Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

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TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) Statement of financial position is best described as a financial statement summarizing a firm's performance over a period of time. Formerly called the income statement.
Answer: True ✓ False

2) If an asset has a carrying value of $1,000 and its recoverable amount is $750, then a $250 impairment loss has been incurred.
Answer: ✓ True False

3) If an asset has a carrying value of $2,000 and its recoverable amount is $2,500, then $500 impairment loss has been incurred.
Answer: True ✓ False

4) Impairment loss is the amount by which the carrying value of an asset or cash-generating unit exceeds its recoverable amount.
Answer: ✓ True False

5) According to generally accepted accounting principles (GAAP), assets are generally shown on financial statements at the higher of current market value or historical cost.
Answer: True ✓ False

6) A fundamental difference between Canadian GAAP and IFRS is that fair value accounting plays a more important role under IFRS.
Answer: ✓ True False

7) The financial statement summarizing the value of a firm's equity on a particular date is the statement of comprehensive income.
Answer: True ✓ False

8) Patents on new anti-cholesterol drug are considered intangible fixed assets.
Answer: ✓ True False

9) The difference between a firm's current assets and its current liabilities is called net working capital.
Answer: ✓ True False

10) Statement of comprehensive income is also referred to as the balance sheet, is a snapshot of the firm. It is a convenient means of organizing and summarizing what a firm owns (its assets), what a firm owes (its liabilities), and the difference between the two (the firm's equity) at a given time.
Answer: True ✓ False

11) Net income divided by the total number of outstanding shares is referred to as the profit margin.
Answer: True ✓ False

12) Non-cash items refer to expenses charged against revenues that do not directly affect cash flow.
Answer: ✓ True False

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13) If a firm's cash flow to stockholders is negative, then total dividends must have exceeded the value of net new equity sold by the firm during the year.

Answer: True ✓ False

14) A firm's marginal tax rate may differ from its average tax rate. However, it is the average tax rate that is relevant for financial decision-making purposes.

Answer: True ✓ False

15) The financial statement summarizing a firm's performance over a period of time is the statement of cash flows

Answer: True ✓ False

16) Conceptually, capital cost allowance (CCA) is equivalent to depreciation.

Answer: ✓ True False

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

17) JanexCorporation had OCF of $250, net capital spending of $500 and change in net working capital of $150. Given this information, determine its cash flow from assets.

A) $(400) B) $(800) C) $150 D) $800 E) $400

Answer: A

18) Shareholders' equity in a firm is $500. The firm owes a total of $400 of which 75 percent is payable this year. The firm has net fixed assets of $600. What is the amount of the net working capital?

A) -$100 B) $0 C) -$200 D) $200 E) $100

Answer: B

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19)

Nabors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Nabors, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$310	$405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the amount of net new borrowing for 2015 ($ in millions)?

A) $0 B) -$225 C) $25 D) $225 E) -$25

Answer: D

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20)

Knickerdoodles, Inc.

	2014	2015
Sales	$ 740	$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

What is net capital spending for 2015?

A) $477 B) -$250 C) $0 D) $57 E) -$57

Answer: E

21) RDJ Manufacturing had 300 million shares of stock outstanding at the end of 2015. During 2015, the company reported net income of $600 million, retained earnings of $900 million, and $240 million in dividends paid. What is RDJ's earnings per share?

A) $0.80 B) $0.50 C) $2.00 D) $0.67 E) $1.25

Answer: C

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22)

	2015
Cost of goods sold	$3,210
Interest	215
Dividends	160
Depreciation	375
Change in retained earnings	360
Tax rate	35%

What is the operating cash flow for 2015?

A) $1,015 B) $1,110 C) $800 D) $520 E) $1,390

Answer: B

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23)

Nabors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Nabors, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
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Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the amount of the net capital spending for 2015 ($ in millions)?

A) $795 B) -$290 C) $1,660 D) $1,080 E) $2,165

Answer: D

24) Martha's Enterprises spent $2,400 to purchase equipment three years ago. This equipment is currently valued at $1,800 on today's statement of financial position but could actually be sold for $2,000. Net working capital is $200 and long-term debt is $800. What is the book value of shareholders' equity?

A) $1,400
B) $200
C) $800
D) $1,200
E) The answer cannot be determined from the information provided.

Answer: D

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25)

KLM, Inc.

2015 Statement of comprehensive income

Net sales	$3,685
Cost of goods sold	$3,180
Depreciation	$104
Earnings before interest and taxes	$401
Interest paid	$25
Taxable income	$376
Taxes	$128
Net income	$248
Dividends paid	$60
Addition to retained earnings	$188

KLM, Inc.

Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 520	$ 601	Accounts payable	$ 621	$ 704
Accounts rec.	$ 235	$ 219	Notes payable	$ 333	$ 272
Inventory	$ 964	$ 799	Current liabilities	$ 954	$ 976
Current assets	$1,719	$1,619	Long-term debt	$ 350	$ 60
Net fixed assets	$ 890	$ 930	Common stock	$ 800	$ 820
			Retained earnings	$ 505	$ 693
Total assets	$2,609	$2,549	Total liabilities and Owner's equity	$2,609	$2,549

What is the cash flow from assets for 2015?

A) $1,307 B) $2,259 C) $2,503 D) $355 E) $111

Answer: D

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26)

Nabors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Nabors, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$310	$405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the change in the net working capital from 2014 to 2015 ($ in millions)?

A) $1,335 B) $3,405 C) $1,035 D) $1,235 E) $4,740

Answer: A

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27)

Nabors, Inc.
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Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

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($ in millions)

	2014	2015		2014	2015
Cash	$310	$405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the cash flow from assets for 2015 ($ in millions)?

A) $2,590 B) $1,340 C) $3,100 D) $430 E) $485

Answer: D

28) Dale Corporation had beginning fixed assets of $3,500 an ending fixed asset balance of $4,800 invested and depreciation expense of $200. Given this information, determine the net investment in fixed assets.

A) $1,300 B) $1,200 C) $1,600 D) $1,500 E) $1,400

Answer: D

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29)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015		2014	2015
Cash	415	560	Accounts payable	540	610
Accounts receivable	860	840	Current portion of LTD	0	50
Inventory	1,270	1,390	Total	540	660
Total	2,545	2,790	Long-term debt	2165	3480
Net fixed assets	3,180	4,660	Common stock	2000	2250
			Retained earnings	1020	1060
Total assets	**5,725**	**7,450**	Total liab & equity	**5725**	**7450**

What is the amount of the net capital spending for 2015 ($ in millions)?

A) $1,480 B) $620 C) $1,860 D) $2,340 E) $240

Answer: D

30) The Burger Joint paid $420 in dividends and $611 in interest expense. The addition to retained earnings is $397.74 and net new equity is $750. The tax rate is 34 percent. Sales are $6,250 and depreciation is $710. What are the earnings before interest and taxes?

A) $1,582.16 B) $1,576.67 C) $1,850.00 D) $1,660.00 E) $1,780.82

Answer: C

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31)

RST, Inc.
2015 Statement of comprehensive income

Net sales	$8,769
Cost of goods sold	$6,128
Depreciation	$1,364
Earnings before interest and taxes	$1,277
Interest paid	$730
Taxable income	$547
Taxes	$186
Net income	$361
Dividends paid	$?
Addition to retained earnings	$?

RST, Inc.
Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$1,423	$965	Accounts payable	$1,007	$2,251
Accounts rec.	$2,196	$2,894	Notes payable	$2,100	$1,850
Inventory	$1,543	$1,650	Total	$3,107	$4,101
Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

What is the operating cash flow for the year 2015?

A) $1,725 B) $361 C) $2,455 D) $995 E) $1,911

Answer: C

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32)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015		2014	2015
Cash	415	560	Accounts payable	540	610
Accounts receivable	860	840	Current portion of LTD	0	50
Inventory	1,270	1,390	Total	540	660
Total	2,545	2,790	Long-term debt	2165	3480
Net fixed assets	3,180	4,660	Common stock	2000	2250
			Retained earnings	1020	1060
Total assets	**5,725**	**7,450**	Total liab & equity	**5725**	**7450**

What is the operating cash flow for 2015 ($ in millions)?

A) $1,830 B) $1,560 C) $1,060 D) $1,960 E) $1,920

Answer: A

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33)

RST, Inc.
2015 Statement of comprehensive income

Net sales	$8,769
Cost of goods sold	$6,128
Depreciation	$1,364
Earnings before interest and taxes	$1,277
Interest paid	$730
Taxable income	$547
Taxes	$186
Net income	$361
Dividends paid	$?
Addition to retained earnings	$?

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Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

What is the cash flow to stockholders for 2015?

A) $2,160 B) -$1,840 C) $2,320 D) -$2,160 E) $1,840

Answer: B

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34)

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Depreciation	$1,364
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Taxable income	$547
Taxes	$186
Net income	$361
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Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

If there are 250 shares of stock outstanding, what is the amount of the earnings per share?

A) $1.44 B) $0.80 C) $1.21 D) $2.19 E) $0.64

Answer: A

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35)

Kuipers, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	*$1,384*
Less: Cost of goods sold	*605*
Less: Depreciation	*180*
Earnings before interest and taxes	*599*
Less: Interest paid	*80*
Taxable income	*519*
Less: Taxes	*156*
Net income	*$363*
Addition to retained earnings	*$254*
Dividends paid	*109*

Kuipers, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$ 100	$ 121	Accounts payable	$ 400	$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	$ 790	$ 720
Total	$ 890	$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	$2,446	$2,660	Total liabilities	$2,446	$2,660

If the firm has 180 million shares of stock outstanding, what is the firm's 2015 earnings per share?

A) $1.41 B) $2.02 C) $0.50 D) $1.83 E) $0.61

Answer: B

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36)

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			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	$2,446	$2,660	Total liabilities	$2,446	$2,660

If the firm has 180 million shares of stock outstanding, what is the firm's 2015 dividends per share?

A) $0.50 B) $1.83 C) $2.02 D) $1.41 E) $0.61

Answer: E

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Earnings before interest and taxes	$1,277
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Taxes	$186
Net income	$361
Dividends paid	$?
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Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

If there are 100 shares of stock outstanding, what is the amount of the dividends paid per share?
A) $2.01 B) $1.60 C) $1.48 D) $3.61 E) $1.86
Answer: B

38) Marla's Homemade Cookies has net income of $1,280. During the year, the company sold $50 worth of common stock and paid dividends of $40. What is the amount of the cash flow to stockholders?
A) $10 B) $90 C) -$90 D) -$10 E) $40
Answer: D

39) Pete's Boats has beginning long-term debt of $180 and ending long-term debt of $210. The beginning and ending total debt balances are $340 and $360, respectively. The interest paid is $20. What is the amount of the cash flow to creditors?
A) $10 B) $50 C) $40 D) $0 E) -$10
Answer: E

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40) Calculate EBIT given the following information: Cash flow from assets = $24,500; operating cash flow = $8,500; depreciation = $1,000; taxes = $2,500; capital spending = ($14,000); change in net working capital = ($2,000).

A) $12,000 B) $9,000 C) $8,000 D) $10,000 E) $11,000

Answer: D

41) A Quebec resident earned $20,000 in interest income and $10,000 in capital gains. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $11,493 B) $9,493 C) $10,493 D) $8,493 E) $12,493

Answer: E

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42) A New Brunswick resident earned $20,000 in interest income and $10,000 in capital gains. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $12,710 B) $8,710 C) $10,710 D) $9,710 E) $11,710

Answer: E

43) Given the following statement of financial position data, calculate net working capital: cash = $110, accounts receivable = $410, inventory = $350, net fixed assets = $1,000, accounts payable = $60, short-term debt = $375, and long-term debt = $510.

A) -$590 B) $535 C) $100 D) $435 E) $0

Answer: D

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44)

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Less: Depreciation	*180*
Earnings before interest and taxes	*599*
Less: Interest paid	*80*
Taxable income	*519*
Less: Taxes	*156*
Net income	*$363*
Addition to retained earnings	*$254*
Dividends paid	*109*

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2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$ 100	$ 121	Accounts payable	$ 400	$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	$ 790	$ 720
Total	$ 890	$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	$2,446	$2,660	Total liabilities	$2,446	$2,660

What is the firm's cash flow to creditors for 2015 ($ in millions)?

A) $47 B) $146 C) $100 D) $130 E) $30

Answer: E

45) Mylexhas current assets of $95, net fixed assets of $250, long-term debt of $40, and owners' equity of $200, what is the value of current liabilities if that is the only other item on the statement of financial position?

A) $545 B) $145 C) -$50 D) $50 E) $105

Answer: E

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46) Cantrell Industries spent $386,000 to purchase equipment three years ago. This equipment is currently valued at $276,000 on today's statement of financial position but could actually be sold for $298,000. Net working capital is $56,000 and long-term debt is $171,000. What is the book value of shareholders' equity?

A) $71,000 B) $105,000 C) $161,000 D) $183,000 E) $49,000

Answer: C

47) A Prince Edward Island resident earned $20,000 in interest income and $10,000 in capital gains. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $13,843 B) $12,843 C) $10,843 D) $9,843 E) $11,843

Answer: E

48)

Taxable income		Tax Rate
$ 0	$ 50,000	15%
$ 50,001	$ 75,000	25%
$ 75,001	$ 100,000	34%
$100,001	$ 335,000	39%
$335,001	$10,000,000	34%

The total tax on an income of $289,600 is:

A) $128,544 B) $96,194 C) $113,900 D) $112,944 E) $89,544

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

49) At the start of the year, Gershon, Inc. had total shareholders' equity = $12,000. If net income during the year was a $200 loss, dividends paid = $400, and $1,000 was raised from the sale of new stock, what is the end of year value for total shareholders' equity?

A) $12,400 B) $13,200 C) $11,800 D) $10,060 E) $12,800

Answer: A

50) BassiCorporation had a beginning and ending fixed asset balance of $400 and $650 respectively. During the year its net capital spending was $330. Given this information, determine the company's depreciation expense.

A) $160 B) $120 C) $140 D) $80 E) $100

Answer: D

51)

KLM, Inc.

2015 Statement of comprehensive income

Net sales	$3,685
Cost of goods sold	$3,180
Depreciation	$104
Earnings before interest and taxes	$401
Interest paid	$25
Taxable income	$376
Taxes	$128
Net income	$248
Dividends paid	$60
Addition to retained earnings	$188

KLM, Inc.

Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 520	$ 601	Accounts payable	$ 621	$ 704
Accounts rec.	$ 235	$ 219	Notes payable	$ 333	$ 272
Inventory	$ 964	$ 799	Current liabilities	$ 954	$ 976
Current assets	$1,719	$1,619	Long-term debt	$ 350	$ 60
Net fixed assets	$ 890	$ 930	Common stock	$ 800	$ 820
			Retained earnings	$ 505	$ 693
Total assets	$2,609	$2,549	Total liabilities and Owner's equity	$2,609	$2,549

What is the change in net working capital for 2015?

A) $765 B) $643 C) -$122 D) -$643 E) $122

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

52)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015		2014	2015
Cash	415	560	Accounts payable	540	610
Accounts receivable	860	840	Current portion of LTD	0	50
Inventory	1,270	1,390	Total	540	660
Total	2,545	2,790	Long-term debt	2165	3480
Net fixed assets	3,180	4,660	Common stock	2000	2250
			Retained earnings	1020	1060
Total assets	**5,725**	**7,450**	Total liab & equity	**5725**	**7450**

What is the change in the net working capital from 2014 to 2015 ($ in millions)?

A) $2,005 B) $75 C) -$40 D) $125 E) $2,140

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

53)

Taxable income	*Tax rate*
$0 –$ 50,000	*15%*
$50,001 – $ 75,000	*25%*
$75,001 – $100,000	*34%*
$100,001 – $335,000	*39%*
$335,001 – $10,000,000	*34%*
$10,000,001 – $15,000,000	*35%*
$15,000,001 – $18,333,333	*38%*
$18,333,334 and above_35%	

If a firm has taxable income = $74,000, how much will it pay in taxes?

A) $13,500 B) $16,750 C) $11,750 D) $18,500 E) $10,050

Answer: A

54) A Nova Scotia resident earned $20,000 in interest income and $10,000 in capital gains. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $13,000 B) $12,500 C) $14,500 D) $14,000 E) $13,500

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

55)

Knickerdoodles, Inc.

	2014	2015
Sales	$ 740	$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

What is the cash flow to creditors for 2015?

A) $205 B) -$170 C) $170 D) $135 E) -$35

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

56) An Alberta resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $14,105 B) $15,105 C) $14,658 D) $13,658 E) $13,105

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

57)

Kuipers, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	*$1,384*
Less: Cost of goods sold	*605*
Less: Depreciation	*180*
Earnings before interest and taxes	*599*
Less: Interest paid	*80*
Taxable income	*519*
Less: Taxes	*156*
Net income	*$363*
Addition to retained earnings	*$254*
Dividends paid	*109*

Kuipers, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$ 100	$ 121	Accounts payable	$ 400	$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	$ 790	$ 720
Total	$ 890	$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	$2,446	$2,660	Total liabilities	$2,446	$2,660

What is the firm's net capital spending for 2015 ($ in millions)?
A) -$32 B) $32 C) $447 D) $148 E) $328
Answer: E

58) The Row Boat Cafe has operating cash flow of $36,407. Depreciation is $4,609 and interest paid is $1,105. A net total of $3,780 was paid on long-term debt. The firm spent $18,000 on fixed assets and increased net working capital by $3,247. What is the amount of the cash flow to stockholders?
A) $15,160 B) $20,045 C) $12,933 D) $10,275 E) $19,998
Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

59) A firm has common stock of $5,500, paid-in surplus of $8,200, total liabilities of $6,600, current assets of $7,200, and fixed assets of $16,900. What is the amount of the shareholders' equity?

A) $10,300 B) $17,500 C) $15,600 D) $13,700 E) $20,300

Answer: B

60) A $40,000 asset was purchased and classified as a Class 10 asset for CCA purposes. If the CCA rate is 30%, calculate UCC for the end of year 3.

A) $15,800 B) $16,660 C) $19,200 D) $17,400 E) $18,300

Answer: B

61) An Ontario resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $19,470 B) $16,470 C) $18,470 D) $17,470 E) $15,470

Answer: A

62) Blaze Corporation had OCF of $400, change in net working capital of 300 and cash flow from assets of $320. Given this information, calculate its net capital spending.

A) $(220) B) $220 C) $170 D) $150 E) $(170)

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

63)

Master Machines, Inc.

	2014	2015
Sales	$1,240	$1,385
COGS	820	910
Interest	25	20
Dividends	25.50	25.90
Depreciation	270	240
Cash	110	95
Accounts receivable	145	165
Current liabilities	380	469
Inventory	410	440
Long term debt	300	320
Net fixed assets	620	660
Common stock	500	350
Tax rate		34%

What is the cash flow to stockholders for 2015?

A) $171.10 B) $173.60 C) $175.90 D) $124.40 E) $168.80

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

64)

OPQ, Inc.

2015 statement of comprehensive income

Net sales	$8,953
Cost of goods sold	$5,865
Depreciation	$?
EBIT	$?
Interest paid	$675
Earnings before taxes	$?
Taxes	$400
Net income	$705
Dividends paid	$?
Addition to retained earnings	$450

OPQ, Inc.

Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 725	$ 1,135	Accounts payable	$ 859	$1,031
Accounts rec.	$ 2,330	$?	Notes payable	$?	$4,020
Inventory	$ 3,240	$ 5,202	Current liabilities	$?	$?
Current assets	$?	$?	Long-term debt	$9,250	$9,750
Net fixed assets	$?	$ 9,211	Common stock	$ 250	$?
			Retained earnings	$?	$2,797
Total assets	$16,083	$17,848	Total liab. & equity	$?	$?

The cash flow to creditors for 2015 is _____ while the cash flow to stockholders for 2015 is _____.

A) $175; $450
B) $175; $255
C) -$175; $255
D) -$640; $705
E) $640; $450

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

65) A Saskatchewan resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $18,073 B) $17,973 C) $19,073 D) $17,073 E) $18,973

Answer: D

66) If provincial tax rates are 16% on the first $40,100; 20% on the next $40,100; and 24% on any income after that. If a resident had income of $95,000 then determine the total tax paid.

A) $20,328 B) $19,398 C) $16,228 D) $18,288 E) $17,988

Answer: E

67) Amy's Dress Shoppe has sales of $421,000 with costs of $342,000. Interest expense is $18,000 and depreciation is $33,000. The tax rate is 34 percent. What is the net income?

A) $9,520 B) $52,140 C) $12,420 D) $30,360 E) $18,480

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

68) A British Columbia resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $17,624 B) $19,206 C) $19,759 D) $18,264 E) $18,808

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

69)

Kuipers, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	*$1,384*
Less: Cost of goods sold	*605*
Less: Depreciation	*180*
Earnings before interest and taxes	*599*
Less: Interest paid	*80*
Taxable income	*519*
Less: Taxes	*156*
Net income	*$363*
Addition to retained earnings	*$254*
Dividends paid	*109*

Kuipers, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$ 100	$ 121	Accounts payable	$ 400	$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	$ 790	$ 720
Total	$ 890	$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	$2,446	$2,660	Total liabilities	$2,446	$2,660

What is the firm's cash flow to stockholders for 2015 ($ in millions)?

A) $89 B) $363 C) $129 D) $383 E) $188

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

70) A Manitoba resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $18,191 B) $17,191 C) $19,191 D) $20,191 E) $21,191

Answer: C

71) If total assets = $550, fixed assets = $375, current liabilities = $140, equity = $265, long-term debt = $145, and current assets is the only remaining item on the statement of financial position, what is the value of net working capital?

A) $265 B) $35 C) $190 D) $230 E) -$265

Answer: B

72) Toby's Pizza has total sales of $987,611 and costs of $724,268. Depreciation is $39,740 and the tax rate is 34 percent. The firm does not have any interest expense. What is the operating cash flow?

A) $191,417.06
B) $223,603.00
C) $213,008.14
D) $147,577.98
E) $187,317.98

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

73)

Kuipers, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	*$1,384*
Less: Cost of goods sold	*605*
Less: Depreciation	*180*
Earnings before interest and taxes	*599*
Less: Interest paid	*80*
Taxable income	*519*
Less: Taxes	*156*
Net income	*$363*
Addition to retained earnings	*$254*
Dividends paid	*109*

Kuipers, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$ 100	$ 121	Accounts payable	$ 400	$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	$ 790	$ 720
Total	$ 890	$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	$2,446	$2,660	Total liabilities	$2,446	$2,660

What is the firm's cash flow from assets for 2015 ($ in millions)?

A) $159 B) $21 C) $197 D) $1,087 E) $431

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

74)

RST, Inc.
2015 Statement of comprehensive income

Net sales	$8,769
Cost of goods sold	$6,128
Depreciation	$1,364
Earnings before interest and taxes	$1,277
Interest paid	$730
Taxable income	$547
Taxes	$186
Net income	$361
Dividends paid	$?
Addition to retained earnings	$?

RST, Inc.
Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$1,423	$965	Accounts payable	$1,007	$2,251
Accounts rec.	$2,196	$2,894	Notes payable	$2,100	$1,850
Inventory	$1,543	$1,650	Total	$3,107	$4,101
Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

What is the net working capital for 2015?

A) $3,115 B) $5,509 C) $2,055 D) $643 E) $1,408

Answer: E

75) At the beginning of the year, a firm has current assets of $91,807 and current liabilities of $102,343. At the end of the year, the current assets are $89,476 and the current liabilities are $92,638. What is the change in net working capital?

A) $7,374 B) $11,991 C) -$8,407 D) -$13,698 E) $2,109

Answer: A

76) Given the following statement of comprehensive income data, calculate operating cash flow: net sales = $16,500, cost of goods sold = $10,350, operating expenses = $3,118, depreciation = $1,120, interest expense = $900, tax rate = 34%.

A) $2,201.12 B) $1,912.00 C) $2,381.92 D) $2,687.92 E) $667.92

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

77)

Nabors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Nabors, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$310	$405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the operating cash flow for 2015 ($ in millions)?

A) $2,845 B) $3,060 C) $845 D) $1,930 E) $2,215

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

78)

OPQ, Inc.

2015 statement of comprehensive income

Net sales	$8,953
Cost of goods sold	$5,865
Depreciation	$?
EBIT	$?
Interest paid	$675
Earnings before taxes	$?
Taxes	$400
Net income	$705
Dividends paid	$?
Addition to retained earnings	$450

OPQ, Inc.

Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 725	$ 1,135	Accounts payable	$ 859	$1,031
Accounts rec.	$ 2,330	$?	Notes payable	$?	$4,020
Inventory	$ 3,240	$ 5,202	Current liabilities	$?	$?
Current assets	$?	$?	Long-term debt	$9,250	$9,750
Net fixed assets	$?	$ 9,211	Common stock	$ 250	$?
			Retained earnings	$?	$2,797
Total assets	$16,083	$17,848	Total liab. & equity	$?	$?

What is the operating cash flow for 2015?

A) $2,813 B) $2,013 C) $872 D) $2,413 E) $2,688

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

79)

KLM, Inc.

2015 Statement of comprehensive income

Net sales	$3,685
Cost of goods sold	$3,180
Depreciation	$104
Earnings before interest and taxes	$401
Interest paid	$25
Taxable income	$376
Taxes	$128
Net income	$248
Dividends paid	$60
Addition to retained earnings	$188

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Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 520	$ 601	Accounts payable	$ 621	$ 704
Accounts rec.	$ 235	$ 219	Notes payable	$ 333	$ 272
Inventory	$ 964	$ 799	Current liabilities	$ 954	$ 976
Current assets	$1,719	$1,619	Long-term debt	$ 350	$ 60
Net fixed assets	$ 890	$ 930	Common stock	$ 800	$ 820
			Retained earnings	$ 505	$ 693
Total assets	$2,609	$2,549	Total liabilities and Owner's equity	$2,609	$2,549

What is the net new equity for 2015?

A) $20 B) -$20 C) $40 D) $60 E) -$40

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

80)

Master Machines, Inc.

	2014	2015
Sales	$1,240	$1,385
COGS	820	910
Interest	25	20
Dividends	25.50	25.90
Depreciation	270	240
Cash	110	95
Accounts receivable	145	165
Current liabilities	380	469
Inventory	410	440
Long term debt	300	320
Net fixed assets	620	660
Common stock	500	350
Tax rate		34%

What is net new borrowing for 2015?

A) -$40 B) -$20 C) $20 D) $60 E) $40

Answer: C

81) If provincial tax rates are 16% on the first $40,100; 20% on the next $40,100; and 24% on any income after that. If a resident had income of $102,000, then determine the total tax paid.

A) $20,280 B) $19,668 C) $19,220 D) $21,320 E) $20,930

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

82) A Quebec resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $22,434 B) $19,434 C) $21,434 D) $20,434 E) $18,434

Answer: B

83) Jack's Shoes has net income of $19,600 in 2015 and owes $8,650 in taxes for the year. The company repaid $4,200 in loan principal and $650 in loan interest during the year. No new funds were borrowed. The depreciation expense is $420. What is the operating cash flow for the year?

A) $10,720 B) $19,370 C) $20,670 D) $29,320 E) $28,670

Answer: C

84) Given the following statement of comprehensive income data, calculate net income: sales = $135, cost of goods sold = $40, miscellaneous expenses = $35, depreciation = $20, interest expense = $20, tax rate = 34%.

A) $20.00 B) $13.20 C) $19.80 D) $23.10 E) $42.90

Answer: B

85) The total assets are $900, the fixed assets are $600, long-term debt is $500, and short-term debt is $200. What is the amount of net working capital?

A) $0 B) $100 C) $200 D) $300 E) $400

Answer: B

86) A firm has current assets of $400, shareholders' equity of $700, current liabilities of $300, and net fixed assets of $600. What is the amount of long-term debt?

A) $0 B) $100 C) $200 D) $300 E) $400

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

87) Suppose that a firm paid dividends of $300 and interest of $611. In addition, the firm raised cash by selling new debt of $400 and new equity of $911. What is the firm's cash flow to creditors?

A) $890 B) $211 C) -$240 D) $1,040 E) -$1,040

Answer: B

88) Six years ago, Thompson Distributors purchased a mailing machine at a cost of $368,000. This equipment is currently valued at $172,200 on today's statement of financial position but could actually be sold for $211,400. This is the only fixed asset the firm owns. Net working capital is $121,000 and long-term debt is $82,500. What is the book value of shareholders' equity?

A) $210,700 B) $249,900 C) $211,400 D) $406,500 E) $89,700

Answer: A

89) Based on the following information, calculate stockholders' equity: cash = $30; total current liabilities = $80; accounts receivable = $30; inventory = $90; net fixed assets = $220; accounts payable = $20; long term debt = $50.

A) $220 B) $170 C) $240 D) $190 E) $290

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

90)

Nabors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Nabors, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$310	$405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the cash flow to creditors for 2015 ($ in millions)?

