Exam

Name___________________________________

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

1) Using financial information to aid in decision making is called
A) factor analysis.
1) _______

B) managerial economics.
C) financial analysis.
D) quantitative analysis.
E) "what-if" analysis.

2) Which of the following is not a commonly used source of information for financial analysis?
A) The Securities and Exchange Commission's filings
2) _______

B) The economic data from a forecasting firm
C) The firm's annual report
D) A consultant's analysis of industry conditions
E) Key employees' guesses about future trends

3) Which of the following is one of the financial statements critical to financial statement analysis?
A) SEC registration statement
3) _______

B) Statement of Cash Flows
C) 10-Q
D) Disclosure
E) 8-K

4) Which of the following is a variation of the accounting identity?
A) Assets + Lease obligations = Equity + Liabilities
4) _______

B) Assets − Fixed assets = Equity − Liabilities
C) Owner's equity = Assets − Liabilities
D) Assets + Equity = Liabilities
E) Equity − Liabilities = Assets

5) Balance sheets
A) may not balance if the firm suffered a net loss.
5) _______

B) show how the firm raised funds to purchase assets.
C) provide information about a firm's labor costs.
D) report a firm's activities over a period of time.
E) describe a firm's cash flows.

6) The right-hand side of the balance sheet shows
A) the firm's good will.
6) _______

B) the level of accumulated depreciation.
C) the cash flow generated by a firm's assets.
D) how the firm financed its assets.
E) profits earned by the firm in the current period.

7) The ________ is a snapshot of the firm at a particular point in time.
A) statement of cash flows
7) _______

B) income statement
C) statement of retained earnings
D) balance sheet
E) None of the above

8) An income statement contains all of the following EXCEPT
A) losses. B) revenues. C) expenses. D) gains. E) assets.
8) _______

9) Which of the following is not included in a cash flow statement?
A) The increase in long-term debt
9) _______

B) Depreciation expense
C) Cash flow from operations
D) Labor productivity
E) Interest earnings

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

10) Section 2.2 has no questions. 10) ____________

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

11) In cross-sectional analysis, a firm's financial ratios are
A) compared with the firm's ratios from the most recent period.
11) ______

B) compared with ratios from all firms.
C) compared with a general standard.
D) plotted over time to isolate trends.
E) judged against the performance of firms in the same industry.

12) The four-digit codes used by the government to classify firms into industries are known as
A) ratio standards.
12) ______

B) SIC codes.
C) USIC codes.
D) financial benchmarks.
E) EIC codes.

13) When financial ratios are compared to financial ratios from previous years, a ________ is conducted. 13) ______

A) cross-time
B) cross-sectional
C) time series
D) SIC code
E) None of the above

14) All of the following are problems with cross-sectional financial analysis EXCEPT that
A) it provides no basis for comparison to other firms.
14) ______

B) an industry may be dominated by a few firms.
C) there may be no obvious firms to be used for comparison.
D) many firms are conglomerates.
E) annual reports sometimes do not disclose divisional financial data.

15) In common-size financial statements,
A) total sales are divided by total assets.
15) ______

B) all balance sheet items are divided by total liabilities.
C) net income is divided by total assets.
D) accrued taxes are divided by total sales.
E) depreciation expense is divided by total sales.

16) Each of the following is a ratio category EXCEPT
A) market ratios.
16) ______

B) financing ratios.
C) liquidity ratios.
D) activity ratios.
E) productivity ratios.

17) ________ ratios measure the efficiency with which assets are converted to sales or cash.
A) Financing
17) ______

B) Profitability
C) Liquidity
D) Activity
E) Market

18) Find the return on assets if net income was $55,000, total assets are $115,000, EBIT was $100,000, and equity is $75,000.
18) ______

A) 55.0% B) 63.1% C) 73.3% D) 47.8% E) 87.0%

19) What is the return on equity if net income was $55,000, total assets are $115,000, EBIT was $100,000, and equity is $75,000? 19) ______

A) 63.1% B) 87.0% C) 55.0% D) 73.3% E) 47.8%

20) Sales for a firm are $500,000, cost of goods sold are $400,000, and interest expenses are $20,000. What is the gross profit margin? 20) ______

A) 20.0% B) 16.0% C) 25.0% D) 4.0% E) 30.0%

21) If net income was $10,000, interest expense was $4,000, and taxes were $1,000, what is the operating profit margin if sales were $50,000? 21) ______

A) 28% B) 10% C) 20% D) 30% E) 22%

22) If net income after tax was $10,000, interest expense was $4,000, and taxes were $1,000, what is the net profit margin if sales were $50,000? 22) ______

A) 22% B) 28% C) 10% D) 20% E) 30%

23) The quick ratio improves upon the current ratio by
A) subtracting intangible assets like goodwill.
23) ______

B) recognizing that inventory is the current asset that is easiest to value.
C) recognizing that inventory is the least liquid current asset.
D) using more up-to-date information.
E) simplifying the calculation.

