Total liabilities and equity | $ 7,200 | $ 4,800 |



What is the change in the net working capital from 2022 to 2023?

A) $700

B) −$700

C) $1,000

D) −$1,300

E) $1,300

# Corporate Finance Core Principles and Applications Edition 7 by Ross

116) A firm has reported the following balance sheet:

| | |
|---|---|
| **Assets** | |
| **Cash** | $ 460 |
| **Accounts receivable** | 1,120 |
| **Inventory** | 1,020 |
| **Net fixed assets** | 10,180 |
| **Total assets** | $ 12,780 |
| **Liabilities and Equity** | |
| **Accounts payable** | $ 850 |
| **Deferred taxes** | 340 |
| **Long-term debt** | 2,340 |
| **Stockholders' equity** | 9,250 |
| **Total liabilities and equity** | $ 12,780 |

What was the amount of net working capital?

A) $730
B) $2,770
C) $2,870
D) $1,750
E) $2,600

# Corporate Finance Core Principles and Applications Edition 7 by Ross

117) A firm has reported the following balance sheets:

| | 2022 | 2023 |
|---|---|---|
| **Assets** | | |
| **Cash** | $ 182 | $ 153 |
| **Accounts receivable** | 911 | 979 |
| **Inventory** | 1,304 | 1,223 |
| **Net fixed assets** | 2,659 | 2,037 |
| **Total assets** | $ 5,056 | $ 4,392 |
| **Liabilities and Equity** | | |
| **Accounts payable** | $ 1,248 | $ 1,318 |
| **Deferred taxes** | 103 | 97 |
| **Long-term debt** | 2,804 | 2,607 |
| **Stockholders' equity** | 901 | 370 |
| **Total liabilities and equity** | $ 5,056 | $ 4,392 |

What is the change in net working capital?

A) −$118

B) $34

C) $12

D) $144

E) −$112

# Corporate Finance Core Principles and Applications Edition 7 by Ross

118) A firm has reported the following balance sheets:

| | 2022 | 2023 |
|---|---|---|
| **Assets** | | |
| Cash | $ 214 | $ 187 |
| Accounts receivable | 1,306 | 1,259 |
| Inventory | 1,847 | 2,048 |
| Net fixed assets | 3,511 | 3,287 |
| Total assets | $ 6,878 | $ 6,781 |
| **Liabilities and Equity** | | |
| Accounts payable | $ 1,414 | $ 1,632 |
| Other current liabilities | 624 | 598 |
| Long-term debt | 1,320 | 1,264 |
| Stockholders' equity | 3,520 | 3,287 |
| Total liabilities and equity | $ 6,878 | $ 6,781 |

What is the change in net working capital?

A) −$65
B) $91
C) $65
D) −$91
E) $57





119) A firm has total sales of $1,456, costs are $782, and depreciation is $115. The total tax rate is 22 percent. The firm does not have any interest expense. What is the operating cash flow?

A) $436.02
B) $524.40
C) $501.38
D) $483.94
E) $551.02

# Corporate Finance Core Principles and Applications Edition 7 by Ross

120) A firm had beginning net fixed assets of $648 and ending net fixed assets of $621. Assets valued at $285 were sold during the year. Depreciation was $76. What is the amount of net capital spending?

A) $334
B) $236
C) $115
D) $49
E) $66

121) At the beginning of the year, a firm had long-term debt of $687 and total debt of $911. At the end of the year, the long-term debt is $579 and total debt is $898. If $58 of interest was paid during the year, what is the cash flow to the creditors?

A) −$50
B) −$166
C) $71
D) $166
E) $50



122) A firm has beginning long-term debt of $647 and ending long-term debt of $749. The beginning and ending total debt balances are $801 and $768, respectively. The interest paid is $54. What is the amount of the cash flow to the creditors?



A) −$10
B) −$48
C) $21
D) $156
E) $87

123) A firm has net income of $2,918. The firm pays out 35 percent of the net income to its shareholders as dividends. During the year, the company sold $150 worth of common stock. What is the cash flow to the stockholders?