A) $225 B) $630 C) $405 D) -$225 E) -$405

Answer: C

91) Brandy's Candies paid $23 million in dividends during 2014, while also making net common stock repurchases of $27 million. What was the cash flow to stockholders for 2014?

A) $50 million B) -$4 million C) $27 million D) $23 million E) $4 million

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

92)

Master Machines, Inc.

	2014	2015
Sales	$1,240	$1,385
COGS	820	910
Interest	25	20
Dividends	25.50	25.90
Depreciation	270	240
Cash	110	95
Accounts receivable	145	165
Current liabilities	380	469
Inventory	410	440
Long term debt	300	320
Net fixed assets	620	660
Common stock	500	350
Tax rate		34%

What is the change in net working capital from 2014 to 2015?

A) $287 B) -$54 C) -$69 D) $231 E) $255

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

93)

Nabors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Nabors, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$310	$405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the cash flow to stockholders for 2015 ($ in millions)?

A) $250 B) $25 C) $275 D) -$25 E) -$250

Answer: B

94) During the year, a firm paid $25,000 in interest expense and its long-term debt decreased from $350,000 to $250,000. What is the firm's cash flow to creditors?

A) $25,000 B) $75,000 C) -$25,000 D) -$75,000 E) $125,000

Answer: E

95) Ice Corporation has purchased a Class 10 piece of equipment for a cost of $50,000 with a CCA rate of 30%. Under the half year rule, the UCC amount used to calculate the first year CCA is:

A) $25,000 B) $50,000 C) $42,500 D) $35,000 E) $15,000

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

96)

RST, Inc.
2015 Statement of comprehensive income

Net sales	$8,769
Cost of goods sold	$6,128
Depreciation	$1,364
Earnings before interest and taxes	$1,277
Interest paid	$730
Taxable income	$547
Taxes	$186
Net income	$361
Dividends paid	$?
Addition to retained earnings	$?

RST, Inc.
Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$1,423	$965	Accounts payable	$1,007	$2,251
Accounts rec.	$2,196	$2,894	Notes payable	$2,100	$1,850
Inventory	$1,543	$1,650	Total	$3,107	$4,101
Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

What is the cash flow to creditors for 2015?

A) -$1,075 B) -$264 C) $1,126 D) $2,120 E) -$660

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

97) An Alberta resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $28,975 B) $27,174 C) $29,125 D) $26,895 E) $26,204

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

98)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015
Cash	415	560
Accounts receivable	860	840
Inventory	1,270	1,390
Total	2,545	2,790
Net fixed assets	3,180	4,660
Total assets	**5,725**	**7,450**

	2014	2015
Accounts payable	540	610
Current portion of LTD	0	50
Total	540	660
Long-term debt	2165	3480
Common stock	2000	2250
Retained earnings	1020	1060
Total liab & equity	**5725**	**7450**

What is the amount of net new borrowing for 2015 ($ in millions)?

A) $270 B) -$1,045 C) $1,045 D) -$270 E) $1,315

Answer: E

99) Thompson's Jet Skis has operating cash flow of $218. Depreciation is $45 and interest paid is $35. A net total of $69 was paid on long-term debt. The firm spent $180 on fixed assets and increased net working capital by $38. What is the amount of the cash flow to stockholders?

A) $142 B) $28 C) $114 D) -$104 E) -$28

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

100) Chadwick Industries has equipment with a book value of $18 million that could be sold today for $21 million. The inventory is valued at $5.6 million and could be sold to a competitor today for $5.1 million. The firm has $740 thousand in cash and customers owe them $2.6 million. What is the total market value of the firm's assets?

A) $26.44 million
B) $29.04 million
C) $29.44 million
D) $28.70 million
E) $26.04 million

Answer: C

101) Bandal Corporation had operating cash flows of $400, ending fixed asset value of $300, change in net working capital of $80, depreciation of $80, cash flow from assets of $190. Given this information, determine the beginning value of fixed assets.

A) $280 B) $250 C) $300 D) $220 E) $320

Answer: B

102)

Master Machines, Inc.

	2014	2015
Sales	$1,240	$1,385
COGS	820	910
Interest	25	20
Dividends	25.50	25.90
Depreciation	270	240
Cash	110	95
Accounts receivable	145	165
Current liabilities	380	469
Inventory	410	440
Long term debt	300	320
Net fixed assets	620	660
Common stock	500	350
Tax rate		34%

What is net capital spending for 2015?

A) $280 B) $70 C) $350 D) $40 E) $310

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

103) Given the following information from More Money, Inc.'s 2015 financial statements, calculate cash flow from assets: operating cash flow = $284,500, net fixed assets declined by $8,000, depreciation expense = $13,000, and net working capital increased by $1,500.

A) $278,000 B) $288,000 C) $262,000 D) $301,000 E) $281,000

Answer: A

104)

Knickerdoodles, Inc.

	2014	2015
Sales	$ 740	$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

What is the cash flow from assets for 2015?

A) $50 B) $447 C) $517 D) $247 E) $297

Answer: B

105) Calculate ending fixed assets given the following information: cash flow from assets ($7,240); EBIT = $1,000; depreciation = $100; taxes = $240; change in net working capital = ($2,000); beginning fixed assets = $30,000

A) $30,000 B) $20,000 C) $40,000 D) $25,000 E) $35,000

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

106) A Saskatchewan resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $31,486 B) $30,486 C) $32,486 D) $29,486 E) $28,486

Answer: C

107)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is net capital spending for 2015?

A) $530 B) $300 C) $30 D) -$10 E) $630

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

108) ABC Corporation reported retained earnings of $400 on its year-end 2014 statement of financial position. During 2015, the company reported a loss of $40 in the income statement, and it paid out a dividend of $11. What will retained earnings be for ABC's 2015 year-end statement of financial position?

A) $380 B) $320 C) $420 D) $220 E) $349

Answer: E

109)

Knickerdoodles, Inc.

	2014	2015
Sales	$ 740	$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

What is the operating cash flow for 2015?

A) $143 B) $367 C) $325 D) $353 E) $297

Answer: E

110) A $40,000 asset was purchased and classified as a Class 10 asset for CCA purposes. If the CCA rate is 30%, calculate UCC for the end of year 1.

A) $10,200 B) $34,000 C) $6,000 D) $7,800 E) $12,000

Answer: B

111) A $40,000 asset was purchased and classified as a Class 10 asset for CCA purposes. If the CCA rate is 30%, calculate CCA for year 1.

A) $7,800 B) $6,000 C) $12,000 D) $34,000 E) $10,200

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

112) Knight Insurance has shareholders' equity of $136,900. The firm owes a total of $71,400 of which 30 percent is payable within the next year. The firm has net fixed assets of $152,800. What is the amount of the net working capital?

A) $25,300 B) $21,420 C) $46,720 D) $34,080 E) $55,500

Answer: D

113)

RST, Inc.
2015 Statement of comprehensive income

Net sales	$8,769
Cost of goods sold	$6,128
Depreciation	$1,364
Earnings before interest and taxes	$1,277
Interest paid	$730
Taxable income	$547
Taxes	$186
Net income	$361
Dividends paid	$?
Addition to retained earnings	$?

RST, Inc.
Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$1,423	$965	Accounts payable	$1,007	$2,251
Accounts rec.	$2,196	$2,894	Notes payable	$2,100	$1,850
Inventory	$1,543	$1,650	Total	$3,107	$4,101
Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

What is the change in net working capital for 2015?

A) $647 B) -$347 C) $994 D) $347 E) -$647

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

114)

Knickerdoodles, Inc.

	2014	2015
Sales	$ 740	$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

What is net new borrowing for 2015?

A) $105 B) -$70 C) $35 D) -$35 E) $70

Answer: E

115) The Corner Store paid $46 in dividends and $120 in interest expense during the year. The addition to retained earnings is $142 and net new equity is $50. The tax rate is 20 percent. Sales are $2,400 and depreciation is $140. What are the earnings before interest and taxes?

A) $355 B) $286 C) $2,260 D) $2,072 E) $325

Answer: A

116) During 2015, Spend-it Corporation reported net income of $200 and paid a $40 stock dividend. Spend-it's December 31, 2014 statement of financial position reported the following items: common stock = $220, capital surplus = $180, retained earnings = $300. What is the value of the retained earnings account for the December 31, 2015 statement of financial position?

A) $360 B) $540 C) $340 D) $160 E) $460

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

117)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is the change in net working capital during 2015?

A) -$245 B) $904 C) -$125 D) $607 E) $362

Answer: A

118) A British Columbia resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $39,620 B) $37,543 C) $36,531 D) $35,528 E) $38,559

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

119)

KLM, Inc.

2015 Statement of comprehensive income

Net sales	$3,685
Cost of goods sold	$3,180
Depreciation	$104
Earnings before interest and taxes	$401
Interest paid	$25
Taxable income	$376
Taxes	$128
Net income	$248
Dividends paid	$60
Addition to retained earnings	$188

KLM, Inc.

Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 520	$ 601	Accounts payable	$ 621	$ 704
Accounts rec.	$ 235	$ 219	Notes payable	$ 333	$ 272
Inventory	$ 964	$ 799	Current liabilities	$ 954	$ 976
Current assets	$1,719	$1,619	Long-term debt	$ 350	$ 60
Net fixed assets	$ 890	$ 930	Common stock	$ 800	$ 820
			Retained earnings	$ 505	$ 693
Total assets	$2,609	$2,549	Total liabilities and Owner's equity	$2,609	$2,549

What is the operating cash flow for 2015?

A) $425 B) $480 C) $377 D) $169 E) $272

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

120) A Manitoba resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $36,922 B) $40,922 C) $37,922 D) $38,922 E) $39,922

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

121)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015		2014	2015
Cash	415	560	Accounts payable	540	610
Accounts receivable	860	840	Current portion of LTD	0	50
Inventory	1,270	1,390	Total	540	660
Total	2,545	2,790	Long-term debt	2165	3480
Net fixed assets	3,180	4,660	Common stock	2000	2250
			Retained earnings	1020	1060
Total assets	**5,725**	**7,450**	Total liab & equity	**5725**	**7450**

What is the cash flow from assets for 2015 ($ in millions)?

A) $510 B) $385 C) $635 D) -$385 E) -$635

Answer: E

122) The tax rates are as shown below. Your firm currently has taxable income of $98,650. How much additional tax will you owe if you increase your taxable income by $13,000?

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

A) $4,560.50 B) $4,800.00 C) $5,002.50 D) $4,420.00 E) $1,950.00

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

123)

	2015
Cost of goods sold	$3,210
Interest	215
Dividends	160
Depreciation	375
Change in retained earnings	360
Tax rate	35%

What are the sales for 2015?

A) $4,385 B) $4,600 C) $5,000 D) $4,225 E) $4,815

Answer: B

124) Swell, Inc. had net fixed assets of $6.5 million on December 31, 2014 and $11 million on December 31, 2015. If Swell's depreciation expense for 2015 was $750,000, what was the firm's 2015 capital spending?

A) $3.75 million
B) $4.50 million
C) $4.25 million
D) $6.75 million
E) $5.25 million

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

125)

Master Machines, Inc.

	2014	2015
Sales	$1,240	$1,385
COGS	820	910
Interest	25	20
Dividends	25.50	25.90
Depreciation	270	240
Cash	110	95
Accounts receivable	145	165
Current liabilities	380	469
Inventory	410	440
Long term debt	300	320
Net fixed assets	620	660
Common stock	500	350
Tax rate		34%

What is the operating cash flow for 2015?

A) $440.10 B) $381.90 C) $396.10 D) $401.90 E) $451.90

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

126) An Ontario resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $40,104 B) $43,104 C) $41,104 D) $39,104 E) $42,104

Answer: A

127) Kathy's Krafts has sales of $820,000 and costs of $530,000. Interest expense is $35,000. The tax rate is 34% and the tax amount is $71,400. What is the amount of the depreciation expense if that is the only remaining expense on the statement of comprehensive income?

A) $38,000 B) $45,000 C) $52,400 D) $37,500 E) $41,600

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

128)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015		2014	2015
Cash	415	560	Accounts payable	540	610
Accounts receivable	860	840	Current portion of LTD	0	50
Inventory	1,270	1,390	Total	540	660
Total	2,545	2,790	Long-term debt	2165	3480
Net fixed assets	3,180	4,660	Common stock	2000	2250
			Retained earnings	1020	1060
Total assets	**5,725**	**7,450**	Total liab & equity	**5725**	**7450**

What is the amount of dividends paid in 2015 ($ in millions)?

A) $370 B) $700 C) $660 D) $410 E) $40

Answer: C

129) A firm has recently purchased Class 10 equipment for $100,000 with a CCA rate of 30%. Under the half-year rule, what is the amount of depreciation that the firm can claim as a tax-deductible expense in the second year?

A) $30,000 B) $25,500 C) $42,000 D) $45,000 E) $15,000

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

130)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is cash flow to creditors for 2015?

A) $100 B) $720 C) $320 D) $420 E) $520

Answer: E

131) A Quebec resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the total tax paid.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) $43,120 B) $42,120 C) $45,120 D) $41,120 E) $44,120

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

132)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is cash flow to stockholders for 2015?

A) $445 B) $79 C) $603 D) $524 E) $189

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

133)

Knickerdoodles, Inc.

	2014	2015
Sales	$ 740	$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

What is the cash flow to stockholders for 2015?

A) $417 B) $482 C) $408 D) $452 E) $503

Answer: B

134) Hi-Performance Motors has net income of $62,408. The firm pays out 55 percent of the net income to its shareholders as dividends. During the year, the company sold $125,000 worth of common stock. What is the cash flow to stockholders?

A) $51,368.29
B) -$48,246.19
C) $22,309.11
D) -$90,675.60
E) -$125,000.00

Answer: D

135) The owner of Fred's Electronics is trying to sell the business. The company built a building four years ago at a cost of $2.2 million. The building is currently appraised at $2.46 million. The firm's equipment originally cost $1.2 million and is currently valued at $700,000. The inventory is listed on the statement of financial position at $150,000 but is only worth $125,000. The owner expects to collect 90 percent of the $300,000 in accounts receivable. The firm has $14,000 in cash and has total debt of $3.1 million. What is the market value of this firm?

A) $524,000 B) $499,000 C) $469,000 D) $504,000 E) $455,000

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

136) At the beginning of the year, Bob's Cabinet Works had long-term debt of $280 and total debt of $430. At the end of the year, long-term debt was $255 and total debt was $390. The firm paid $20 of interest during the year. What is the amount of the cash flow to creditors?

A) $5 B) -$20 C) -$5 D) $60 E) $45

Answer: E

137) A $40,000 asset was purchased and classified as a Class 10 asset for CCA purposes. If the CCA rate is 30%, calculate CCA for year 5.