24) What is the quick ratio if cash is $10,000, accounts receivable are $25,000, inventories are $30,000, accounts payable are $40,000, and accrued payroll is $15,000? 24) ______

A) 2.00 B) 1.18 C) 0.09 D) 0.73 E) 1.13

25) What is the current ratio if cash is $10,000, accounts receivable are $25,000, inventories are $30,000, accounts payable are $40,000, and accrued payroll is $15,000? 25) ______

A) 0.73 B) 1.13 C) 2.00 D) 0.64 E) 1.18

26) The quick ratio is 1.0. Current assets are $100,000 and current liabilities are $80,000. What is the amount in the inventory account? 26) ______

A) $80,000
B) $20,000
C) $180,000
D) $125,000
E) Cannot be determined with the information provided.

27) Find accounts receivable turnover if a firm has an accounts receivable of $80,000, a total asset turnover of .75, and

total assets of $230,000. 27) ______

A) 2.9 B) 3.8 C) 1.5 D) .65 E) 2.15

28) Which of the following statements is true?
A) Current assets are expected to be converted into cash in less than 2 years.
28) ______

B) Activity ratios go hand in hand with liquidity ratios
C) The quick ratio is classified as an activity ratio.
D) A firm's debt holders prefer a low quick ratio.
E) Lower current ratios are always preferable.

29) What is a firm's total asset turnover if its fixed assets are $120,000, current assets are $30,000, current liabilities are $44,000, sales were $200,000, and net income was $75,000? 29) ______

A) 1.7 times B) 2.0 times C) 1.3 times D) 2.2 times E) 0.5 times

30) A firm has current assets of $350,000, current liabilities of $200,000, cost of goods sold of $250,000, and inventory of $75,000. The firm's inventory turnover is 30) ______

A) 3.3 times. B) 4.7 times. C) 5.0 times. D) 2.7 times. E) 2.0 times.

31) What is a firms times interest earned if it posts revenues of $200,000, taxes of $35,000, expenses of $100,000, and interest of $30,000 31) ______

A) 2.0 times B) 2.2 times C) 3.3 times D) 0.5 times E) 1.3 times

32) If a firm's total asset turnover is low, but its fixed asset turnover is high, which of the following ratios should an analyst examine to locate the source of the problem? 32) ______

A) Debt/equity
B) Accounts receivable turnover
C) Return on equity
D) Price/earnings
E) Times interest earned

33) A firm has sales of $1 million, net income of $250,000, total current assets of $300,000, and accounts receivable of $200,000. The firm's accounts receivable turnover is 33) ______

A) 1.50 times.
B) 1.25 times.
C) 5.00 times.
D) 0.20 times.
E) 0.33 times.

34) A firm has accounts receivable of $150,000. During the year, total sales are $500,000, of which $300,000 are cash sales. What is the average collection period? 34) ______

A) 109.5 days
B) 486.7 days

C) 273.8 days
D) 182.5 days
E) None of the above

35) What is a firm's debt ratio if its total assets are $135,000, equity is $75,000, current liabilities are $24,000, and total liabilities are $105,000? 35) ______

A) 140% B) 60% C) 110% D) 50% E) 78%

36) Market ratios differ from other ratios because
A) they are the only ratios that relate equity measures to other variables.
36) ______

B) they are the only ratios that may have negative values.
C) they are less precise.
D) they are the most important ratios to shareholders.
E) they are based on information not contained in the firm's financial statements.

37) If a firm has 100,000 shares of common stock outstanding and has just recorded a $45,000 profit, what is its price/earnings ratio if its current share price is $35? 37) ______

A) 14.00 B) 45.00 C) 78.00 D) 0.45 E) 0.78

38) The DuPont analysis calculates ROE as the product of
A) profitability, liquidity, and leverage.
38) ______

B) margin, turnover, and leverage.
C) margin, profitability, and leverage.
D) activity, leverage, and debt.
E) leverage, market value, and turnover.

