Quiz

1. A common-size income statement expresses all accounts as a percentage of:

A. sales.
B. EBIT.
C. EBIT plus depreciation.
D. taxable income.
E. net income.

2. Common-size statements are designed to primarily address the problems encountered when comparing firms of varying:

A. sizes.
B. industries.
C. geographic locations.
D. accounting standards.
E. management structures.

3. A common-size balance sheet expresses accounts as a percentage of:

A. current assets.
B. fixed assets.
C. total assets.
D. total liabilities.
E. total equity.

4. Iowa Farm Machine Sales has current assets of $368,450, net fixed assets of $1.23 million, and total liabilities of $674,230. On a common-size balance sheet, current assets will be expressed as _____ percent.

A. 23.1
B. 0
C. 3
D. 8
E. 9

5. The net income as shown on the common-size income statement for the past three years for Connor and Company is 6.3 percent, 6.9 percent, and 7.1 percent, respectively. This indicates that the firm is:

A. increasing in size.
B. improving its profit per sales dollar.
C. increasing its total profits.
D. increasing its profits at the same rate as its sales growth.
E. paying less in taxes.

6. Avalon Manufacturing has a cost of goods sold of $680,130 and a net income of $41,409 on total sales of $1,211,407. Total assets are $981,500. A common-size income statement will show cost of goods sold of _____ percent and a net profit of _____ percent.

A. 56.1; 3.4
B. 1; 3.9
C. 1; 4.2
D. 3; 3.9

E. 31; 4.2

7. Which one of the following statements concerning the current ratio is correct?

A. Using book values to compute the current ratio is unacceptable because the market values of the current assets tend to deviate significantly from the book values.
B. The current ratio is computed by dividing current liabilities by current assets.
C. **The current ratio will always be greater than the quick ratio in companies that carry inventory**.
D. The current ratio measures the long-run liquidity position of a firm.
E. The higher the current ratio, the more cash a firm has on hand.

8. The _____ is a liquidity ratio.

A. return on assets
B. total asset turnover
C. cash ratio
D. times interest earned ratio
E. profit margin

9. _____ ratios are designed to determine a firm's long-run ability to meet its obligations.

A. Liquidity
B. Asset turnover
C. Profitability
D. Financial leverage
E. Market value

10. The total asset turnover ratio measures the:

A. ability of the combined assets of a firm to generate sales.
B. length of time it takes a firm to completely replace its fixed assets.
C. amount of net income a firm generates per dollar of total assets.
D. operating income per dollar of assets owned by a firm.
E. amount of sales each dollar of fixed assets generates.