31 ANALYZING BALANCE SHEETS

1. An analyst has gathered the following information about a company:

Balance Sheet	
Asset	
Cash	100
Accounts Receivable	750
Marketable Securities	300
Inventory	850
Property, Plant & Equip	900
Accumulated Depreciation	(150)
Total Assets	2750
Liabilities and Equity	
Accounts Payable	300
Short-Term Debt	130
Long-Term Debt	700
Common Stock	1000
Retained Earnings	620

Income Statement	
Sales	1500
COGS	1100
Gross Profit	400
SG&A	150
Operating Profit	250
Interest Expense	25
Taxes	75
Net Income	150

What is the quick ratio?

(A) 0.62.

(B) 1.53.

(C) 2.67.

2. Selected balance sheet data for Parker Company are as follows:

Current assets	3,000
Long-lived assets	7,000
Total assets	10,000
Current liabilities	2,000
Long-term liabilities	4,000
Total liabilities	6,000
Shareholders' equity	4,000

On a common-size balance sheet, Parker's current liabilities would be stated as:

(A) 33%.

(B) 67%.

(C) 20%.

3. Under U.S. GAAP, the balance sheet value of a debt security classified as held-to-aturity is its:

(A) historical cost.

(B) amortized cost.

(C) fair value.

4. A U.S. GAAP reporting firm invests some of its cash in equity securities that have quoted market prices. The firm may classify these securities as:

(A) trading securities only.

(B) available-for-sale securities only.

(C) trading securities, unless it elects at the time of purchase to classify them as available-for-sale.

5. In Country Norlatia, revenue is recognized in the income statement when a sale is made. Which of the following tax treatments would most likely result in a deferred tax liability?

(A) Revenue is taxable when a sale is made.

(B) Revenue is not taxable.

(C) Revenue is taxable when the cash is received from the customer.

6. The U.S. GAAP treatment of trading securities is the same as the IFRS treatment of securities measured at:

(A) amortized cost.

(B) fair value through profit and loss.

(C) fair value through other comprehensive income.

7. Under IFRS, which types of financial assets may a firm elect to carry at fair value through profit and loss?
   (A) Any financial asset.
   (B) Debt instruments only.
   (C) Equity or debt securities, but not derivatives.

8. Balance sheet goodwill is most accurately described as the:
   (A) amount by which the purchase price of an acquired firm exceeds its identifiable net assets.
   (B) intangible value a firm creates in excess of its identifiable net assets.
   (C) value derived from the expected future performance of a firm.

9. James Alexander, Inc., paid par of $220,000 for 5% coupon bonds in Charles Michael, Inc. By the end of the accounting period, the fair value of the bonds was $212,000. The firm plans to hold these bonds for a few years but sell them before maturity. What will be the most likely impact on net income at the end of the first year?
   (A) Net income will be unaffected.
   (B) Net income will decrease.
   (C) Net income will increase.

10. Which of the following scenarios would most likely result in the greatest goodwill recognized on the balance sheet?
    (A) Building up Brand Y internally, with estimated goodwill of $95,000.
    (B) Acquiring Firm X for $500,000, with goodwill calculated at $90,000.
    (C) Purchasing Company Z for $700,000, where the fair value of the net identifiable assets is $800,000.

11. A segment of a common-size balance sheet for Olsen Company in its most recent year shows the following data:

Common stock	1%
Additional paid-in capital	19%
Preferred stock	15%

    How should an analyst most appropriately interpret these data?
    (A) Shareholders' equity is 35% of total assets.
    (B) Preferred stock is 15% of shareholders' equity.
    (C) Proceeds from the issuance of common stock are 20% of total assets.

12. If a firm wishes to manipulate its net income upward in the year it purchases another company, which of the following would most likely make this possible?
    (A) Overvaluing goodwill and overvaluing the acquired identifiable assets.
    (B) Overvaluing goodwill and undervaluing the acquired identifiable assets.
    (C) Undervaluing goodwill and overvaluing the acquired identifiable assets.

13. Given the following income statement and balance sheet for a company:

Balance Sheet		
Asset	Year 2003	Year 2003
Cash	500	450
Accounts Receivable	600	660
Inventory	500	550
Total CA	1600	1660
Plant, Pro.equip	1000	1250
Total Assets	2600	2910
Liabilities		
Accounts Payable	500	550
Long -Term Debt	700	1002
Total Liabilities	1200	1552
Equity		
Common Stock	400	538
Retained Earnings	1000	820
Total Liabilities & Equity	2600	2910

Income Statement	
Sales	3000
COGS	(1000)
Gross Profit	2000
SG&A	(500)
Interest Expense	(151)
EBT	1349
Taxes (30%)	(405)
Net Income	944

What is the current ratio for 2004?

(A) 0.331.

(B) 2.018.

(C) 3.018.

14. Interest income from a financial asset is recorded on the income statement if the underlying financial asset is recognized as:

(A) trading only.