39) All of the following are part of a financial analysis EXCEPT
A) examining the strengths and weaknesses of the firm.
39) ______

B) calculating the DuPont ratio.
C) analyzing the competition.
D) performing a means-end analysis.
E) performing an industry analysis.

40) Ratio interaction refers to
A) the effect one ratio has on another.
40) ______

B) how ratios affect managerial decisions.
C) the way ratios are affected by managerial decisions.
D) when a ratio raises a red flag for analysts.
E) using multiple ratios to make a decision.

41) Which type of ratio measures how effectively the firm uses its resources to generate income?

A) Liquidity
41) ______

B) Leverage
C) Activity
D) Market
E) Profitability

42) When would the "return on equity" equal the "return on assets"?
A) Whenever the debt ratio is zero
42) ______

B) Whenever the debt to equity ratio is one
C) Whenever a firm has positive net worth
D) Whenever the firm has positive net worth and positive net income

43) Your banker is concerned about your company's liquidity. Which of the following actions would increase the firm's current ratio and ease the bank's concern? 43) ______

A) Sell some of the firm's long-term bonds and purchase marketable securities.
B) File for bankruptcy.
C) Sell some inventory for cash.
D) Sell long-term bonds to purchase new machinery.
E) Call your convertible bonds and thereby force the bond holders to become shareholders.

Blockbuster Inc.
Balance Sheet for year-ended Dec 31 ($000's)

ASSETS	Year 1	Year 2
Cash	194,200	200,200
Accounts Receivables	185,800	150,000
Inventory	242,200	202,900
Other Current Assets	177,300	163,300
Total Current Assets	799,500	716,400
Fixed Assets		
Long Term Investments	214,100	159,500
PP&E	1,079,400	909,000
Goodwill	6,455,900	5,967,500
Total Fixed Assets	7,749,400	7,036,000
Total Assets	8,548,900	7,752,400
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts Payable	1,090,400	1,087,400
Short-term Debt	32,800	181,400
Total Current Liabilities	1,123,200	1,268,800
Long-term Debt	1,417,300	734,900
Total Liabilities	2,540,500	2,003,700
Shareholders' Equity		
Common Stock	6,095,200	6,075,800
Retained Earnings	-86,800	-327,100
Total Stockholder Equity	6,008,400	5,748,700
Total Liabilities and	8,548,900	7,752,400

Shareholders' Equity		

44) **Blockbuster Inc.**

Income Statement for year-ended Dec 31 ($000's)

	Year 1	Year 2
Sales	4,969,100	5,157,600
COGS	2,036,000	2,420,700
SG&A	2,390,600	2,532,400
Depreciation	279,000	246,600
Amortization of Intangibles	180,100	176,100
Operating Income (Loss)	83,400	-218,200
Interest Expense	116,500	78,200
Income Before Tax	-33,100	-296,400
Income Tax Expense	45,400	-56,100
Net Income	-78,500	-240,300

Referring to the Blockbuster financial statements, what is the change in ROE from Year 1 to Year 2? ($\Delta ROE = ROE_2 - ROE_1$) 44) ______

A) -1.17% B) -4.18% C) -4.80% D) -2.87% E) -1.20%

45) **Blockbuster Inc.**

Income Statement for year-ended Dec 31 ($000's)

	Year 1	Year 2
Sales	4,969,100	5,157,600
COGS	2,036,000	2,420,700
SG&A	2,390,600	2,532,400
Depreciation	279,000	246,600
Amortization of Intangibles	180,100	176,100
Operating Income (Loss)	83,400	-218,200
Interest Expense	116,500	78,200
Income Before Tax	-33,100	-296,400
Income Tax Expense	45,400	-56,100
Net Income	-78,500	-240,300

Referring to the Blockbuster financial statements, what is the change in ROA from Year 1 to Year 2?
$(\Delta ROA = ROA_2 - ROA_1)$ 45) ______

A) 23.72% B) -8.40% C) 8.40% D) -7.54% E) -2.18%

46) **Blockbuster Inc.**

Income Statement for year-ended Dec 31 ($000's)

	Year 1	Year 2
Sales	4,969,100	5,157,600
COGS	2,036,000	2,420,700
SG&A	2,390,600	2,532,400
Depreciation	279,000	246,600
Amortization of Intangibles	180,100	176,100
Operating Income (Loss)	83,400	-218,200
Interest Expense	116,500	78,200

Income Before Tax	-33,100	-296,400
Income Tax Expense	45,400	-56,100
Net Income	-78,500	-240,300