A) $1,171.30
B) $871.30
C) $2,046.70
D) $1,224.20
E) $1,746.70

# Corporate Finance Core Principles and Applications Edition 7 by Ross

124) A firm has operating cash flow of $994. Depreciation is $102, taxes are $298, and interest paid is $65. A net total of $82 was paid on long-term debt. The firm spent $481 on fixed assets and increased its net working capital by $32. What is the amount of the cash flow to stockholders?

A) −$104
B) $334
C) $464
D) −$114
E) $138

# Corporate Finance Core Principles and Applications Edition 7 by Ross

125) A firm has reported the following financial information:

| | 2022 | 2023 |
|---|---|---|
| **Assets** | | |
| **Cash** | $ 214 | $ 187 |
| **Accounts receivable** | 1,306 | 1,259 |
| **Inventory** | 1,847 | 2,048 |
| **Net fixed assets** | 3,511 | 3,287 |
| **Total assets** | $ 6,878 | $ 6,781 |
| **Liabilities and Equity** | | |
| **Accounts payable** | $ 1,414 | $ 1,632 |
| **Other current liabilities** | 624 | 598 |
| **Long-term debt** | 1,320 | 1,264 |
| **Stockholders' equity** | 3,520 | 3,287 |
| **Total liabilities and equity** | $ 6,878 | $ 6,781 |
| **Sales** | | $ 6,238 |
| **Cost of goods sold** | | 2,789 |
| **General and administrative** | | 847 |
| **Depreciation** | | 415 |
| **EBIT** | | $ 2,187 |
| **Interest** | | 90 |
| **EBT** | | $ 2,097 |
| **Taxes** | | 713 |
| **Net income** | | $ 1,384 |



What is the amount of the net capital spending for 2023?

A) $224
B) $639
C) −$224
D) $362
E) $191

# Corporate Finance Core Principles and Applications Edition 7 by Ross

126) A firm has reported the following financial information:

| | 2022 | 2023 |
|---|---|---|
| **Assets** | | |
| **Cash** | $ 298 | $ 306 |
| **Accounts receivable** | 3,006 | 3,422 |
| **Inventory** | 5,210 | 5,650 |
| **Net fixed assets** | 32,780 | 36,400 |
| **Total assets** | $ 41,294 | $ 45,778 |
| **Liabilities and Equity** | | |
| **Accounts payable** | $ 6,219 | $ 6,184 |
| **Other current liabilities** | 1,880 | 1,625 |
| **Long-term debt** | 17,951 | 21,991 |
| **Stockholders' equity** | 15,244 | 15,978 |
| **Total liabilities and equity** | $ 41,294 | $ 45,778 |
| **Sales** | | $ 11,418 |
| **Cost of goods sold** | | 6,320 |
| **General and administrative** | | 2,419 |
| **Depreciation** | | 967 |
| **EBIT** | | $ 1,712 |
| **Interest** | | 230 |
| **EBT** | | $ 1,482 |
| **Taxes** | | 519 |
| **Net income** | | $ 963 |



What is the cash flow of the firm for 2023?

A) −$1,273
B) −$3,581
C) $1,273
D) $2,160
E) $3,414

# Corporate Finance Core Principles and Applications Edition 7 by Ross

127) A firm has reported the following financial information:

| | 2022 | 2023 |
|---|---|---|
| **Assets** | | |
| **Cash** | $ 298 | $ 306 |
| **Accounts receivable** | 3,006 | 3,422 |
| **Inventory** | 5,210 | 5,650 |
| **Net fixed assets** | 32,780 | 36,400 |
| **Total assets** | $ 41,294 | $ 45,778 |
| **Liabilities and Equity** | | |
| **Accounts payable** | $ 6,219 | $ 6,184 |
| **Other current liabilities** | 1,880 | 1,625 |
| **Long-term debt** | 17,951 | 21,991 |
| **Stockholders' equity** | 15,244 | 15,978 |
| **Total liabilities and equity** | $ 41,294 | $ 45,778 |
| **Sales** | | $ 11,418 |
| **Cost of goods sold** | | 6,320 |
| **General and administrative** | | 2,419 |
| **Depreciation** | | 967 |
| **EBIT** | | $ 1,712 |
| **Interest** | | 230 |
| **EBT** | | $ 1,482 |
| **Taxes** | | 519 |
| **Net income** | | $ 963 |



What is the amount of net new borrowing for 2023?