A) $3,499 B) $5,050 C) $4,500 D) $5,500 E) $6,000

Answer: A

138) The R.J. Ramboldt Co. paid dividends of $1,400, interest of $800, and taxes of $2,100 for the year. The tax rate is 35 percent and the depreciation expense is $500. What is the operating cash flow for the year?

A) $5,350 B) $4,800 C) $5,500 D) $5,200 E) $4,950

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

139)

OPQ, Inc.

2015 statement of comprehensive income

Net sales	$8,953
Cost of goods sold	$5,865
Depreciation	$?
EBIT	$?
Interest paid	$675
Earnings before taxes	$?
Taxes	$400
Net income	$705
Dividends paid	$?
Addition to retained earnings	$450

OPQ, Inc.

Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 725	$ 1,135	Accounts payable	$ 859	$1,031
Accounts rec.	$ 2,330	$?	Notes payable	$?	$4,020
Inventory	$ 3,240	$ 5,202	Current liabilities	$?	$?
Current assets	$?	$?	Long-term debt	$9,250	$9,750
Net fixed assets	$?	$ 9,211	Common stock	$ 250	$?
			Retained earnings	$?	$2,797
Total assets	$16,083	$17,848	Total liab. & equity	$?	$?

The net working capital at the end of 2014 is _____ and _____ at the end of 2015.

A) -$2,955; -$1,113
B) $2,059; $8,637
C) $5,436; $1,286
D) $5,436; $7,606
E) $2,059; $3,586

Answer: E

140) Given the following statement of comprehensive income data, calculate revenue: Net Income = $2,500, EBIT = $4,000, Depreciation = $500, Operating expenses = $1,500.

A) $6,000 B) $5,500 C) $4,000 D) $3,000 E) $2,500

Answer: A

141) Suppose a firm's net income is $950, dividends paid total $300, and new equity sales over the same period amount to $311. If the initial value of equity was $7,100, what is the cash flow to shareholders?

A) $650 B) -$650 C) -$11 D) $50 E) $8,100

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

142) Art's Boutique has sales of $640,000 and costs of $480,000. Interest expense is $40,000 and depreciation is $60,000. The tax rate is 34%. What is the net income?

A) $99,600 B) $79,600 C) $20,400 D) $39,600 E) $50,400

Answer: D

143) A firm has $1,800 in fixed assets, $400 in net working capital, $200 in accounts payable, and $100 in cash. What is the amount of the current assets?

A) $500 B) $600 C) $200 D) $400 E) $700

Answer: B

144) The total assets are $1,650, the fixed assets are $800, long-term debt is $700, and short-term debt is $450. What is the amount of net working capital?

A) $400 B) $1,200 C) $350 D) $950 E) $500

Answer: A

145)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is net working capital for 2015?

A) $1,060 B) $519 C) $362 D) $607 E) $473

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

146)

Kuipers, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	*$1,384*
Less: Cost of goods sold	*605*
Less: Depreciation	*180*
Earnings before interest and taxes	*599*
Less: Interest paid	*80*
Taxable income	*519*
Less: Taxes	*156*
Net income	*$363*
Addition to retained earnings	*$254*
Dividends paid	*109*

Kuipers, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$ 100	$ 121	Accounts payable	$ 400	$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	$ 790	$ 720
Total	$ 890	$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	$2,446	$2,660	Total liabilities	$2,446	$2,660

What is the firm's operating cash flow for 2015 ($ in millions)?

A) $623 B) $441 C) $359 D) $589 E) $543

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

147)

Nabors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Nabors, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$310	$405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the amount of dividends paid in 2015 ($ in millions)?

A) $275 B) $25 C) $845 D) $625 E) $570

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

148)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is earnings before interest and taxes for 2015?

A) $112 B) $158 C) $780 D) $660 E) $580

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

149)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is net income for 2015?

A) $660 B) $158 C) $780 D) $580 E) $112

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

150)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015		2014	2015
Cash	415	560	Accounts payable	540	610
Accounts receivable	860	840	Current portion of LTD	0	50
Inventory	1,270	1,390	Total	540	660
Total	2,545	2,790	Long-term debt	2165	3480
Net fixed assets	3,180	4,660	Common stock	2000	2250
			Retained earnings	1020	1060
Total assets	**5,725**	**7,450**	Total liab & equity	**5725**	**7450**

What is the cash flow to stockholders for 2015 ($ in millions)?

A) $360 B) $580 C) $910 D) $410 E) $660

Answer: D

151) The tax rates are as shown. California Surfin' currently has taxable income of $86,750. How much additional tax will the firm owe if taxable income increases by $16,500?

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

A) $6,212 B) $5,773 C) $6,120 D) $5,811 E) $6,435

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

152) A $40,000 asset was purchased and classified as a Class 10 asset for CCA purposes. If the CCA rate is 30%, calculate UCC for the end of year 5.

A) $4,929 B) $8,163 C) $5,030 D) $7,252 E) $6,141

Answer: B

153)

KLM, Inc.

2015 Statement of comprehensive income

Net sales	$3,685
Cost of goods sold	$3,180
Depreciation	$104
Earnings before interest and taxes	$401
Interest paid	$25
Taxable income	$376
Taxes	$128
Net income	$248
Dividends paid	$60
Addition to retained earnings	$188

KLM, Inc.

Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 520	$ 601	Accounts payable	$ 621	$ 704
Accounts rec.	$ 235	$ 219	Notes payable	$ 333	$ 272
Inventory	$ 964	$ 799	Current liabilities	$ 954	$ 976
Current assets	$1,719	$1,619	Long-term debt	$ 350	$ 60
Net fixed assets	$ 890	$ 930	Common stock	$ 800	$ 820
			Retained earnings	$ 505	$ 693
Total assets	$2,609	$2,549	Total liabilities and Owner's equity	$2,609	$2,549

What is the ending net working capital for 2015?

A) $765 B) $60 C) $643 D) $40 E) -$60

Answer: C

154) At year-end 2015, Jordan Company's statement of financial position showed current assets = $800, fixed assets = $1,500, intangible assets = $300, current liabilities = $600, and long-term liabilities = $1,400. What is the value of the shareholders' equity account?

A) $500 B) $900 C) $300 D) $600 E) $1,100

Answer: D

155) A firm has $300 in inventory, $600 in fixed assets, $200 in accounts receivables, $100 in accounts payable, and $50 in cash. What is the amount of the current assets?

A) $1,150 B) $600 C) $550 D) $500 E) $1,200

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

156) A firm has net working capital of $350. Long-term debt is $600, total assets are $950 and fixed assets are $400. What is the amount of the total liabilities?

A) $200 B) $400 C) $1,200 D) $600 E) $800

Answer: E

157) Julie's Boutique paid $400 in dividends and $500 in interest this past year. Common stock increased by $500 and retained earnings decreased by $200. What is the net income for the year?

A) $200 B) $600 C) -$300 D) $700 E) $1,100

Answer: A

158) Zonex Corporation had an operating cash flow of $600, change in net working capital of $120 and cash flow from assets of $360. In addition, it had deprecation of $120, and a beginning fixed asset value of $500. Given this information, calculate the company's ending fixed asset value.

A) $800 B) $400 C) $700 D) $500 E) $600

Answer: D

159) The Phillip Edwards Co. has net income of $2,460 for the current year. During the year, the common stock account increased in value by $1,500 and retained earnings increased by $350. What is the amount the firm paid in dividends to its shareholders during the year?

A) $610 B) $2,810 C) $380 D) $350 E) $2,110

Answer: E

160)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is cash flow from assets for 2015?

A) $923 B) $633 C) $540 D) $428 E) $1,123

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

161)

KLM, Inc.
2015 Statement of comprehensive income

Net sales	$3,685
Cost of goods sold	$3,180
Depreciation	$104
Earnings before interest and taxes	$401
Interest paid	$25
Taxable income	$376
Taxes	$128
Net income	$248
Dividends paid	$60
Addition to retained earnings	$188

KLM, Inc.
Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 520	$ 601	Accounts payable	$ 621	$ 704
Accounts rec.	$ 235	$ 219	Notes payable	$ 333	$ 272
Inventory	$ 964	$ 799	Current liabilities	$ 954	$ 976
Current assets	$1,719	$1,619	Long-term debt	$ 350	$ 60
Net fixed assets	$ 890	$ 930	Common stock	$ 800	$ 820
			Retained earnings	$ 505	$ 693
Total assets	$2,609	$2,549	Total liabilities and Owner's equity	$2,609	$2,549

What is the net capital spending for 2015?

A) $144 B) $64 C) -$144 D) -$64 E) $208

Answer: A

162)

	2015
Cost of goods sold	$3,210
Interest	215
Dividends	160
Depreciation	375
Change in retained earnings	360
Tax rate	35%

What is the taxable income for 2015?

A) $360 B) $800 C) $640 D) $520 E) $780

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

163) Suppose that a firm paid dividends of $300 and interest of $611. In addition, the firm raised cash by selling new debt of $400 and new equity of $911. What is the firm's cash flow to stockholders?

A) -$611 B) $890 C) -$1,250 D) $650 E) $1,250

Answer: A

164)

Taxable income	Tax rate
0 - 50,000	15%
50,001 - 75,000	25%
75,001 - 100,000	34%
100,001 - 335,000	39%

Celeste Video, Inc. reports 2015 taxable income of $200,011. How large is this firm's tax bill?

A) $67,000 B) $78,000 C) $48,750 D) $61,254 E) $91,125

Answer: D

165)

Knickerdoodles, Inc.

	2014	2015
Sales	$ 740	$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

What is the change in net working capital from 2014 to 2015?

A) -$7 B) $97 C) -$93 D) $85 E) $7

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

166) Brad's Co. has equipment with a book value of $500 that could be sold today at a 50 percent discount. Their inventory is valued at $400 and could be sold to a competitor for that amount. The firm has $50 in cash and customers owe them $300. What is the accounting value of their liquid assets?

A) $700 B) $1,000 C) $350 D) $750 E) $50

Answer: D

167) A new firm issued $500 in common stock. At the end of the first year, the firm had total assets of $1100 and total debt of $400. What was the amount of net income for the first year, assuming the firm paid no dividends?

A) $700
B) $1200
C) -$200 (a loss)
D) $200
E) Cannot be determined from the information provided

Answer: D

168) Bill's Mowers has beginning net fixed assets of $1,620 and ending net fixed assets of $1,780. Assets valued at $410 were sold during the year. Depreciation was $45. What is the value of the fixed asset purchases for the year?

A) $795 B) $705 C) $295 D) $855 E) $615

Answer: E

169) Calculate earnings before interest and taxes given the following information: net income = $415; interest paid = $85; taxes = $300; sales = $2,000

A) $725 B) $750 C) $675 D) $700 E) $800

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

170)

RST, Inc.
2015 Statement of comprehensive income

Net sales	$8,769
Cost of goods sold	$6,128
Depreciation	$1,364
Earnings before interest and taxes	$1,277
Interest paid	$730
Taxable income	$547
Taxes	$186
Net income	$361
Dividends paid	$?
Addition to retained earnings	$?

RST, Inc.
Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$1,423	$965	Accounts payable	$1,007	$2,251
Accounts rec.	$2,196	$2,894	Notes payable	$2,100	$1,850
Inventory	$1,543	$1,650	Total	$3,107	$4,101
Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

What is the amount of non-cash items for 2015?

A) $730 B) $2,094 C) $1,364 D) $186 E) $201

Answer: C

171) If net income = $46,750, depreciation expense = $20,000, interest expense = $10,000, and the tax rate = 15%, what is operating cash flow?

A) $76,750 B) $85,250 C) $21,250 D) $72,250 E) $93,350

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

172)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015
Cash	415	560
Accounts receivable	860	840
Inventory	1,270	1,390
Total	2,545	2,790
Net fixed assets	3,180	4,660
Total assets	**5,725**	**7,450**

	2014	2015
Accounts payable	540	610
Current portion of LTD	0	50
Total	540	660
Long-term debt	2165	3480
Common stock	2000	2250
Retained earnings	1020	1060
Total liab & equity	**5725**	**7450**

What is the amount of the non-cash expenses for 2015 ($ in millions)?

A) $1,130 B) $860 C) $270 D) $630 E) $780

Answer: B

173) Calculate beginning net working capital given the following information: cash flow from assets = $24,500; operating cash flow = $8,500; capital spending = ($14,000); ending net working capital = $8,000.

A) $7,000 B) $9,000 C) $6,000 D) $8,000 E) $10,000

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

174)

KLM, Inc.

2015 Statement of comprehensive income

Net sales	$3,685
Cost of goods sold	$3,180
Depreciation	$104
Earnings before interest and taxes	$401
Interest paid	$25
Taxable income	$376
Taxes	$128
Net income	$248
Dividends paid	$60
Addition to retained earnings	$188

KLM, Inc.

Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$ 520	$ 601	Accounts payable	$ 621	$ 704
Accounts rec.	$ 235	$ 219	Notes payable	$ 333	$ 272
Inventory	$ 964	$ 799	Current liabilities	$ 954	$ 976
Current assets	$1,719	$1,619	Long-term debt	$ 350	$ 60
Net fixed assets	$ 890	$ 930	Common stock	$ 800	$ 820
			Retained earnings	$ 505	$ 693
Total assets	$2,609	$2,549	Total liabilities and Owner's equity	$2,609	$2,549

What is the cash flow to stockholders for 2015?

A) $268 B) $60 C) $40 D) $80 E) $148

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

175)

Knickerdoodles, Inc.

	2014	2015
Sales	$ 740	$ 785
COGS	430	460
Interest	33	35
Dividends	16	17
Depreciation	250	210
Cash	70	75
Accounts receivables	563	502
Current liabilities	390	405
Inventory	662	640
Long-term debt	340	410
Net fixed assets	1,680	1,413
Common stock	700	235
Tax rate	35%	35%

What is the net working capital for 2015?

A) $345 B) $1,005 C) $805 D) $812 E) $405

Answer: D

176) Canadian Enterprises had earnings before interest and taxes (EBIT) of $865, depreciation of $120 and taxes of $180. Given this information, calculate OCF.