Referring to the Blockbuster financial statements, which of the following ratios decreased from Year 1 to Year 2:

I. Equity Multiplier

II. Net Profit Margin

III. Total Asset Turnover 46) ______

A) I B) II C) III D) I & II E) II & III

47) **Blockbuster Inc.**

Income Statement for year-ended Dec 31 ($000's)

	Year 1	Year 2
Sales	4,969,100	5,157,600
COGS	2,036,000	2,420,700
SG&A	2,390,600	2,532,400
Depreciation	279,000	246,600
Amortization of Intangibles	180,100	176,100
Operating Income (Loss)	83,400	-218,200
Interest Expense	116,500	78,200
Income Before Tax	-33,100	-296,400
Income Tax Expense	45,400	-56,100
Net Income	-78,500	-240,300

Referring to the Blockbuster financial statements, what is the change in Gross Margin from Year 1 to Year 2? ($\Delta GM = GM_2 - GM_1$) 47) ______

A) -7.54% B) -5.96% C) 7.54% D) -2.28% E) 5.96%

48) **Blockbuster Inc.**

Income Statement for year-ended Dec 31 ($000's)

	Year 1	Year 2
Sales	4,969,100	5,157,600
COGS	2,036,000	2,420,700
SG&A	2,390,600	2,532,400
Depreciation	279,000	246,600
Amortization of Intangibles	180,100	176,100
Operating Income (Loss)	83,400	-218,200
Interest Expense	116,500	78,200
Income Before Tax	-33,100	-296,400
Income Tax Expense	45,400	-56,100
Net Income	-78,500	-240,300

Referring to the Blockbuster financial statements, what is the most important underlying reason for the change in ROE? 48) ______

A) Decrease in cost of goods sold

B) Increase in cost of goods sold caused a big drop in gross margin

C) Increase in sales resulted in an increase in product returns which caused inventory turnover to decline

D) Increase in debt caused the debt/equity ratio to rise

E) Decrease in debt

Balance Sheet
Molson Coors Inc.
Years 1 & 2 ($000's)

	Year 1	Year 2
Cash & Marketable Securities	309,705	59,167
Accounts Receivable	108,732	705,426
Inventories	138,577	215,159
Other Current Assets	49,515	74,144
Total Current Assets	606,529	1,053,896
PP&E, Net	869,710	1,380,239
Intangibles	86,289	1,256,145
Other Assets	177,164	607,131
Total Assets	1,739,692	4,297,411
Accounts Payable	222,493	334,647
Other current liabilities	210,052	669,195
Short-term Debt	85,000	144,049
Total Current Liabilities	517,545	1,147,891
Long-term debt	20,000	1,383,392
Other long-term liabilities	250,835	784,277
Total liabilities	788,380	3,315,560
Capital Stock	8,922	28,334
Retained earnings	954,981	1,086,965
Adjustments	-12,591	-133,448
Total shareholders' equity	951,312	981,851
Total Liabilities & Equity	1,739,692	4,297,411

49) **Income Statement**
Molson Coors Inc.
Years 1 & 2 ($000s)

	Year 1	Year 2
Revenues	2,429,462	3,776,322
COGS	1,537,623	2,414,530
Depreciation	121,091	230,299
SG&A	619,143	833,208
EBIT	151,605	298,285
Interest Expense	-14,403	49,732
Other income	32,005	8,047
Pre-Tax Income	198,013	256,600
Income Tax	75,049	94,947
Net Income	122,964	161,653
Shares outstanding	36,902	36,140
Earnings per share	$3.33	$4.47
Dividends per common share	$0.80	$0.82

Referring to the Molson Coors financial statements, did ROE rise or fall from Year 1 to Year 2? 49) ______

A) Fall B) Rise

50) **Income Statement**

Molson Coors Inc.
Years 1 & 2 ($000s)

	Year 1	Year 2
Revenues	2,429,462	3,776,322
COGS	1,537,623	2,414,530
Depreciation	121,091	230,299
SG&A	619,143	833,208
EBIT	151,605	298,285
Interest Expense	-14,403	49,732
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Income Tax	75,049	94,947
Net Income	122,964	161,653
Shares outstanding	36,902	36,140
Earnings per share	$3.33	$4.47
Dividends per common share	$0.80	$0.82

Referring to the Molson Coors financial statements, what is the change in ROA from Year 1 to Year 2? ($\Delta ROA = ROA_2 - ROA_1$) 50) ______