A) $3,750
B) $3,250
C) $3,360
D) $4,040
E) $3,480

# Corporate Finance Core Principles and Applications Edition 7 by Ross

128) A firm has reported the following financial information:

| | 2022 | 2023 |
|---|---|---|
| **Assets** | | |
| **Cash** | $ 298 | $ 306 |
| **Accounts receivable** | 3,006 | 3,422 |
| **Inventory** | 5,210 | 5,650 |
| **Net fixed assets** | 32,780 | 36,400 |
| **Total assets** | $ 41,294 | $ 45,778 |
| **Liabilities and Equity** | | |
| **Accounts payable** | $ 6,219 | $ 6,184 |
| **Other current liabilities** | 1,880 | 1,625 |
| **Long-term debt** | 17,951 | 21,991 |
| **Stockholders' equity** | 15,244 | 15,978 |
| **Total liabilities and equity** | $ 41,294 | $ 45,778 |
| **Sales** | | $ 11,418 |
| **Cost of goods sold** | | 6,320 |
| **General and administrative** | | 2,419 |
| **Depreciation** | | 967 |
| **EBIT** | | $ 1,712 |
| **Interest** | | 230 |
| **EBT** | | $ 1,482 |
| **Taxes** | | 519 |
| **Net income** | | $ 963 |



What is the cash flow to creditors for 2023?

A) $3,650
B) −$4,040
C) $3,350
D) −$4,270
E) −$3,810

# Corporate Finance Core Principles and Applications Edition 7 by Ross

129) A firm has reported the financial information shown in random order, below:

| | 2023 | 2022 |
|---|---|---|
| **Cash** | $ 1,200 | $ 900 |
| **Sales** | 229,650 | 215,870 |
| **Inventory** | 7,850 | 7,770 |
| **Depreciation** | 2,700 | 2,200 |
| **Cost of goods sold** | 133,200 | 120,900 |
| **Accounts payable** | 9,490 | 8,750 |
| **Long-term debt** | 18,900 | 20,400 |
| **Shareholders' equity** | 19,600 | 15,110 |
| **Accounts receivable** | 6,140 | 5,890 |
| **Net fixed assets** | 32,800 | 29,700 |
| **Interest expense** | 1,500 | 1,800 |
| **Selling, General & Administrative expenses** | 42,000 | 39,000 |
| **Taxes** | 10,550 | 10,970 |

What is net capital spending for 2023?

A) $3,100
B) $400
C) $5,800
D) $3,730
E) $6,430

# Corporate Finance Core Principles and Applications Edition 7 by Ross

130) A firm has reported the financial information shown in random order, below:

| | 2023 | 2022 |
|---|---|---|
| Cash | $ 1,200 | $ 900 |
| Sales | 229,650 | 215,870 |
| Inventory | 7,850 | 7,770 |
| Depreciation | 2,700 | 2,200 |
| Cost of goods sold | 133,200 | 120,900 |
| Accounts payable | 9,490 | 8,750 |
| Long-term debt | 18,900 | 20,400 |
| Shareholders' equity | 19,600 | 15,110 |
| Accounts receivable | 6,140 | 5,890 |
| Net fixed assets | 32,800 | 29,700 |
| Interest expense | 1,500 | 1,800 |
| Selling, General & Administrative expenses | 42,000 | 39,000 |
| Taxes | 10,550 | 10,970 |

What is the operating cash flow for 2023?