A) $795 B) $765 C) $815 D) $825 E) $805

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

177)

Nabors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$9,610
Less: Cost of goods sold	6,310
Less: Depreciation	1,370
Earnings before interest and taxes	1,930
Less: Interest paid	630
Taxable Income	$1,300
Less: Taxes	455
Net income	$ 845

Nabors, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$310	$405	Accounts payable	$ 2,720	$ 2,570
Accounts rec.	2,640	3,055	Notes payable	100	0
Inventory	3,275	3,850	Total	$ 2,820	$ 2,570
Total	$ 6,225	$ 7,310	Long-term debt	7,875	8,100
Net fixed assets	10,960	10,670	Common stock	5,000	5,250
			Retained earnings	1,490	2,060
Total assets	$17,185	$17,980	Total liab.& equity	$17,185	$17,980

What is the amount of the non-cash expenses for 2015 ($ in millions)?

A) $1,370 B) $845 C) $570 D) $630 E) $2,000

Answer: A

178) Tim's Playhouse paid $155 in dividends and $220 in interest expense. The addition to retained earnings is $325 and net new equity is $50. The tax rate is 25 percent. Sales are $1,600 and depreciation is $160. What are the earnings before interest and taxes?

A) $860 B) $480 C) $640 D) $1,440 E) $1,020

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

179)

Aussel Motors, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	$ 6,080
Less: Cost of goods sold	3,890
Less: Depreciation	860
Earnings before interest and taxes	1,330
Less: Interest paid	270
Earnings before taxes	1,060
Less: Taxes	360
Net Income	700

Aussel Motors, Inc.
2014 and 2015 statement of financial position
($ in millions)

	2014	2015		2014	2015
Cash	415	560	Accounts payable	540	610
Accounts receivable	860	840	Current portion of LTD	0	50
Inventory	1,270	1,390	Total	540	660
Total	2,545	2,790	Long-term debt	2165	3480
Net fixed assets	3,180	4,660	Common stock	2000	2250
			Retained earnings	1020	1060
Total assets	**5,725**	**7,450**	Total liab & equity	**5725**	**7450**

What is the cash flow to creditors for 2015 ($ in millions)?

A) -$1,045 B) $945 C) $885 D) $1,585 E) -$365

Answer: A

180) A $40,000 asset was purchased and classified as a Class 10 asset for CCA purposes. If the CCA rate is 30%, calculate CCA for year 3.

A) $11,580 B) $10,470 C) $7,140 D) $8,250 E) $9,360

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

181)

	2014	2015
Sales	$2,900	$3,300
COGS	2,030	2,310
Interest	410	420
Dividends	56	79
Depreciation	290	330
Cash	250	150
Receivables	242	412
Current liabilities	900	1,100
Inventory	1,015	900
Long-term debt	3,200	3,100
Net fixed assets	6,000	5,700
Tax rate	34%	34%

What is operating cash flow for 2015?

A) $1,375 B) $1,072 C) $248 D) $908 E) $662

Answer: D

182) All-Rite sold $133,500 in used equipment in 2015 and replaced it with $212,000 of new equipment. Depreciation for 2015 and $12,500. What is the net capital spending for 2015?

A) $199,500 B) $91,000 C) $212,000 D) $66,000 E) $78,500

Answer: B

183) Peter owns The Train Store which he is trying to sell so that he can retire and travel. The Train Store owns the building in which it is located. This building was built at a cost of $427,000 and is currently appraised at $575,000. The display counters and fixtures originally cost $87,000 and are currently valued at $49,000. The inventory is valued on the statement of financial position at $289,000 and has a retail market value equal to 1.4 times its cost. Peter expects the store to collect 97 percent of the $48,041 in accounts receivable. The firm has $11,200 in cash and has total debt of $167,400. What is the market value of this firm?

A) $945,800 B) $771,000 C) $957,000 D) $919,000 E) $907,800

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

184)

Kuipers, Inc.
2015 statement of comprehensive income
($ in millions)

Net sales	*$1,384*
Less: Cost of goods sold	*605*
Less: Depreciation	*180*
Earnings before interest and taxes	*599*
Less: Interest paid	*80*
Taxable income	*519*
Less: Taxes	*156*
Net income	*$363*
Addition to retained earnings	*$254*
Dividends paid	*109*

Kuipers, Inc.
2014 and 2015 Statement of financial positions
($ in millions)

	2014	2015		2014	2015
Cash	$ 100	$ 121	Accounts payable	$ 400	$ 350
Accounts rec.	350	425	Notes payable	390	370
Inventory	440	410	Total	$ 790	$ 720
Total	$ 890	$ 956	Long-term debt	500	550
Net fixed assets	1,556	1,704	Owner's equity		
			Common stock	600	580
			Retained earnings	556	810
			Total	1,156	1,390
Total assets	$2,446	$2,660	Total liabilities	$2,446	$2,660

What is the firm's change in net working capital for 2015 ($ in millions)?

A) $4 million
B) $205 million
C) -$40 million
D) $136 million
E) $94 million

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

185) If cash flow from operations is $938, net capital spending is -$211, and net working capital declines by $73, what is cash flow from assets?

A) $1,076 B) $954 C) $800 D) $1,222 E) $654

Answer: D

186) Calculate cash flow from assets given the following information: EBIT = $1,000; depreciation = $100; taxes = $240; beginning fixed assets = $30,000; ending fixed assets = $40,000; beginning net working capital = $10,000; ending net working capital = $8,000.

A) -$8,130 B) -$6,350 C) -$10,900 D) -$9,020 E) -$7,240

Answer: E

187) If provincial tax rates are 16% on the first $40,100; 20% on the next $40,100; and 24% on any income after that. If a resident had income of $95,000, then determine the average provincial tax rate.

A) 18.50% B) 21.50% C) 20.93% D) 18.93% E) 20.50%

Answer: D

188) If provincial tax rates are 16% on the first $40,100; 20% on the next $40,100; and 24% on any income after that. If a resident had income of $102,000, then determine the average provincial tax rate.

A) 19.28% B) 20.25% C) 25.58% D) 25.38% E) 21.28%

Answer: A

189) An Alberta resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 24.43% B) 24.92% C) 23.43% D) 23.92% E) 24.03%

Answer: A

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

190) If provincial tax rates are 16% on the first $40,100; 20% on the next $40,100; and 24% on any income after that. If a resident had income of $102,000, then determine the marginal provincial tax rate.

A) 28% B) 24% C) 26% D) 25% E) 27%

Answer: B

191) An Alberta resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 26.90% B) 29.13% C) 27.17% D) 26.20% E) 28.98%

Answer: C

192) If provincial tax rates are 16% on the first $40,100; 20% on the next $40,100; and 24% on any income after that. If a resident had income of $95,000, then determine the marginal provincial tax rate.

A) 28% B) 32% C) 24% D) 22% E) 30%

Answer: C

193) Which of the following are included in current liabilities?

A) 30 year bonds.
B) Debt payable to a mortgage company in nine months.
C) Retained earnings.
D) Note payable to a supplier in eighteen months.
E) Shareholders' equity.

Answer: B

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

194) A Saskatchewan resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 31.46% B) 30.97% C) 28.46% D) 30.36% E) 28.97%

Answer: C

195) An Ontario resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 28.45% B) 30.45% C) 29.45% D) 31.45% E) 32.45%

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

196) A Saskatchewan resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 28.49% B) 29.49% C) 31.49% D) 32.49% E) 30.49%

Answer: D

197) Given the tax rates as shown, what is the average tax rate for a firm with taxable income of $218,740?

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

A) 28.43 percent
B) 39.00 percent
C) 31.34 percent
D) 25.38 percent
E) 30.67 percent

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

198) A British Columbia resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 30.44% B) 32.23% C) 31.86% D) 29.83% E) 31.26%

Answer: A

199) A Manitoba resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 33.99% B) 32.99% C) 29.99% D) 31.99% E) 30.99%

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

200) A Quebec resident earned $30,000 in capital gains and $30,000 in non-eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 31.39% B) 35.39% C) 32.39% D) 33.39% E) 34.39%

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

201)

RST, Inc.
2015 Statement of comprehensive income

Net sales	$8,769
Cost of goods sold	$6,128
Depreciation	$1,364
Earnings before interest and taxes	$1,277
Interest paid	$730
Taxable income	$547
Taxes	$186
Net income	$361
Dividends paid	$?
Addition to retained earnings	$?

RST, Inc.
Statement of financial positions as of December 31, 2014 and 2015

	2014	2015		2014	2015
Cash	$1,423	$965	Accounts payable	$1,007	$2,251
Accounts rec.	$2,196	$2,894	Notes payable	$2,100	$1,850
Inventory	$1,543	$1,650	Total	$3,107	$4,101
Total	$5,162	$5,509	Long-term debt	$8,670	$7,280
Net fixed assets	$21,300	$22,758	Common stock	$7,200	$9,200
			Retained earnings	$7,485	$7,686
Total assets	$26,462	$28,267	Total liabilities and Owner's equity	$26,462	$28,267

What is the average tax rate for 2015?

A) 25%
B) 39%
C) 19%
D) 34%
E) cannot be determined from the information provided

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

202)

Taxable income		Tax Rate
$ 0	$ 50,000	15%
$ 50,001	$ 75,000	25%
$ 75,001	$ 100,000	34%
$100,001	$ 335,000	39%
$335,001	$10,000,000	34%

The marginal tax rate on an income of $239,650 is:

A) 39% B) 25% C) 34% D) 15% E) 43%

Answer: A

203) Alpha, Inc. earned $95,000 in net income in 2014 and paid $20,548.50 in taxes. Alpha, Inc. earned $95,001 in net income in 2015 and paid $20,548.84 in taxes. What is the marginal tax rate for Alpha, Inc.?

A) 38% B) 25% C) 15% D) 35% E) 34%

Answer: E

204)

Taxable income	***Tax rate***
$0 –$ 50,000	*15%*
$50,001 – $ 75,000	*25%*
$75,001 – $100,000	*34%*
$100,001 – $335,000	*39%*
$335,001 – $10,000,000	*34%*
$10,000,001 – $15,000,000	*35%*
$15,000,001 – $18,333,333	*38%*
$18,333,334 and above_35%	

If a firm has taxable income of $17.5 million and a total tax bill of $6.1 million, its marginal tax rate _____.

A) 15% B) 39% C) 38% D) 34% E) 25%

Answer: C

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

205) Given the tax rates below, what is the average tax rate for a firm with taxable income of $178,500?

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

A) 29.62 percent
B) 30.13 percent
C) 39.00 percent
D) 35.67 percent
E) 34.00 percent

Answer: A

206)

Taxable income	***Tax rate***
$0 –$ 50,000	*15%*
$50,001 – $ 75,000	*25%*
$75,001 – $100,000	*34%*
$100,001 – $335,000	*39%*
$335,001 – $10,000,000	*34%*
$10,000,001 – $15,000,000	*35%*
$15,000,001 – $18,333,333	*38%*
$18,333,334 and above_35%	

If a firm has taxable income of $17.5 million and a total tax bill of $6.1 million, its average tax rate is _____.

A) 38.2% B) 42.2% C) 15.0% D) 34.9% E) 25.9%

Answer: D

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

207)

Taxable income	*Tax rate*
$0 –$ 50,000	*15%*
$50,001 – $ 75,000	*25%*
$75,001 – $100,000	*34%*
$100,001 – $335,000	*39%*
$335,001 – $10,000,000	*34%*
$10,000,001 – $15,000,000	*35%*
$15,000,001 – $18,333,333	*38%*
$18,333,334 and above_35%	

If a company has taxable income = $250,000, what is the average tax rate?

A) 34.0% B) 32.3% C) 39.6% D) 36.8% E) 42.0%

Answer: B

208) A British Columbia resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 37.54% B) 39.62% C) 38.56 D) 36.53% E) 35.53%

Answer: E

Fundamentals of Corporate Finance (Canadian) 9th edition Ross Test Bank

209) A New Brunswick resident earned $20,000 in interest income and $10,000 in capital gains. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 38.03% B) 39.03% C) 36.03% D) 37.03% E) 40.03%

Answer: B

210)

	Tax Rates	Tax Brackets
Federal	15.00%	Up to $43,953
	22.00	43,954–87,907
	26.00	87,908–136,270
	29.00	136,271 and over
British Columbia	5.06%	Up to $37,606
	7.70	37,607–75,213
	10.50	75,214–86,354
	12.29	86,355–104,858
	14.70	104,859–150,000
	16.80	150,001 and over

Determined the federal marginal tax rate of a British Columbia resident that earned $89,000.

A) 38.29% B) 45.80% C) 12.29% D) 26.00% E) 29.00%

Answer: D

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211)

	Tax Rates	Tax Brackets
Federal	15.00%	Up to $43,953
	22.00	43,954–87,907
	26.00	87,908–136,270
	29.00	136,271 and over
British Columbia	5.06%	Up to $37,606
	7.70	37,607–75,213
	10.50	75,214–86,354
	12.29	86,355–104,858
	14.70	104,859–150,000
	16.80	150,001 and over

Determined the provincial marginal tax rate of a British Columbia resident that earned $89,000.

A) 12.29% B) 29.00% C) 38.29% D) 45.80% E) 26.00%

Answer: A

212)

	Tax Rates	Tax Brackets
Federal	15.00%	Up to $43,953
	22.00	43,954–87,907
	26.00	87,908–136,270
	29.00	136,271 and over
British Columbia	5.06%	Up to $37,606
	7.70	37,607–75,213
	10.50	75,214–86,354
	12.29	86,355–104,858
	14.70	104,859–150,000
	16.80	150,001 and over

Determined the total marginal tax rate of a British Columbia resident that earned $89,000.

A) 29.00% B) 12.29% C) 26.00% D) 38.29% E) 45.80%

Answer: D

213) A Manitoba resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 37.92% B) 40.92% C) 38.92% D) 39.92% E) 36.92%

Answer: A

214) A Prince Edward Island resident earned $20,000 in interest income and $10,000 in capital gains. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 39.48% B) 40.48% C) 37.48% D) 38.48% E) 41.48%

Answer: A

215) A Quebec resident earned $20,000 in interest income and $10,000 in capital gains. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 38.64% B) 40.64% C) 41.64% D) 39.64% E) 37.64%

Answer: C

216) A Nova Scotia resident earned $20,000 in interest income and $10,000 in capital gains. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 39.67% B) 40.67% C) 36.67% D) 38.67% E) 41.67%

Answer: E

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217) An Ontario resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 39.10% B) 43.10% C) 42.10% D) 41.10% E) 40.10%

Answer: E

218) A Quebec resident earned $40,000 in interest income and $60,000 in eligible dividends. Calculate the average tax rate.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) 43.12% B) 41.12% C) 42.12% D) 44.12% E) 45.12%

Answer: B

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219) The repurchase of outstanding stock by a corporation causes _____ for the firm, all else constant.