A) -2.3% B) -3.3% C) 2.3% D) 3.5% E) 3.8%

51)

Income Statement
Molson Coors Inc.
Years 1 & 2 ($000s)

	Year 1	Year 2
Revenues	2,429,462	3,776,322
COGS	1,537,623	2,414,530
Depreciation	121,091	230,299
SG&A	619,143	833,208
EBIT	151,605	298,285
Interest Expense	-14,403	49,732
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Income Tax	75,049	94,947
Net Income	122,964	161,653
Shares outstanding	36,902	36,140
Earnings per share	$3.33	$4.47
Dividends per common share	$0.80	$0.82

Referring to the Molson Coors financial statements, what is the Equity Multiplier from the Du Pont equation (1 + D/E) in Year 2? 51) ______

A) 4.58 B) 4.05 C) 3.95 D) 4.38 E) 2.41

52)

Income Statement
Molson Coors Inc.
Years 1 & 2 ($000s)

	Year 1	Year 2
Revenues	2,429,462	3,776,322

COGS	1,537,623	2,414,530
Depreciation	121,091	230,299
SG&A	619,143	833,208
EBIT	151,605	298,285
Interest Expense	-14,403	49,732
Other income	32,005	8,047
Pre-Tax Income	198,013	256,600
Income Tax	75,049	94,947
Net Income	122,964	161,653
Shares outstanding	36,902	36,140
Earnings per share	$3.33	$4.47
Dividends per common share	$0.80	$0.82

Referring to the Molson Coors financial statements, what is Net Profit Margin in Year 1? 52) _____

A) 8.0% B) 12.9% C) 5.1%D) 8.2% E) 4.3%

53)

Income Statement
Molson Coors Inc.
Years 1 & 2 ($000s)

	Year 1	Year 2
Revenues	2,429,462	3,776,322
COGS	1,537,623	2,414,530
Depreciation	121,091	230,299
SG&A	619,143	833,208
EBIT	151,605	298,285
Interest Expense	-14,403	49,732
Other income	32,005	8,047
Pre-Tax Income	198,013	256,600
Income Tax	75,049	94,947
Net Income	122,964	161,653
Shares outstanding	36,902	36,140
Earnings per share	$3.33	$4.47
Dividends per common share	$0.80	$0.82

Referring to the Molson Coors financial statements, what asset was the main reason for the decline in Total Asset Turnover between Year 1 and Year 2? 53) _____

A) Property Plant and Equipment
B) Inventory
C) Intangibles
D) Cash and Marketable Securities
E) Accounts Receivable

54)

Income Statement
Molson Coors Inc.
Years 1 & 2 ($000s)

	Year 1	Year 2
Revenues	2,429,462	3,776,322
COGS	1,537,623	2,414,530
Depreciation	121,091	230,299

SG&A	619,143	833,208
EBIT	151,605	298,285
Interest Expense	-14,403	49,732
Other income	32,005	8,047
Pre-Tax Income	198,013	256,600
Income Tax	75,049	94,947
Net Income	122,964	161,653
Shares outstanding	36,902	36,140
Earnings per share	$3.33	$4.47
Dividends per common share	$0.80	$0.82

Referring to the Molson Coors financial statements, what is the most important determinant of the change in ROE?
54) ______

A) ROA B) Total Asset Turnover
C) The change in leverage D) Profit Margin

55)

Income Statement
Molson Coors Inc.
Years 1 & 2 ($000s)

	Year 1	Year 2
Revenues	2,429,462	3,776,322
COGS	1,537,623	2,414,530
Depreciation	121,091	230,299
SG&A	619,143	833,208
EBIT	151,605	298,285
Interest Expense	-14,403	49,732
Other income	32,005	8,047
Pre-Tax Income	198,013	256,600
Income Tax	75,049	94,947
Net Income	122,964	161,653
Shares outstanding	36,902	36,140
Earnings per share	$3.33	$4.47
Dividends per common share	$0.80	$0.82

Referring to the Molson Coors financial statements, what reason best explains the change in leverage between Year 1 and Year 2? 55) ______

A) Purchase of another company
B) A large dividend to common shareholders
C) Relaxation of the collection policy
D) An increase in goodwill
E) Large amount of capital expenditures in Year 2

Balance Sheet
CFM Majestic Inc.
Years 1 & 2 ($000,000s)