A) $43,900
B) $42,400
C) $54,450
D) $41,200
E) $40,900

# Corporate Finance Core Principles and Applications Edition 7 by Ross

131) A firm has reported the financial information shown in random order, below:

| | 2023 | 2022 |
|---|---|---|
| **Cash** | $ 1,200 | $ 900 |
| **Sales** | 229,650 | 215,870 |
| **Inventory** | 7,850 | 7,770 |
| **Depreciation** | 2,700 | 2,200 |
| **Cost of goods sold** | 133,200 | 120,900 |
| **Accounts payable** | 9,490 | 8,750 |
| **Long-term debt** | 18,900 | 20,400 |
| **Shareholders’ equity** | 19,600 | 15,110 |
| **Accounts receivable** | 6,140 | 5,890 |
| **Net fixed assets** | 32,800 | 29,700 |
| **Interest expense** | 1,500 | 1,800 |
| **Selling, General & Administrative expenses** | 42,000 | 39,000 |
| **Taxes** | 10,550 | 10,970 |

What is the cash flow of the firm (the net cash flow from assets) for 2023?

A) $49,590
B) $37,990
C) $43,900
D) $38,210
E) $36,710

# Corporate Finance Core Principles and Applications Edition 7 by Ross

132) A firm has reported the financial information shown in random order, below:

| | 2023 | 2022 |
|---|---|---|
| **Cash** | $ 1,200 | $ 900 |
| **Sales** | 229,650 | 215,870 |
| **Inventory** | 7,850 | 7,770 |
| **Depreciation** | 2,700 | 2,200 |
| **Cost of goods sold** | 133,200 | 120,900 |
| **Accounts payable** | 9,490 | 8,750 |
| **Long-term debt** | 18,900 | 20,400 |
| **Shareholders' equity** | 19,600 | 15,110 |
| **Accounts receivable** | 6,140 | 5,890 |
| **Net fixed assets** | 32,800 | 29,700 |
| **Interest expense** | 1,500 | 1,800 |
| **Selling, General & Administrative expenses** | 42,000 | 39,000 |
| **Taxes** | 10,550 | 10,970 |

What is the cash flow to creditors for 2023?

A) $3,000
B) −$1,500
C) $740
D) $1,500
E) $0

# Corporate Finance Core Principles and Applications Edition 7 by Ross

133) A firm has reported the financial information shown in random order, below. The firm retained 100 percent of earnings in both 2023 and 2022.

| | 2023 | 2022 |
|---|---|---|
| **Cash** | $ 1,200 | $ 900 |
| **Sales** | 229,650 | 215,870 |
| **Inventory** | 7,850 | 7,770 |
| **Depreciation** | 2,700 | 2,200 |
| **Cost of goods sold** | 133,200 | 120,900 |
| **Accounts payable** | 9,490 | 8,750 |
| **Long-term debt** | 18,900 | 20,400 |
| **Shareholders' equity** | 19,600 | 15,110 |
| **Accounts receivable** | 6,140 | 5,890 |
| **Net fixed assets** | 32,800 | 29,700 |
| **Interest expense** | 1,500 | 1,800 |
| **Selling, General & Administrative expenses** | 42,000 | 39,000 |
| **Taxes** | 10,550 | 10,970 |

What is the cash flow to stockholders for 2023?

A) $3,058
B) $2,063
C) $2,258
D) $2,428
E) $35,210





134) A firm has selling and administrative expenses of $2,618, costs of goods sold of $24,318, depreciation of $915, and an interest expense of $520. The firm paid $150 in dividends and added $384 to retained earnings for the year. The tax rate is 21 percent.
What is the operating cash flow?

A) $1,823.14
B) $2,072.12
C) $1,969.00
D) $2,516.48
E) $2,208.15

# Corporate Finance Core Principles and Applications Edition 7 by Ross

135) A firm's sales for this past year were $21,381. The interest expense was $248, costs of goods sold were $9,784, selling and general expenses were $1,208, depreciation was $811, and the addition to retained earnings was $325. The firm sold $500 of new stock shares and repurchased $125 of outstanding shares. The tax rate was 21 percent.
What was the cash flow to stockholders?

A) $5,457.80
B) $6,670.70
C) $2,002.72
D) $208.28
E) $199.96

136) A firm just paid $250,000 to purchase new manufacturing equipment. The equipment will be depreciated on a straight-line basis to a value of $0 over its 7-year useful life. What will be the equipment's net book value at the end of Year 4?