A) A decrease in the cash flow to stockholders
B) A decrease in both earnings per share and dividends per share
C) A decrease in dividends per share
D) An immediate cash inflow
E) Both a cash outflow and an increase in earnings per share

Answer: E

220) A firm has a calendar tax year. On January 10, the firm purchased depreciable equipment for cash. This purchase will create:

A) A decrease in net income by an amount equal to the decrease in net assets.
B) No change in net income for the current year.
C) A current cash outflow and an equal decrease in current net income.
D) An increase in the total taxes of the firm over a period of years.
E) A current cash outflow and a lesser decrease in current net income.

Answer: E

221) Which one of the following will increase the operating cash flow of a firm, all else constant?

A) A decrease in the interest expense
B) An increase in depreciation expense
C) A decrease in variable costs
D) An increase in the taxes paid
E) A decrease in sales

Answer: B

222) Which one of the following will increase earnings per share, all else held constant?

A) An increase in depreciation expense.
B) A decrease in the number of shares outstanding.
C) A decrease in sales of the firm.
D) An increase in marginal tax rates.
E) An increase in wages paid to employees.

Answer: B

223) A liquid asset is defined as an asset which:

A) Has no physical presence, such as a patent.
B) Can be quickly converted into cash without significant loss in value.
C) A firm expects to own for a period of ten years or more.
D) A firm purchased with cash within the last year.
E) Has a physical presence and can be touched.

Answer: B

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224) Which of the following statements concerning a statement of financial position is (are) correct?
A) A patent is an example of an intangible asset.
B) Assets equal liabilities minus shareholders' equity.
C) Retained earnings is classified as long-term debt.
D) Current liabilities can be converted into cash within twelve months.
E) The statement is also known as a profit and loss statement.
Answer: A

225) Which of the following assets is the most liquid?
A) An amount receivable from a customer for a service provided
B) A patent on a new kitchen appliance
C) An office building
D) An electric saw for sale by a hardware store
E) A manufacturing plant
Answer: A

226) Which of the following will cause net income to decrease for the following year?
A) An increase in the amount of dividends paid per share.
B) An increase in profit margins.
C) A reduction in tax rates.
D) A reduction in depreciation expense.
E) The accumulation of more long-term debt by a firm.
Answer: E

227) Which one of the following will decrease net working capital?
A) A sale of a fixed asset for cash.
B) An increase in accounts payable.
C) An increase in accounts receivable.
D) A sale of inventory at a profit.
E) A decrease in accounts payable.
Answer: B

228) Which one of the following will increase shareholders' equity, all else held constant?
A) The collection of an account s receivable.
B) A sale of inventory at a profit.
C) A payment on a loan.
D) A purchase of equipment on account.
E) The declaration of a stock dividend.
Answer: B

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229) Which of the following assets would most likely be considered the least liquid?
A) A share of common stock in Nortel.
B) A share of preferred stock in GM of Canada.
C) A Canadian Treasury bill.
D) A Lethbridge, Alberta municipal bond.
E) A bond issued by Corel.
Answer: D

230) Which one of the following is an example of an intangible asset?
A) Furniture.
B) Inventory.
C) Accounts payable.
D) Accounts receivable.
E) Patent.
Answer: E

231) For which of the following statement of financial position items will the book value and market value most likely be closest at the time the statement of financial position is prepared?
A) Retained earnings.
B) Net fixed assets.
C) Common stock.
D) Accounts receivable.
E) Long-term debt.
Answer: D

232) Which of the following is NOT a component of cash flow from assets?
A) Additions to net working capital.
B) Net payables.
C) Operating cash flow.
D) Retained Earnings.
E) Net new borrowings.
Answer: E

233) Which of the following will increase the amount of the cash flow to creditors?
A) The early payment of an account payable
B) The payment of a cash dividend
C) An early payoff of a long-term loan
D) A decrease in the rate of interest charged on a loan
E) A new long-term loan
Answer: C

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234) Dividend tax credit is best described as:

A) An incentive for investors to invest in US corporations by reducing federal and provincial tax on dividends income.
B) A tax incentive received by corporations if they provide dividends to investors.
C) An incentive for investors to invest in Canadian corporations by reducing federal and provincial tax on dividends income.
D) A method to pre-pay taxes to Canada Revenue Agency based on dividend income earned.
E) An incentive for investors to invest in European corporations by reducing federal and provincial tax on dividends income.

Answer: C

235) Which one of the following will cause cash flow to stockholders to increase, all else constant?

A) An increase in cash flow to creditors given no change in cash flow from assets
B) A secondary common stock offering
C) A decrease in cash flow to creditors given an increase in cash flow from assets
D) A decrease in dividends per share
E) A decrease in cash flow from assets given no change in cash flow to creditors

Answer: C

236) Which one of the following will increase net working capital?

A) The write-off of a bad debt.
B) An increase in accounts payable.
C) An increase in depreciation.
D) A decrease in cash.
E) A profitable sale of inventory.

Answer: E

237) A current asset is:

A) The amount of cash on hand the firm currently shows on its statement of financial position.
B) An item currently owned by the firm.
C) An item that the firm expects to own within the next year.
D) The market value of all the items currently owned by the firm.
E) An item currently owned by the firm that will convert to cash within the next 12 months.

Answer: E

238) Dividends per share:

A) Increases as the net income increases as long as the number of shares outstanding remains constant.
B) Decreases as the number of shares outstanding decrease, all else constant.
C) Are equal to the amount of net income distributed to shareholders divided by the number of shares outstanding.
D) Are inversely related to the earnings per share.
E) Are based upon the dividend requirements established by Generally Accepted Accounting Procedures.

Answer: C

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239) The asset categories within the statement of financial position:
A) Are always equal to total liabilities minus shareholders' equity.
B) Do not include intangible assets.
C) Are listed in order of increasing liquidity.
D) Represent items acquired with the use of the firm's assumed liabilities and equity.
E) Provide an indication of revenues less expenses.
Answer: D

240) Suppose you have the 2015 statement of comprehensive income for a firm, along with the 12/31/2014 and 12/31/2015 statement of financial positions. How would you calculate net capital spending?
A) Ending net fixed assets (2015) plus beginning net fixed assets (2014) minus 2015 taxes paid
B) Beginning net fixed assets (2014) plus ending net fixed assets (2015) minus 2015 depreciation
C) Ending net fixed assets (2015) minus beginning net fixed assets (2014) plus 2015 taxes paid
D) Ending net fixed assets (2015) minus beginning net fixed assets (2014) plus 2015 depreciation
E) Beginning net fixed assets (2014) minus ending net fixed assets (2015) plus 2015 depreciation
Answer: D

241) _____ normally must be paid by a firm within 12 months.
A) Accounts receivable
B) Bonds
C) Long-term bank loans
D) Current liabilities
E) Marketable securities
Answer: D

242) Which of the following accurately describes the relation between book and market value?
A) The market value of current assets is often difficult to determine, and thus of little value to the decision making process of financial managers.
B) Financial managers should rely on market values, and not book values, when making decisions for the firm, because the firm's tax liability is based on market values.
C) Book value is an accounting summary of value and is inferior to market value as a source of current information regarding the true value of the firm.
D) Financial managers should rely on book values, and not market values, when making decisions for the firm, because the firm's tax liability is based on book values.
E) Market value always exceeds book value.
Answer: C

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243) Calculate the tax difference between a British Columbia resident and an Ontario resident both having $20,000 in interest income and $25,000 in capital gains.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) British Columbia resident would pay $1,213.50 less than the Ontario resident.
B) British Columbia resident would pay $1,456.50 less than the Ontario resident.
C) British Columbia resident would pay $1,456.50 more than the Ontario resident.
D) British Columbia resident would pay $1,213.50 more than the Ontario resident.
E) There are no tax differences between the two tax payers.

Answer: A

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244) Calculate the tax difference between a British Columbia resident and an Alberta resident both having $20,000 in capital gains and $10,000 in eligible dividends.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) There are no tax differences between the two tax payers.
B) British Columbia resident would pay $1,919.00 more than the Alberta resident.
C) British Columbia resident would pay $1,619.00 more than the Alberta resident.
D) British Columbia resident would pay $1,619.00 less than the Alberta resident.
E) British Columbia resident would pay $1,919.00 less than the Alberta resident.

Answer: C

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245) Calculate the tax difference between a British Columbia resident and a Quebec resident both having $20,000 in interest income and $25,000 in capital gains.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) There are no tax differences between the two tax payers.
B) British Columbia resident would pay $2,456.50 less than the Quebec resident.
C) British Columbia resident would pay $1,356.50 more than the Quebec resident.
D) British Columbia resident would pay $1,356.50 less than the Quebec resident.
E) British Columbia resident would pay $2,456.50 more than the Quebec resident.

Answer: D

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246) Calculate the tax difference between a British Columbia resident and a Quebec resident both having $20,000 in capital gains and $10,000 in eligible dividends.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) British Columbia resident would pay $1,072.00 more than the Quebec resident.
B) British Columbia resident would pay $2,502.00 less than the Quebec resident.
C) British Columbia resident would pay $1,072.00 less than the Quebec resident.
D) British Columbia resident would pay $2,502.00 more than the Quebec resident.
E) There are no tax differences between the two tax payers.

Answer: C

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247) Calculate the tax difference between a British Columbia resident and an Alberta resident both having $20,000 in interest income and $25,000 in capital gains.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) British Columbia resident would pay $3,500.00 more than the Alberta resident.
B) British Columbia resident would pay $3,500.00 less than the Alberta resident.
C) British Columbia resident would pay $2,210.00 more than the Alberta resident.
D) British Columbia resident would pay $2,210.00 less than the Alberta resident.
E) There are no tax differences between the two tax payers.

Answer: C

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248) Calculate the tax difference between a British Columbia resident and an Ontario resident both having $20,000 in capital gains and $10,000 in eligible dividends.

Combined marginal tax rates for individuals in top provincial tax bracket

Provinces/Territories	Interest and Regular Income (%)	Capital Gains (%)	Eligible Dividends (%)	Non-eligible Dividends (%)
British Columbia	45.80	22.90	28.68	37.98
Alberta	39.00	19.50	19.29	29.36
Saskatchewan	44.00	22.00	24.81	34.91
Manitoba	46.40	23.20	32.27	40.77
Ontario	49.53	24.77	33.82	40.13
Quebec	49.97	24.99	35.22	39.79
New Brunswick	46.84	23.42	27.35	36.02
Nova Scotia	50.00	25.00	36.06	39.07
Prince Edward Island	47.37	23.69	28.71	38.74
Newfoundland and Labrador	42.30	21.15	30.20	32.08

A) British Columbia resident would pay $888.00 less than the Ontario resident.
B) British Columbia resident would pay $888.00 more than the Ontario resident.
C) British Columbia resident would pay $999.00 more than the Ontario resident.
D) British Columbia resident would pay $999.00 less than the Ontario resident.
E) There are no tax differences between the two tax payers.

Answer: A

249) A fundamental difference between Canadian GAAP and IFRS is that:
A) Canadian GAAP records transactions in Canadian Dollars, whereas IFRS records transactions in Euros.
B) IFRS does not require a statement of comprehensive income.
C) There are no fundamental differences between Canadian GAAP and IFRS.
D) Fair value accounting plays a more important role under IFRS than Canadian GAAP.
E) Fair value accounting plays a more important role under Canadian GAAP than IFRS.

Answer: D

250) Under GAAP, statement of financial position, assets are _____.
A) Listed in order of increasing relative liquidity.
B) Carried at the larger of historic cost and market value.
C) Carried on the books at historical cost.
D) Carried on the books at market value.
E) Only carried on the books if they are relatively liquid.

Answer: C

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251) If operating cash flow is negative, then _____.

A) Cash flow from assets may be positive.
B) Cash flow to bondholders must be negative.
C) The firm is bankrupt.
D) The firm can pay no dividends.
E) Cash flow to stockholders must be positive.

Answer: A

252) Cash flow from assets is equal to which of the following?

A) Cash flow to shareholders + cash flow to creditors
B) Cash flow to shareholders + operating cash flow
C) Cash flow to creditors + cash flow to the government
D) Cash flow to shareholders - net new borrowing
E) Cash flow to creditors - cash flow to shareholders

Answer: A

253) Cash flow to creditors is best described as:

A) A firm's interest payments to creditors less net new borrowings.
B) Cash flow to creditors is also referred to as free cash flow.
C) Dividends paid out by a firm less net new equity raised.
D) The net difference between total assets and total liabilities.
E) The sum of cash flow to bondholders and shareholders

Answer: A

254) Free cash flow is commonly referred to as a firm's:

A) Cash flow from assets.
B) Cash flow to stockholders.
C) Net working capital.
D) Liquid capital.
E) Cash flow to creditors.

Answer: A

255) Cash flow to shareholders is best described as:

A) The sum of cash flow to bondholders and shareholders
B) Cash flow to shareholders is also referred to as free cash flow.
C) Dividends paid out by a firm less net new equity raised.
D) The net difference between total assets and total liabilities.
E) A firm's interest payments to creditors less net new borrowings.

Answer: C

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256) If the market value of an asset exceeds the book value of that asset, then the sale of the asset will:
A) Cause net profits to decline.
B) Result in a capital loss.
C) Cause operating cash flows to decrease.
D) Cause a cash outflow for the firm.
E) Generate taxable income.
Answer: E

257) Which of the following does NOT directly appear in either of the two definitions of cash flow from assets?
A) Addition to retained earnings.
B) Changes in net working capital.
C) Net capital spending.
D) Cash flow to stockholders.
E) Operating cash flow.
Answer: A

258) The rationale for examining financial statements is to:
A) Determined if they adhere to GAAP.
B) Maintain consistency.
C) Extract key information for future decision making.
D) Attain precise and accurate data of the company.
E) Consider what went wrong.
Answer: C

259) The ease and speed with which an asset can be converted into cash is called:
A) Marketability.
B) Liability.
C) Convertibility.
D) Transferability.
E) Liquidity.
Answer: E

260) Which one of the following is a tangible asset of a restaurant?
A) Baking oven.
B) Goodwill.
C) Patent on a mixing machine.
D) Copyrighted cook book.
E) Old family recipe.
Answer: A

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261) Which of the following statement of comprehensive income accounts is a non-cash item?
A) Depreciation.
B) Income taxes.
C) Interest expense.
D) Cost of goods sold.
E) Wages and salaries.
Answer: A

262) CCA Half-year rule is best described as:
A) An accounting rule that is not allowed under CRA requirements.
B) CRA's requirement to figure CCA on only one-half of an asset's installed cost for its first year of use.
C) CRS's option to value the assets at one-half of its value for the duration of use.
D) CRA's requirement to figure CCA on only one-half of an asset's installed cost for its last year of use.
E) CRA's option to depreciate the asset over half of its useful life.
Answer: B

263) Which of the following equation is correct?
A) Ending net fixed assets + depreciation = Net capital spending
B) Current assets - current liabilities = Change in net working capital
C) Operating cash flow + net capital spending = Cash flow from assets
D) EBIT + depreciation - taxes = OCF
E) EBIT - Depreciation + Taxes = OCF
Answer: D

264) The statement of financial position identity states that:
A) Cash flow = Market value - Book value
B) Assets = Liabilities + Shareholders' equity
C) Current liabilities + Long-term debt = Total liabilities
D) Current assets + Fixed assets = Total assets
E) Common stock + Retained earnings = Shareholders' equity
Answer: B

265) Cash flow from assets represents the cash:
A) Available to distribute to creditors and stockholders.
B) Available to pay for current asset purchases.
C) Currently held in the bank.
D) Generated solely from the sale of company assets.
E) Generated solely from a firm's daily sales.
Answer: A

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266) The earnings per share will:

A) Remain constant if the number of shares outstanding is increased.
B) Decrease only if the net income of a firm decreases.
C) Decrease if the tax rate decreases.
D) Decrease anytime the revenue of a firm decreases.
E) Decrease if the number of shares outstanding is increased.