	Year 1	Year 2
Cash	29.2	21.2
A/R	108.2	122.6
Inventory	74.0	79.7

Total Current Assets	211.4	223.5
Fixed Assets, Net	81.6	94.1
Goodwill	159.6	184.5
Total Assets	452.6	502.1
Accounts Payable	46.4	50.5
Short-term Debt	23.0	27.0
Total Current Liabilities	69.4	77.5
Long Term Debt	125.8	128.5
Deferred income taxes	14.0	18.6
Equity		
Share Capital	148.9	151.8
Retained Earnings	94.5	125.7
Owners' Equity	243.4	277.5
Total Liabilities & Equity	452.6	502.1

56)

Income Statement
CFM Majestic Inc.
Years 1 & 2 ($000,000s)

	Year 1	Year 2
Sales	381.9	416.3
COGS	244.9	278.9
SG&A	59.7	63.8
Depreciation	13.8	15.4
R & D	5.3	4.3
EBIT	58.2	53.9
Interest Expense	7.3	7.9
Earnings before Income Tax	50.9	46.0
Income Taxes	17.3	14.8
Net Income	33.6	31.2

Referring to the CFM Majestic financial statements, did ROE rise or fall from Year 1 to Year 2? 56) ______

A) Fall B) Rise

57)

Income Statement
CFM Majestic Inc.
Years 1 & 2 ($000,000s)

	Year 1	Year 2
Sales	381.9	416.3
COGS	244.9	278.9
SG&A	59.7	63.8
Depreciation	13.8	15.4
R & D	5.3	4.3
EBIT	58.2	53.9
Interest Expense	7.3	7.9
Earnings before Income Tax	50.9	46.0
Income Taxes	17.3	14.8
Net Income	33.6	31.2

Referring to the CFM Majestic financial statements, what happened to ROA from Year 1 to Year 2? 57) ______

A) Decreased B) Increased C) Stayed the same

58)

Income Statement
CFM Majestic Inc.
Years 1 & 2 ($000,000s)

	Year 1	Year 2
Sales	381.9	416.3
COGS	244.9	278.9
SG&A	59.7	63.8
Depreciation	13.8	15.4
R & D	5.3	4.3
EBIT	58.2	53.9
Interest Expense	7.3	7.9
Earnings before Income Tax	50.9	46.0
Income Taxes	17.3	14.8
Net Income	33.6	31.2

Referring to the CFM Majestic financial statements, what is the change Equity Multiplier from Year 1 to Year 2? 58) ______

A) -0.05 B) 1.81 C) -1.86 D) 0.95 E) 1.86

59)

Income Statement
CFM Majestic Inc.
Years 1 & 2 ($000,000s)

	Year 1	Year 2
Sales	381.9	416.3
COGS	244.9	278.9
SG&A	59.7	63.8
Depreciation	13.8	15.4
R & D	5.3	4.3
EBIT	58.2	53.9
Interest Expense	7.3	7.9
Earnings before Income Tax	50.9	46.0
Income Taxes	17.3	14.8
Net Income	33.6	31.2

Referring to the CFM Majestic financial statements, which is the bigger or more important determinant of the change in ROE? 59) ______

A) The Equity Multiplier B) ROA

60)

Income Statement
CFM Majestic Inc.
Years 1 & 2 ($000,000s)

	Year 1	Year 2
Sales	381.9	416.3
COGS	244.9	278.9
SG&A	59.7	63.8
Depreciation	13.8	15.4
R & D	5.3	4.3

EBIT	58.2	53.9
Interest Expense	7.3	7.9
Earnings before Income Tax	50.9	46.0
Income Taxes	17.3	14.8
Net Income	33.6	31.2

Referring to the CFM Majestic financial statements, What is Net Profit Margin in Year 1? 60) ______

A) 6.6% B) 7.5% C) 8.8% D) 5.0% E) 9.1%

61)

Income Statement
CFM Majestic Inc.
Years 1 & 2 ($000,000s)

	Year 1	Year 2
Sales	381.9	416.3
COGS	244.9	278.9
SG&A	59.7	63.8
Depreciation	13.8	15.4
R & D	5.3	4.3
EBIT	58.2	53.9
Interest Expense	7.3	7.9
Earnings before Income Tax	50.9	46.0
Income Taxes	17.3	14.8
Net Income	33.6	31.2

Referring to the CFM Majestic financial statements, is the change between Year 1 and Year 2 in Total Asset Turnover important in explaining the change in ROA? 61) ______

A) Yes B) No

62)