A) $14,286
B) $83,333
C) $107,143
D) $142,857
E) $187,500

# Corporate Finance Core Principles and Applications Edition 7 by Ross

137) A firm has reported the financial information shown below. What was operating cash flow?

| | |
|---|---|
| **Cash** | $ 240 |
| **Sales** | 7,260 |
| **Inventory** | 780 |
| **Depreciation expense** | 260 |
| **Costs of goods sold** | 1,250 |
| **Accounts payable** | 190 |
| **Long-term debt** | 3,020 |
| **Shareholders' equity** | 3,360 |
| **Accounts receivable** | 540 |
| **Net fixed assets** | 5,010 |
| **Interest expense** | 160 |
| **Selling, general & administrative expenses** | 4,270 |
| **Income tax expense** | 440 |

A) $980

B) $1,040

C) $1,140

D) $1,300

E) $1,740

# Corporate Finance Core Principles and Applications Edition 7 by Ross

138) A firm has reported the financial information shown below. What was the book value of stockholders' equity?

| | |
|---|---|
| **Cash** | $ 240 |
| **Sales** | 7,260 |
| **Inventory** | 780 |
| **Depreciation Expense** | 260 |
| **Cost of goods sold** | 1,250 |
| **Accounts payable** | 190 |
| **Long-term debt** | 3,020 |
| **Accounts receivable** | 540 |
| **Net fixed assets** | 5,010 |
| **Interest expense** | 160 |
| **Selling and administrative expenses** | 4,270 |
| **Income tax expense** | 440 |

A) $250
B) $3,110
C) $3,360
D) $5,820
E) $6,380

# Corporate Finance Core Principles and Applications Edition 7 by Ross

# Answer Key

## Test name: Chapter 02

1) E

Shareholders' equity = Current assets + Net fixed assets − Total liabilities.

Shareholders′ equity = $310 + 520 − 370 = $460

2) A

Market value = $1,450,000 (building) + 477,000 (equipment) + (.5 × 420,000) (inventory) + (.97 × 230,200) (accounts receivable) + 10,600 cash − 1,450,000 (amount owed)

Market value = $920,894

3) B

Net income = Dividends paid + Change in retained earnings

Net income = $466 + (− $114) = $352

In this case, the change in retained earnings was a negative value.

4) A

Taxes paid = .15($50,000) + .25($75,000 − 50,000) + .34($100,000 − 75,000) + .39($130,513 − 100,000)



Taxes paid = $34,150.07

Average tax rate = $34,150.07/$130,513

Average tax rate = .2617, or 26.17%

5) B

Taxes on $81,000 income = .15($50,000) + .25($75,000 − 50,000) + .34($81,000 − 75,000) = $15,790

New taxable income = $81,000 + 22,200 = $103,200

Taxes on $103,200 income = .15($50,000) + .25($75,000 − 50,000) + .34($100,000 − 75,000) + .39($103,200 − 100,000) = $23,498

Additional tax = $23,498 − 15,790 = $7,708

6) D

EBIT = $1,220 − 680 − 110 = $430 (Sales − Costs − Depreciation)

Taxes = .30 × $430 = $129 (Tax rate × EBIT)

OCF = $430 + 110 − 129 = $411 (EBIT + Depreciation − Taxes)

7) E

# Corporate Finance Core Principles and Applications Edition 7 by Ross

Net capital spending = \$564 (ending net fixed assets) + 56 (Depreciation) − 478 (beginning net fixed assets)
Net capital spending = \$142

8) E
Change in net working capital = (\$471 − 261) − (\$317 − 221) = \$114

9) E
CFC = \$35 − (\$269 − 308) = \$74

10) D
CFS = (.30 × \$290) − \$74 = \$13.00

11) D
Total liabilities and equity = Total assets = \$1,995 + 960 + 2,190 = \$5,145
NWC = Current assets − Current liabilities
\$185 = CA − \$2,190
Current assets = \$2,375
Net fixed assets = \$5,145 − 2,375 = \$2,770



12) B
EBIT = \$22,598 − 16,580 − 1,490 = \$4,528
EBT = \$4,528 − 1,200 = \$3,328
Taxes = \$3,328(.40) = \$1,331
OCF = \$4,528 + 1,490 − 1,331 = \$4,687