(B) held to maturity, trading, or available for sale.

(C) trading or available for sale.

15. Anne is trying to classify some financial assets under IFRS and states the following:

Statement1: Unlisted equity securities are always measured at amortized cost.

Statement 2: Listed equity securities are always measured at fair value through profit and loss.

Which of these statements is most likely correct?

(A) Statement 2 only.

(B) Neither Statement 1 nor Statement 2.

(C) Statement 1 only.

16. The following data is from Delta's common size financial statement:

Earnings after taxes	18%
Equity	40%
Current assets	60%
Current liabilities	30%
Sales	$300
Total assets	$1,400

What is Delta's total-liabilities-to-equity ratio?

(A) 1.0.

(B) 1.5.

(C) 2.0.

17. Which of the following is classified as an identifiable intangible asset?

(A) Goodwill.

(B) A security investment.

(C) A trademark.

18. A firm holds the following:

1. Derivative assets
2. Debt securities to be sold in the immediate future
3. Debt securities to be held until maturity

How many of these can be measured at fair value through profit or loss (FVTPL)?

(A) Two under both U.S. GAAP and IFRS.

(B) Two under IFRS, and all three under U.S. GAAP.

(C) Two under U.S. GAAP, and all three under IFRS.

19. A company purchases an intangible asset for which an active market exists. The company may present the intangible asset's value using the revaluation model if it reports its financial statements under:

(A) neither IFRS nor U.S. GAAP.

(B) either IFRS or U.S. GAAP.

(C) IFRS, but not U.S. GAAP.

20. Under U.S. GAAP, unrealized gains and losses on trading securities are:
    (A) not recognized in the financial statements.
    (B) recognized in other comprehensive income.
    (C) recognized in the income statement.

21. Adler, Inc., purchases an identifiable intangible asset on January 1, 20X7, for $100k. The firm's policy is to amortize similar intangible assets on a straight-line basis over five years, based on their useful life. The fair value of the intangible asset on December 13, 20X7, is $83,000. The asset will be recorded on the balance sheet at December 13, 20X7, under U.S. GAAP at:
    (A) $ 80,000.
    (B) $ 83,000.
    (C) $100,000.

22. Heath Ltd., a pharmaceutical firm, has been working on a new vaccine. At the beginning of the year, the firm incurred £780,000 in initial testing costs, which proved that the vaccine is technically feasible. The firm now plans to commence production and has secured a contract with the government for sales. It expects to spend £95,000 in training costs, £530,000 in materials and direct labor, and £260,000 in production overhead. Under IFRS, how much should be expensed?
    (A) £1,135,000.
    (B) £780,000.
    (C) £875,000.

23. Typically, companies report non-current liabilities on the balance sheet at:
    (A) issuance price.
    (B) amortized cost.
    (C) fair value.

24. When comparing firms, which of the following is the most accurate approach to adjusting goodwill to enable analysis?
    (A) Remove goodwill from the balance sheet and remove any income statement impact.
    (B) Remove goodwill from the balance sheet only, as goodwill does not impact the income statement.
    (C) No adjustments should be made to either the balance sheet or income statement.

25. Balance sheet data for two comparable firms are presented below:

	Amplus, Inc.	Brevis, Inc.
Cash and equivalents	3,800	500
Accounts receivable	2,400	700
Inventories	5,800	1,100
Current assets	12,000	2,3000
Land	400	100
Property, plant and equipment	24,600	6,400
Noncurrent assets	25,000	6,500
Total assets	**37,000**	**8,800**
Accounts payable	1,800	400
Unearned revenue	600	100
Current liabilities	2,400	500
Long-term borrowing	9,600	3,300
Total liabilities	12,000	3,800
Common stock	1,500	300
Retained earnings	23,500	4,700
Total equity	25,000	5,000
Total liabilities and equity	37,000	8,800

Based on common-size analysis of the two firms' balance sheets, Amplus Company:

(A) has a greater investment in working capital than Brevis Company.

(B) is more financially leveraged than Brevis Company.

(C) uses relatively more fixed assets then Brevis Company.

26. Under U.S. GAAP, unrealized gains and losses on available-for-sale securities are:

(A) recognized in the income statement.

(B) not recognized in the financial statements.

(C) recognized in other comprehensive income.

27. Which of the following is most accurate regarding accounting goodwill?

(A) The carrying value considers both the past acquisition cost and the future expected performance.

(B) The carrying value considers only the past acquisition cost.

(C) The carrying value considers only the future expected performance.

28. The amortization of a bond issued at a premium will most likely result in:
    (A) an increase in net income.
    (B) a decrease in net income.
    (C) no impact on net income.

29. Which of the following financial liabilities will most likely be held at fair value on the balance sheet?
    (A) Derivatives.
    (B) Bonds.
    (C) Bank loans.

30. Common size balance sheets express all balance sheet items as a percentage of:
    (A) equity.
    (B) sales.
    (C) assets.