Income Statement
CFM Majestic Inc.
Years 1 & 2 ($000,000s)

	Year 1	Year 2
Sales	381.9	416.3
COGS	244.9	278.9
SG&A	59.7	63.8
Depreciation	13.8	15.4
R & D	5.3	4.3
EBIT	58.2	53.9
Interest Expense	7.3	7.9
Earnings before Income Tax	50.9	46.0
Income Taxes	17.3	14.8
Net Income	33.6	31.2

Referring to the CFM Majestic financial statements, pick the most informative explanation for why ROA fell. 62) ______

A) ROA fell because Net Income grew more slowly than Total Assets.
B) ROA fell because the Equity Multiplier fell and because Cost of Goods Sold over Sales rose.
C) ROA fell because both gross margin fell and Selling, General & Admin expenses as a percentage of sales fell.

D) ROA fell because Total Asset Turnover fell.
E) ROA fell mainly because gross margin fell.

Tootsie Roll Industries, Inc. has been engaged in the manufacture and sale of candy since 1896. Its products are sold under the familiar brand names Tootsie Roll, Tootsie Roll Pops, Charms, Blow Pops, Cella's, Mason Dots and Mason Crows. Tootsie Roll operates four plants in Illinois, New York, Tennessee and Mexico. Tootsie Roll is traded on the New York Stock Exchange and maintains its head office in Chicago, Illinois.

Tootsie Roll's financial statements for Year 5 and Year 6 are provided below .

Tootsie Roll Industries Inc.
Balance Sheet
As of December 31, Year 6 ($000s)

	Year 6
Cash & marketable securities	36,758
Accounts receivable	16,207
Inventories	22,927
Prepaid expenses	2,037
Total Current Assets	77,929
Net Fixed Assets	32,099
Other assets	49,674
Total Assets	159,702
Accounts payable	8,253
Accrued liabilities	14,298
Total Current Liabilities	22,551
Long-term debt	7,306
Shareholders' Equity	
Common stock	6,698
Capital in excess of par	50,820
Retained earnings	72,327
Total Shareholders' Equity	129,845
Total Liabilities & Equity	159,702

63) **Tootsie Roll Industries Inc.**
Income Statement
As of December 31, Year 6 ($000s)

	Year 6
Net sales	194,299
COGS	103,205
SG&A	54,329
EBIT	36,765
Interest expense	612
Other income (expenses), net	966
Income before income taxes	37,119
Income taxes	14,563
Net Income	22,556
Total Cash dividends	12,316
Shares Outstanding	9,645
Average price per share (4th Q)	$36.50

Selected Financial Ratios

	Year 6	Industry Avg
Net Profit Margin		8.2%
Total Asset Turnover		1.64
ROA		13.4%
Equity Multiplier		1.42
ROE		19%

Referring to the financial statements for Tootsie Roll, what is the difference between the Industry and Tootsie for the net profit margin? (Tootsie - Industry) 63) ______

A) 8.2% B) 3.1% C) 3.4% D) 5.4% E) 11.6%

64) **Tootsie Roll Industries Inc.**
Income Statement
As of December 31, Year 6 ($000s)

	Year 6
Net sales	194,299
COGS	103,205
SG&A	54,329
EBIT	36,765
Interest expense	612
Other income (expenses), net	966
Income before income taxes	37,119
Income taxes	14,563
Net Income	22,556
Total Cash dividends	12,316
Shares Outstanding	9,645
Average price per share (4th Q)	$36.50

Selected Financial Ratios

	Year 6	Industry Avg
Net Profit Margin		8.2%
Total Asset Turnover		1.64
ROA		13.4%
Equity Multiplier		1.42
ROE		19%

Referring to the financial statements for Tootsie Roll, what is the difference between the Industry and Tootsie for total asset turnover? (Tootsie - Industry) 64) ______

A) -0.38 B) -0.34 C) -0.20 D) -0.25 E) -0.42

65) **Tootsie Roll Industries Inc.**
Income Statement
As of December 31, Year 6 ($000s)

	Year 6
Net sales	194,299
COGS	103,205
SG&A	54,329
EBIT	36,765
Interest expense	612

Other income (expenses), net	966
Income before income taxes	37,119
Income taxes	14,563
Net Income	22,556
Total Cash dividends	12,316
Shares Outstanding	9,645
Average price per share (4th Q)	$36.50

Selected Financial Ratios

	Year 6	Industry Avg
Net Profit Margin		8.2%
Total Asset Turnover		1.64
ROA		13.4%
Equity Multiplier		1.42
ROE		19%