13) C
NWC = Current assets − Current liabilities
\$2,077 = \$6,001 − CL
CL = \$3,924

14) E
NWC = Current assets − Current liabilities
NWC = (\$1,992 + 2,519 + 4,657) − 5,317
NWC = \$3,851

15) D

# Corporate Finance Core Principles and Applications Edition 7 by Ross

Current assets = $8,798 − 6,601 = $2,197
$1,248 = $2,197 − CL
CL = $949
Total liabilities = $949 + 4,775 = $5,724

16) E
Current assets = $12,038 − 8,001 = $4,037
$1,368 = $4,037 − CL
CL = $2,669
Total equity = $12,038 − 4,667 − 2,669 = $4,702

17) C
Current liabilities = $64,350 − 31,555 − 21,945 = $10,850
Current assets = $19,375 + 10,850 = $30,225

18) E
Current liabilities = $6,350 − 1,987 = $4,363
Total liabilities and equity = Total assets = $21,990 + 10,460 + 4,363 = $36,813
Net fixed assets = $36,813 − 6,350 = $30,463



19) C
Net capital spending = $95,475 − 74,425 + 12,605 = $33,655

20) A
Ending long-term debt = $46,255 + 10,565 − 11,930 = $44,890

21) C
Cash flow to creditors = $10,839 + 4,235 − 9,525 = $5,549

22) D
EBT = $46,382 − 16,659 − 11,766 − 6,415− 3,854 = $7,688
Taxes = $7,688(.35) = $2,691
Net income = $7,688 − 2,691 = $4,997

23) A

# Corporate Finance Core Principles and Applications Edition 7 by Ross

EBIT = $45,797 − 16,134 − 11,481 − 5,980 = $12,202
EBT = $12,202 − 3,620 = $8,582
Taxes = $8,582(.35) = $3,004
OCF = $12,202 + 5,980 − 3,004 = $15,178

24) E
Retained earnings = $30,605 + (7,240 − 2,930) = $34,915

25) B
Ending owners' equity = $48,485 + 4,925 − 3,585 − 7,335 = $42,490

26) E
Cash flow to stockholders = $3,965 + 7,915 = $11,880

27) A
Net fixed assets = $140,935 + 66,855 − 81,475 = $126,315

28) B
EBIT = ($5,120 + 3,220)/(1 − .34) + 2,360 = $14,996
Depreciation = $96,540 − 76,380 − 14,996 = $5,164



29) B
Taxes = $129,242(.245) = $31,664

30) B
Cash flow from assets = ($28,374 + 21,035) + ($27,545 − 25,025) = $51,929

31) C
Net capital spending = $18,932 − 17,573 + 3,865 = $5,224
Fixed assets sold = $9,050 − 5,224 = $3,826

32) B
Net new borrowing = $9,180 − 7,496 = $1,684
Debt retired = $2,460 − 1,684 = $776

33) A

Cash flow from assets = $17,145 + 7,811 = $24,956
Net capital spending = $57,250 − 49,805 + 12,348 = $19,793
Change in net working capital = $51,404 − 19,793 − 24,956 = $6,655

34) D
Equity = Max[($7,287 − 6,955) , 0] = $332

35) C
Net income = $1,860 − 770 = $1,090

36) C
Net income = $13,750 + 67,286 = $81,036
EBT = $351,180 − 168,590 − 18,095 − 29,190 = $135,305
Taxes = $135,305 − 81,036 = $54,269
Average tax rate = $54,269/135,305 = .4011, or 40.11%

37) A
Change in NWC = $12,250 − 10,960 = $1,290
CFA = $63,269 − 25,020 − 1,290 = $36,959
Cash flow to stockholders = $36,959 − 28,783 = $8,176



38) C
Change in NWC = $8,030 − 6,561 = $1,469
CFA = $37,652 − 16,780 − 1,469 = $19,403
Cash flow to creditors = $19,403 − 15,819 = $3,584