Answer: E

267) The earnings per share will:

A) Increase as the number of shares outstanding increase.
B) Decrease as the costs decrease.
C) Decrease as the total revenue of the firm increases.
D) Increase as net income increases.
E) Increase as the tax rate increases.

Answer: D

268) All else constant, the cash flow to stockholders:

A) Decreases as the common stock account balance decreases.
B) Decreases when a firm decreases its degree of financial leverage.
C) Decreases when the cash flow from assets increases.
D) Decreases when the dividends per share are decreased.
E) Remains unchanged when the firm repurchases shares of outstanding stock.

Answer: D

269) Which of the following are included in current assets?

A) Shareholders' equity
B) Equipment
C) Accounts payable
D) Inventory
E) Depreciation

Answer: D

270) Net income differs from operating cash flow due to the handling of:

A) Interest expense and depreciation.
B) Dividends and interest expense.
C) Depreciation and dividends.
D) Dividends, interest expense, and depreciation.
E) Dividends.

Answer: A

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271) Which one of the following statements is correct concerning a statement of comprehensive income?
A) Taxes will increase the amount of a loss incurred by a firm with negative taxable income.
B) Interest expense decreases the taxes owed by a firm.
C) Depreciation increases the net income of a firm.
D) Net income is equivalent to the operating cash flow of a firm.
E) Net income is either paid out as dividends or added to the retained earnings of the firm.
Answer: E

272) As seen on a statement of comprehensive income:
A) Interest is deducted from income and increases the total taxes incurred.
B) Depreciation reduces both the taxable income and the net income.
C) Depreciation is shown as an expense but does not affect the taxes payable.
D) Interest expense is added to earnings before interest and taxes to get taxable income.
E) The tax rate is applied to the earnings before interest and taxes when the firm has both depreciation and interest expenses.
Answer: B

273) Which one of the following statements concerning net working capital is correct?
A) The change in net working capital is equal to current assets minus current liabilities.
B) Depreciation must be added back to current assets when computing the change in net working capital.
C) Net working capital is equal to long-term assets minus long-term liabilities.
D) Net working capital is a part of the operating cash flow.
E) The greater the net working capital, the greater the ability of a firm to meet its short-term obligations.
Answer: E

274) Which one of the following is a non-cash item?
A) Rent expense.
B) Company provided health insurance.
C) Depreciation of equipment.
D) Payroll tax expense.
E) Down payment on a building.
Answer: C

275) How will differentiating sources and uses of cash from past projects assist the manager in future projects?
A) Perfectly timing cash flows.
B) Determining cash flows with perfect precision.
C) Better predicting cash flows.
D) Estimating stock price.
E) Identifying cash flows immediately.
Answer: C

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276) Dividends per share are equal to:

A) Dividends paid divided by the total number of shares outstanding.
B) Dividends paid multiplied by the total number of shares outstanding.
C) Dividends paid divided by total stockholders' equity.
D) Dividends paid divided by the par value of common stock.
E) Dividends paid multiplied by the par value of common stock.

Answer: A

277) The cash flow from assets is equal to:

A) Earnings before interest and taxes plus depreciation plus taxes minus net capital spending minus the change in net working capital.
B) Earnings before interest and taxes plus depreciation plus taxes.
C) Cash flow to creditors minus the cash flow to shareholders.
D) Operating cash flow minus the change in net working capital plus net capital spending.
E) Earnings before interest and taxes plus depreciation minus taxes minus net capital spending minus the change in net working capital.

Answer: E

278) Suppose you have the beginning and ending year statement of financial positions of Samco, a steel company based in Hamilton, along with the year's statement of comprehensive income. Changes in net working capital (NWC) would be calculated as:

A) Ending NWC minus depreciation minus beginning NWC.
B) Ending NWC minus beginning NWC.
C) Ending NWC plus depreciation minus beginning NWC.
D) Ending NWC plus taxes paid plus beginning NWC.
E) Ending NWC plus beginning NWC.

Answer: B

279) Cash flow to stockholders is:

A) Equal to operating cash flow minus additions to net working capital minus net capital spending.
B) Equal to sales of equity plus cash dividends paid.
C) Equal to cash dividends minus repurchases of equity plus new equity sold.
D) Usually greater than cash flow to creditors.
E) Equal to total cash flow from assets minus cash flow to creditors.

Answer: E

280) Liquidity is:

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

Answer: C

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281) A statement of comprehensive income _____.

A) Measures performance as a snapshot on a specific date.
B) Is an accurate representation of a firm's net cash flows.
C) Prepared according to GAAP, will show revenue when it accrues.
D) Excludes accrued taxes payable.
E) Includes expenses only when they are ultimately paid off in cash.

Answer: C

282) Non-cash items are:

A) Expenses incurred for the purchase of intangible fixed assets.
B) The credit sales of a firm.
C) Expenses charged against revenues that do not directly affect cash flow.
D) The accounts payable of a firm.
E) All accounts on the statement of financial position other than cash on hand.

Answer: C

283) Net working capital is defined as:

A) Total assets minus total liabilities.
B) Fixed assets minus shareholders' equity.
C) Current liabilities minus shareholders' equity.
D) Total liabilities minus shareholders' equity.
E) Current assets minus current liabilities.

Answer: E

284) The _____ tax rate is the rate that applies if one more dollar of income is earned and the _____ tax rate is the total tax bill divided by taxable income.

A) flat; marginal
B) marginal; average
C) marginal; flat
D) average; marginal
E) flat; average

Answer: B

285) Free cash flow is best described as:

A) Free cash flow is also referred to as cash flow from assets.
B) The difference of cash flow to bondholders and shareholders
C) A firm's interest payments to creditors less net new borrowings.
D) The net difference between total assets and total liabilities.
E) Dividends paid out by a firm less net new equity raised.

Answer: A

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286) The use of debt in a firm's capital structure is called:
A) Liquidity.
B) Free cash flow.
C) Financial leverage.
D) Equity financing.
E) Net working capital.
Answer: C

287) Operating cash flow is defined as the cash flow:
A) Which a firm distributes to its shareholders in the form of dividends.
B) Used by a firm to acquire new fixed assets.
C) That results from a firm's ongoing, daily business activities.
D) From debt issued by a firm to finance its ongoing operations.
E) Which a firm uses to increase its current accounts.
Answer: C

288) The common set of standards and procedures by which audited financial statements are prepared is known as:
A) The matching principle.
B) The cash flow identity.
C) Generally Accepted Accounting Principles (GAAP).
D) The 1993 Omnibus Budget Reconciliation Act.
E) The Freedom of Information Act (FOIA).
Answer: C

289) Book value:
A) Is more of a financial than an accounting valuation.
B) Is based on historical cost.
C) Generally tends to exceed market value when fixed assets are included.
D) Is equivalent to market value for firms with fixed assets.
E) Is adjusted to market value whenever the market value exceeds the stated book value.
Answer: B

290) Which of the following assets is generally considered to be the least liquid?
A) Inventory.
B) Cash.
C) Accounts receivable.
D) Goodwill.
E) Plant and equipment.
Answer: D

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291) Earnings per share is equal to:

A) Net income divided by total stockholders' equity.
B) Net income divided by the par value of common stock.
C) Operating income divided by the par value of common stock.
D) Gross income multiplied by the par value of common stock.
E) Net income divided by the total number of shares outstanding.

Answer: E

292) The cash generated from a firm's normal business activities is called:

A) Net income.
B) Operating cash flow.
C) Gross profit.
D) Financing cash flow.
E) Free cash flow.

Answer: B

293) Cash flow from assets is also known as the firm's _____.

A) Free cash flow.
B) Historical cash flow.
C) Capital structure.
D) Equity structure.
E) Hidden cash flow.

Answer: A

294) Which of the following is a component of cash flow to creditors?

I. Interest paid.
II. Net new borrowing.
III. Dividends paid.

A) I only
B) I and III only
C) I and II only
D) II only
E) II and III only

Answer: C

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295) An increase in which of the following will cause operating cash flow to decrease, all else the same?

I. Interest expense.
II. Depreciation.
III. Taxes paid.

A) II and III only
B) III only
C) II only
D) I only
E) I and II only

Answer: B

296) Intangible assets _____.

A) Are not generally very valuable.
B) Include any item that exists physically.
C) Are classified on the statement of financial position just before accounts receivable.
D) Include such things as patents.
E) Are generally considered very liquid.

Answer: D

297) Shareholders' equity:

A) Includes all of a firm's earnings retained by the firm to date.
B) Includes common stock, paid in surplus, retained earnings, and long-term debt.
C) Increases, all else equal, when the dividends paid are greater than the net income for a year.
D) Includes the book value of any bonds issued by the firm.
E) On a statement of financial position is equivalent to the market value of the outstanding shares of stock.

Answer: A

298) The earnings per share will:

A) Increase anytime the revenue of a firm increases.
B) Increase if the tax rate increases.
C) Remain constant if the number of shares outstanding is increased.
D) Increase if the number of shares outstanding is decreased.
E) Increase only if the net income of a firm increases.

Answer: D

299) All else constant, the cash flow to stockholders:

A) Increases when the dividends per share are increased.
B) Increases as the common stock account balance increases.
C) Increases when the cash flow from assets decreases.
D) Remains unchanged when the firm repurchases shares of outstanding stock.
E) Increases when a firm increases its degree of financial leverage.

Answer: A

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300) An increase in the financial leverage of a firm as a result of an increase in outstanding debt _____ the potential reward to stockholders while _____ the risk of financial distress or bankruptcy.

A) Decreases; increasing
B) Increases; decreasing
C) Decreases; decreasing
D) Does not affect; increasing
E) Increases; increasing

Answer: E

301) When a firm initially acquires debt to help finance its operations, it is said that the firm is:

A) Increasing its liquidity.
B) Employing financial leverage.
C) Increasing its operating cash flows.
D) Spending its cash flow from assets.
E) Increasing its marketability.

Answer: B

302) A(n) _____ asset is one which can be quickly converted into cash without significant loss in value.

A) Current B) Liquid C) Fixed D) Long-term E) Intangible

Answer: B

303) What is the proper measure of cash flow to creditors in a given year?

A) Interest paid plus changes in long-term debt.
B) Operating cash flow minus net new borrowing.
C) Interest paid.
D) Interest paid minus net new borrowing.
E) Interest paid plus net new borrowing minus additions to net fixed assets.

Answer: D

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

A) Net working capital includes accounts from the statement of comprehensive income.
B) Net working capital includes cash, accounts receivables, fixed assets, and accounts payable.
C) The change in net working capital is equal to the beginning net working capital minus the ending net working capital.
D) Inventory is a part of net working capital.
E) Net working capital is negative when current assets exceed current liabilities.

Answer: D

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305) A current asset:
A) Is included in the statement of comprehensive income.
B) Is an illiquid asset.
C) Is part of shareholders' equity.
D) Includes accounts payable.
E) Has a life of less than one year.
Answer: E

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

307) Which of the following is generally true regarding liquidity as it relates to the firm?
A) Liquidity is valuable to a firm because liquid assets can be sold quickly without much loss in value.
B) Liquidity is valuable to a firm because a firm can borrow money using its liquid assets, such as a warehouse, as collateral.
C) Liquid assets generally earn a large return, especially in comparison to illiquid assets.
D) Assets are generally listed on a firm's statement of financial position in the order of increasing liquidity.
E) Liquidity is detrimental to a firm because it allows the firm to pay its bills more easily, thereby avoiding financial distress.
Answer: A

308) Which of the following financial statement items is generally considered the most liquid?
A) Intangible assets.
B) Net fixed assets.
C) Long-term debt.
D) Accounts receivable.
E) Patents and trademarks.
Answer: D

309) Accounts payable are a component of:
A) Net working capital.
B) Fixed assets.
C) Long-term debt.
D) Shareholders' equity.
E) Current assets.
Answer: A

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310) When you are making a financial decision, the most relevant tax rate is the _____ rate.
A) average B) marginal C) total D) variable E) fixed
Answer: B

311)

Taxable income	Tax rate
0 - 50,000	15%
50,001 - 75,000	25%
75,001 - 100,000	34%
100,001 - 335,000	39%

If Systemic Corporation reports taxable income of $77,000, then the _____.
A) marginal tax rate is 15.0%
B) marginal tax rate is 39.0%
C) average tax rate is 34.0%
D) average tax rate is 18.7%
E) marginal tax rate is 25.0%
Answer: D

312) The cost of an asset less the depreciation to date is referred to as the net _____ value.
A) Liquid B) Book C) Financial D) Market E) Cash
Answer: B

313) According to Generally Accepted Accounting Principles, costs are:
A) Matched with the Inventory level.
B) Expensed as management desires.
C) Matched with revenues.
D) Recorded when paid.
E) Matched with production levels.
Answer: C

314) An increase in total assets:
A) Can only occur when a firm has positive net income.
B) Means that net working capital is also increasing.
C) Must be offset by an equal increase in liabilities and shareholders' equity.
D) Means that shareholders' equity must also increase.
E) Requires an investment in fixed assets.
Answer: C

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315) Operating cash flow is equal to earnings before interest and taxes:
A) Minus interest plus taxes.
B) Minus depreciation plus taxes.
C) Plus depreciation minus taxes.
D) Plus interest minus taxes.
E) Minus depreciation minus taxes.
Answer: C

316) Assume a firm has depreciation, taxes, and interest expense. In this case, operating cash flow:
A) Is the same as net income plus depreciation.
B) Must be positive because depreciation is added to the taxable income.
C) Is equal to the cash flow to creditors.
D) Can be positive, negative, or equal to zero.
E) Is the same as net income.
Answer: D

317) A firm with negative net working capital _____.
A) Needs to sell some of its inventory to correct the problem.
B) Most likely will not run short of cash over the next six months.
C) Is technically bankrupt.
D) Has no cash on hand.
E) Has more current liabilities than current assets.
Answer: E

318) Which of the following statements is false?
A) Net income as calculated from the statement of comprehensive income is not the net cash flow of the firm.
B) The cash flow identity states that all net cash flows earned by the firm are distributed in whole to its creditors and shareholders.
C) The book value of an asset on the statement of financial position can be very different from its market value.
D) Non-cash items are expenses charged against revenues that do not directly affect cash flow.
E) While marginal and average tax rates often differ, it is the average tax rate that is relevant for most financial decisions.
Answer: E

319) Operating cash flow can be computed as:
A) Earnings before interest and taxes plus depreciation and interest, minus taxes.
B) Net income plus depreciation.
C) Net income minus depreciation plus taxes.
D) Cash flow from assets plus net capital spending plus the change in net working capital.
E) Earnings before interest and taxes plus depreciation minus taxes.
Answer: B

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320) Net capital spending is equal to _____.