Referring to the financial statements for Tootsie Roll, what is the difference between the Industry and Tootsie for return on assets (ROA)? (Tootsie - Industry) 65) ______

A) 0.72% B) -0.70% C) 14.00% D) 7.00% E) 1.72%

66) **Tootsie Roll Industries Inc.**

Income Statement

As of December 31, Year 6 ($000s)

	Year 6
Net sales	194,299
COGS	103,205
SG&A	54,329
EBIT	36,765
Interest expense	612
Other income (expenses), net	966
Income before income taxes	37,119
Income taxes	14,563
Net Income	22,556
Total Cash dividends	12,316
Shares Outstanding	9,645
Average price per share (4th Q)	$36.50

Selected Financial Ratios

	Year 6	Industry Avg
Net Profit Margin		8.2%
Total Asset Turnover		1.64
ROA		13.4%
Equity Multiplier		1.42
ROE		19%

Referring to the financial statements for Tootsie Roll, what is the difference between the Industry and Tootsie for the equity multiplier? (Tootsie - Industry) 66) ______

A) -0.19 B) -0.15C) -0.13D) -0.11 E) -0.17

67) **Tootsie Roll Industries Inc.**

Income Statement

As of December 31, Year 6 ($000s)

	Year 6
Net sales	194,299
COGS	103,205
SG&A	54,329
EBIT	36,765
Interest expense	612
Other income (expenses), net	966
Income before income taxes	37,119
Income taxes	14,563
Net Income	22,556
Total Cash dividends	12,316
Shares Outstanding	9,645
Average price per share (4th Q)	$36.50

Selected Financial Ratios

	Year 6	Industry Avg
Net Profit Margin		8.2%
Total Asset Turnover		1.64
ROA		13.4%
Equity Multiplier		1.42
ROE		19%

Referring to the financial statements for Tootsie Roll, what is the difference between the Industry and Tootsie for the return on equity? (Tootsie - Industry) 67) ______

A) -2.14% B) 2.14% C) -1.81% D) -1.63% E) -2.02%

68) **Tootsie Roll Industries Inc.**

Income Statement

As of December 31, Year 6 ($000s)

	Year 6
Net sales	194,299
COGS	103,205
SG&A	54,329
EBIT	36,765
Interest expense	612
Other income (expenses), net	966
Income before income taxes	37,119
Income taxes	14,563
Net Income	22,556
Total Cash dividends	12,316
Shares Outstanding	9,645
Average price per share (4th Q)	$36.50

Selected Financial Ratios

	Year 6	Industry Avg
Net Profit Margin		8.2%
Total Asset Turnover		1.64

ROA		13.4%
Equity Multiplier		1.42
ROE		19%

Referring to the financial statements for Tootsie Roll and based on the Du Pont analysis, what main reasons explain the difference(s) between Tootsie's ROE and the industry average ROE?
I. Tootsie does not have enough leverage.
II. Tootsie has more leverage than the industry.
III. Tootsie manages their assets poorly - low total asset turnover.
IV. Tootsie manages their assets poorly - high total asset turnover. 68) ______

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

69) **Tootsie Roll Industries Inc.**
Income Statement
As of December 31, Year 6 ($000s)

	Year 6
Net sales	194,299
COGS	103,205
SG&A	54,329
EBIT	36,765
Interest expense	612
Other income (expenses), net	966
Income before income taxes	37,119
Income taxes	14,563
Net Income	22,556
Total Cash dividends	12,316
Shares Outstanding	9,645
Average price per share (4th Q)	$36.50

Selected Financial Ratios

	Year 6	Industry Avg
Net Profit Margin		8.2%
Total Asset Turnover		1.64
ROA		13.4%
Equity Multiplier		1.42
ROE		19%

Referring to the financial statements for Tootsie Roll, what amount of leverage (i.e. debt-to-equity) would Tootsie need to make its year Year 6 return on equity equal (ROE) to the industry average ROE? (Round to initial ratios to nearest percentage.) 69) ______

A) 0.9200 B) 1.4200 C) 0.3456 D) 1.1333 E) 1.7632

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.
70) All else held constant, an increase in leverage should increase the ROE. 70) ______

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

51) D
52) C
53) C
54) C
55) A
56) A
57) A
58) A
59) B
60) C
61) B
62) E
63) C
64) E
65) A
66) A
67) D
68) E
69) C
70) TRUE