39) C
Cash flow to stockholders = $129,650(.40) − 80,250 = −$28,390

40) A
Current assets = $113 + 258 + 579 = $950

41) D
Total assets = $306 + 676 + 1,392 + 4,845 = $7,219

42) B
Total assets = $258 + 604 + 1,308 + 4,737 = $6,907
Long-term debt = $6,907 − 546 − 5,332 = $1,029

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43) B
Current liabilities = .60($123,425) = $74,055
Total L&E = Total assets = $123,425 + 131,750 = $255,175
Current assets = $255,175 − 169,055 = $86,120
Net working capital = $86,120 − 74,055 = $12,065

44) B
Net income = $104 + 450 = $554
EBT = $554/( 1 − .35) = $852
EBIT = $852 + 540 = $1,392

45) E
Net capital spending = $211,638 − 216,462 + 40,399 = $35,575
Fixed assets bought = $35,575 + 7,894 = $43,469



46) D
Cash flow to creditors = $4,309 − ($44,624 − 39,231) = −$1,084

47) C
Current assets = $6,561 − 4,218 = $2,343

Current liabilities = $2,343 − 817 = $1,526
Total liabilities = $1,526 + 4,348 = $5,874

48) B
Cash flow to stockholders = (1 − .60) × $2,850 − 745 = $395

49) D
Current liabilities = ($141 + 473 + 728) − $251 = $1,091

50) A
Net working capital = ($1,474 − 1,031) − $156 = $287

51) D
52) B
53) D
54) A
55) D
56) C
57) B

# Corporate Finance Core Principles and Applications Edition 7 by Ross

58) E
59) A
60) D
61) E
62) C
63) D
64) D
65) B
66) D
67) D
68) E
69) D
70) A
71) C
72) C
73) E
74) E
75) C
76) A
77) C
78) C
79) A
80) A
81) E
82) D
83) E
84) C
85) E
86) A
87) A
88) C
89) D
90) B
91) C
92) D
93) C
94) D
95) B
96) B
97) C

# Corporate Finance Core Principles and Applications Edition 7 by Ross

Net fixed assets = $890 + 2,011 − 175 = $2,726

98) E
Current liabilities = $120 + 520 + 480 − 190 = $930

99) D
Liquid assets = $360 + 45 + 240 = $645

100) C
Book value of shareholders' equity = $2,357 + 860 − 1,650 = $1,567

101) B
Dividends paid = $3,100 − (8250 − 8,700) = $3,550

102) E
Dividends paid = $880 − 810 = $70

103) B
Net income = (1 − .21)($1,100 − 510 − 230 − 80 − 40) = $189.60
Addition to retained earnings = $189.60 − 45 = $144.60



104) E
Period costs = Selling, general, and administrative expenses = $5,800

105) E
Net income = $1,200 + 2,500 = $3,700
Taxable income = $3,700 ÷ (1 − .21) = $4,683.54

106) D
Net income = $270 + 510 = $780
Taxable income = $780 ÷ (1 − .21) = $987.34
Earnings before interest and taxes = $987.34 + 320 = $1,307.34
Depreciation = $11,800 − 7,230 − 1,940 − 1,307.34 = $1,322.66

107) A
Net Income = (1 − .21)($2,220 − 1,055 − 630 − 210 − 40) = $225.15

108) D

# Corporate Finance Core Principles and Applications Edition 7 by Ross

Taxable income = $1,480 − 160 = $1,320

109) B
Earnings per share = [($610,000 − 480,000 − 60,000 − 40,000)(1 − .21)] ÷ 8,500 = $2.79

110) C
Tax = [($10,275 − 0) × 10%] + [($41,775 − 10,275) × 12%] + [($89,075 − 41,775) × 22%] + [($96,000 − 89,075) × 24%] = $16,875.50
Average tax rate = $16,875.50 ÷ $96,000 = .1758, or 17.58%

111) A
Additional tax = [($89,075 − 75,000) × 22%] + [$20,000 − ($89,075 − 75,000)] × 24% = $4,518.50

112) C
Taxes = [($10,275 − 0) × 10%] + [($41,775 − 10,275) × 12%] + [($89,075 − 41,775) × 22%] + [($102,000 − 89,075) × 24%] = $18,315.50

113) B
Net working capital = $2,630 − 1,825 − 530 = $275



114) A
Change in net working capital = ($340 − 190) − ($415 − 210) = −$55

115) A
Change in net working capital = ($900 + 2,900 − 1,900) − ($900 + 1,900 − 1,600) = $700

116) D
NWC = $460 + 1,120 + 1,020 − 850 = $1,750

117) E
Change in NWC = ($153 + 979 + 1,223 − 1,318) − ($182 + 911 + 1,304 − 1,248) = −$112

118) A
Change in NWC = ($187 + 1,259 + 2,048 − 1,632 − 598) − ($214 + 1,306 + 1,847 − 1,414 − 624) = −$65

119) E

Earnings before interest and taxes = $1,456 − 782 − 115 = $559
Tax = .22($559) = $122.98
Operating cash flow = $559 + 115 − 122.98 = $551.02

120) D
Net capital spending = $621 − 648 + 76 = $49

121) D
Cash flow to the creditors = $58 − ($579 − 687) = $166

122) B
Cash flow to the creditors = $54 − ($749 − 647) = −$48

123) B
Cash flow to the stockholders = .35($2,918) − $150 = $871.30

124) B
CF(A) = $994 − 32 − 481 = $481
CF(B) = $65 − (−$82) = $147
CF(S) = $481 − 147 = $334





125) E
Net capital spending = $3,287 − 3,511 + 415 = $191

126) B
Operating cash flow = $1,712 + 967 − 519 = $2,160
Change in net working capital = ($306 + 3,422 + 5,650 − 6,184 − 1,625) − ($298 + 3,006 + 5,210 − 6,219 − 1,880) = $1,154
Net capital spending = $36,400 − 32,780 + 967 = $4,587
Cash flow of the firm = $2,160 − 1,154 − 4,587 = −$3,581

127) D
Net new borrowing = $21,991 − 17,951 = $4,040

128) E
Cash flow to creditors = $230 − ($21,991 − 17,951) = −$3,810

129) C

Net capital spending = $32,800 − 29,700 + 2,700 = $5,800

130) A

EBIT = $229,650 − 133,200 − 42,000 − 2,700 = $51,750

OCF = $51,750 + 2,700 − 10,550 = $43,900

131) D

EBIT = $229,650 − 133,200 − 42,000 − 2,700 = $51,750

OCF = $51,750 + 2,700 − 10,550 = $43,900

Additions to net working capital = ($1,200 + 6,140 + 7,850 − 9,490) − ($900 + 5,890 + 7,770 − 8,750) = −$110

Net capital spending = $32,800 − 29,700 + 2,700 = $5,800

Cash flow of the firm = $43,900 − (−110) − 5,800 = $38,210



132) A

Cash flow to creditors = $1,500 − ($18,900 − 20,400) = $3,000

133) E

Net income = $229,650 − 133,200 − 42,000 − 2,700 − 1,500 −10,550 = $39,700



Cash flow to stockholders = $39,700 − ($19,600 − 15,110) = $35,210

134) C

Net income = $150 + 384 = $534

Taxable income = $534 ÷ (1 − .21) = $675.95

Tax = .21($675.95) = $141.95

Earnings before interest and taxes = $675.95 + 520 = $1,195.95

Operating cash flow = $1,195.95 + 915 − 141.95 = $1,969.00

135) B

Taxable income = $21,381 − 9,784 − 1,208 − 811 − 248 = $9,330

Taxes = .21($9,330) = $1,959.30

Dividends paid = $9,330 − 1,959.30 − 325 = $7,045.70

Cash flow to stockholders = $7,045.70 + 125 − 500 = $6,670.70

136) C

Net book value = Gross book value − Accumulated depreciation = $250,000 − [4($250,000 ÷ 7)] = $107,143

137) D

# Corporate Finance Core Principles and Applications Edition 7 by Ross

Operating cash flow = Operating income + Depreciation expense − Income tax = ($7,260 − 1,250 − 260 − 4,270) + $260 − 440 = $1,300

138) C

Total equity = Assets − Liabilities = ($240 + 540 + 780 + 5,010) − ($190 + 3,020) = $3,360