A) Net income plus depreciation.
B) The change in net working capital.
C) The change in net fixed assets minus depreciation.
D) Operating cash flow minus cash flow from assets minus additions to net working capital.
E) Total cash flow to stockholders' less interest and dividends paid.

Answer: D

321) Current assets minus current liabilities are referred to as:

A) Net income.
B) Net book value.
C) Net assets.
D) Net working capital.
E) Tangible assets.

Answer: D

322) Which of the following would decrease the financial leverage of a firm?

A) Net new bonds are sold and outstanding common stock is repurchased.
B) Net new equity is sold and existing bonds are paid off.
C) Total assets increase and the debt-to-equity ratio remains constant.
D) Total debt increases and total assets remain constant.
E) Net new bonds are sold and short-term notes payable are paid off.

Answer: B

323) Cash flow to stockholders is equal to _____.

A) Dividends paid minus net new equity.
B) Dividends paid.
C) Net income.
D) Dividends paid minus interest paid.
E) Net new equity.

Answer: A

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

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

Answer: D

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325) An increase in which one of the following will cause the cash flow from assets to increase?
A) Taxes
B) Net working capital
C) Change in net working capital
D) Costs
E) Depreciation
Answer: E

326) A computer used in a business office by the office manager is classified as:
A) A current asset.
B) Net working capital.
C) A tangible asset.
D) An intangible asset.
E) An inventory item.
Answer: C

327) Value derived by subtracting current liabilities from current assets is called:
A) Cash flow from assets.
B) The liquid asset value.
C) Net capital spending.
D) Operating cash flow.
E) Net working capital.
Answer: E

328) _____ refers to the net total cash flow of the firm accruing to its creditors and stockholders.
A) Capital spending.
B) Operating cash flow.
C) Cash flow to creditors.
D) Cash flow from assets.
E) Net working capital.
Answer: D

329) _____ refers to the firm's interest payments less any net new borrowing.
A) Operating cash flow.
B) Capital spending.
C) Cash flow from assets.
D) Cash flow to creditors.
E) Net working capital.
Answer: D

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330) _____ refers to the firm's dividend payments less any net new equity raised.
A) Operating cash flow.
B) Net working capital.
C) Cash flow from assets.
D) Cash flow to stockholders.
E) Capital spending.
Answer: D

331) _____ refers to the net spending of the firm on fixed asset purchases.
A) Cash flow to creditors.
B) Net working capital.
C) Cash flow from assets.
D) Operating cash flow.
E) Capital spending.
Answer: E

332) _____ refers to the cash flow from the firm's ongoing, normal business activities.
A) Operating cash flow.
B) Net working capital.
C) Cash flow from assets.
D) Capital spending.
E) Cash flow to creditors.
Answer: A

333) The net new equity raised by a firm during a given year can be calculated as:
A) New equity sales minus equity repurchases plus retained earnings.
B) New equity sales plus retained earnings.
C) New equity sales minus equity repurchases.
D) New equity sales minus equity repurchases plus retained earnings minus dividends paid.
E) New equity sales minus dividends paid.
Answer: C

334) Cash flow to stockholders must be positive when:
A) No income is distributed but new shares of stock are sold.
B) The net sale of common stock exceeds the amount of dividends paid.
C) The dividends paid exceed the net new equity raised.
D) Both the cash flow to assets and the cash flow to creditors are negative.
E) Both the cash flow to assets and the cash flow to creditors are positive.
Answer: C

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335) On January 1, Slowpay Company makes a verbal commitment to buy a $150,000 piece of equipment. (On January 5 the contract is signed.) A $1,000 down payment is paid on January 5 and the machine is delivered on January 11. The balance owed is due on February 15, but Slowpay waits until March 10 to pay. When will the firm that sold the equipment to Slowpay recognize the sale as income under GAAP rules?

A) On February 15, when the payment is due.
B) On January 5, when the contract is signed.
C) On January 1, when the commitment is made.
D) On January 10, when Slowpay takes possession.
E) On March 10, when payment is received.

Answer: B

336) Operating cash flow is best described as:

A) The net difference between total assets and total liabilities.
B) The amount of cash used in operating the company.
C) A firm's interest payments to creditors less net new borrowings.
D) Operating cash flow is also referred to as free cash flow.
E) Dividends paid out by a firm less net new equity raised.

Answer: B

337) Cash flow from assets is equal to:

A) Operating cash flow plus net capital spending minus the change in net working capital.
B) Operating cash flow minus the change in net working capital minus net capital spending.
C) Operating cash flow minus depreciation plus taxes.
D) Operating cash flow minus net new equity plus net new borrowing.
E) Cash flow to creditors minus cash flow to stockholders.

Answer: B

338) Cash flow from assets is best described as:

A) Operating cash flows.
B) The net difference between total assets and total liabilities.
C) The sum of cash flow to bondholders and shareholders
D) Dividends paid out by a firm less net new equity raised.
E) A firm's interest payments to creditors less net new borrowings.

Answer: C

339) Assets are listed on the statement of financial position in:

A) No particular order.
B) Order of decreasing liquidity.
C) Order of preference in bankruptcy.
D) Order of importance to the firm.
E) Order of increasing size.

Answer: B

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340) The cash flow to creditors includes the cash:
A) Received when long-term debt is paid off.
B) Inflow when accounts payable decreases.
C) Outflow of the firm when new debt is acquired.
D) Received by the firm when payments are paid to suppliers.
E) Outflow when interest is paid on outstanding debt.
Answer: E

341) Which of the following is NOT typically characterized as a current asset?
A) Marketable securities.
B) Inventory.
C) Cash on hand.
D) Patents.
E) Accounts receivable.
Answer: D

342) Which one of the following will increase the net working capital of a retail bakery shop?
A) Sale of excess equipment
B) Purchase of inventory on credit
C) Sale of inventory on credit
D) Purchase of new office equipment
E) Payment received from a customer
Answer: A

343) The marginal tax rate can be explained as the amount of tax due:
A) In excess of the tax liability for the prior tax year.
B) As a percentage of the firm's sales for any given tax year.
C) Per dollar of taxable income earned.
D) On an additional dollar of taxable income.
E) Per share of stock outstanding.
Answer: D

344) Fixed costs in the short-run generally include which of the following?
A) Contractual commitments to purchase supplies.
B) Property insurance.
C) Manufacturing wages.
D) Material used in manufacturing.
E) Utilities in manufacturing plant.
Answer: B

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345) Anax Corporation purchased a long-term asset for $100,000. The asset has a 30% CCA rate. At the end of year 5, Anax sold the asset for 25% of its original value. Given this information, determine the value of the terminal loss or recapture at the end of year 5.

A) Terminal Loss $4,391
B) Recapture $1,501
C) Recapture $4,391
D) Recapture; $4,591
E) Terminal Loss $1,501

Answer: D

346) Dividends paid:

A) Are considered a noncash expense.
B) Must be equal to or less than the net income earned each year.
C) Reduce the taxable income of a firm.
D) Equal the cash flow to stockholders in any given year.
E) Are equal to net income less the change in retained earnings.

Answer: E

347) Depreciation:

A) Decreases net fixed assets, net income, and operating cash flows.
B) Increases the net fixed assets as shown on the statement of financial position.
C) Reduces both the net fixed assets and the costs of a firm.
D) Is a non-cash expense which increases the net operating income.
E) Is a noncash expense that is recorded on the statement of comprehensive income.

Answer: E

348) Capital cost allowance (CCA) is best described as:

A) The ending balance of an asset class after depreciation has been deducted.
B) The beginning balance of an asset class before depreciation has been deducted.
C) The method by which Canadian businesses may claim depreciation expense for calculating taxable income under the Canadian Income Tax Act.
D) The method by which Canadian businesses may record capital assets under the Canadian Income Tax Act.
E) A government tax credit provided to Canadian businesses for upgrading their capital assets.

Answer: C

349) Cash flow from assets:

A) Is another term for the net cash flow from a firm's ongoing, normal business activities.
B) Is defined as the change in net fixed assets plus depreciation.
C) Refers to the change in a firm's cash account over a stated period of time.
D) Is defined as the net change in the total assets of a firm over a stated period of time.
E) Is defined as the cash available for distribution to creditors and stockholders.

Answer: E

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350) The statement of financial position:

A) Reflects the current market value of the firm.
B) Reflects the financial status of the firm as of a particular date.
C) Reflects the cash flows of a firm over a period of time.
D) Reflects the income and expenses for the current month only.
E) Reflects the income and expenses incurred year-to-date.

Answer: B

351) Net capital spending:

A) Is equivalent to the cash flow from assets.
B) Reflects the net changes in total assets over a stated period of time.
C) Is negative if the sale of fixed assets is greater than the acquisition of current assets.
D) Is equal to the ending net fixed assets minus the beginning net fixed assets.
E) Is equal to zero if the decrease in the fixed assets account is equal to the depreciation expense for the period.

Answer: E

352) When making financial decisions related to assets, you should:

A) Rely primarily on the value of assets as shown on the statement of financial position.
B) Only consider market values if they are less than book values.
C) Always consider market values.
D) Place primary emphasis on historical costs.
E) Place more emphasis on book values than on market values.

Answer: C

353) In 2015, Sensicon Company, based in Toronto, experienced negative cash flow from assets. It must be the case that:

A) The company is in financial distress.
B) Operating cash flow was less than the combination of additions to net working capital and net new capital expenditures.
C) Sensicon's dividend payments were greater than its interest payments.
D) Sensicon's interest payments were greater than its dividend payments.
E) Cash flow to creditors and cash flow to shareholders are both negative.

Answer: B

354) Which of the following statements is true?

A) Liabilities equal assets plus shareholders' equity.
B) Assets equal liabilities plus shareholders' equity.
C) Shareholders' equity equals liabilities minus assets.
D) Shareholders' equity equals assets plus liabilities.
E) Assets equal liabilities minus shareholders' equity.

Answer: B

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355) Suppose a firm has a negative UCC balance. They:

A) Should use the negative amount as a future tax loss.
B) Should sell off all items in the asset pool.
C) Can calculate CCA for the year using the negative balance.
D) Can claim the amount as a tax deductible expense.
E) Must add the amount (as a positive number) to their taxable income.

Answer: E

356) When net capital spending is a negative value, the firm has:

A) Acquired more fixed assets than it has current assets.
B) Reduced its investment in inventory.
C) Sold more fixed assets than it acquired during a stated period of time.
D) Reduced its total assets during the course of the year.
E) Depreciation expense which exceeds the cost of new assets acquired.

Answer: C

357) Which one of the following is a current asset?

A) Staples held for resale.
B) Welding machine.
C) Office desk.
D) Account payable.
E) Company-owned truck.

Answer: A

358) The financial statement showing a firm's accounting value on a particular date is the:

A) Tax reconciliation statement.
B) Statement of comprehensive income.
C) Statement of cash flows.
D) Shareholders' equity sheet.
E) Statement of financial position.

Answer: E

359) The financial statement summarizing a firm's performance over a period of time is the:

A) Shareholders' equity sheet.
B) Statement of comprehensive income.
C) Statement of cash flows.
D) Statement of financial position.
E) Tax reconciliation statement.

Answer: B

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360) The term used for revenues less cost of goods sold and operating expenses is:
A) Taxable income.
B) Gross profit.
C) Earnings before interest and taxes.
D) Net income.
E) Earnings before taxes.
Answer: C

361) Net income is allocated to which two items?
A) Taxes and dividends.
B) Shareholders' equity and cash.
C) Paid-in surplus and cash.
D) Paid-in surplus and dividends.
E) Retained earnings and dividends.
Answer: E

362) A decrease in which of the following will result in an increase in operating cash flow, all else equal?
A) Impairment.
B) Depreciation.
C) Interest expense.
D) Taxes.
E) Dividends.
Answer: D

363) Liquid assets:
A) Tend to earn a low rate of return.
B) Are defined as current assets minus current liabilities.
C) Include any asset which can be sold within two years.
D) Are defined as inventory and equipment.
E) Is another term for current assets.
Answer: A

364) A firm starts its year with a 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 beginning current assets were less than the beginning current liabilities.
B) Both accounts receivable and inventory decreased during the year.
C) The ending net working capital will be negative.
D) Accounts payable increased and inventory decreased during the year.
E) The ending net working capital can be positive, negative, or equal to zero.
Answer: E

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365) Cash flow from assets must be negative when:

A) Operating cash flow is less than the change in net working capital.
B) The change in net working capital exceeds the net capital spending.
C) The cash flow from creditors and the cash flow from stockholders are both negative.
D) The cash flow from creditors is negative and the cash flow from stockholders is positive.
E) The firm has a taxable loss for the year.

Answer: C

366) Which of the following is probably considered a fixed cost, at least in the short run?

A) The commissions paid to the sales force.
B) The cost of direct labour expenses.
C) The cost of raw materials.
D) The company president's salary.
E) The cost of utilities.

Answer: D

367) As an investor, how would you determine the total market value of a publicly traded corporation such as Research In Motion?

A) Through buy and sell recommendations.
B) The value of debt as it appears on the most recent financial statements plus the current market value of RIM's common stock.
C) The current market value of RIM's stock plus the market value of RIM's debt.
D) Through its stock price.
E) The values of debt and equity as they appear on the most recent financial statements.

Answer: C

368) Net new equity is equal to _____.

A) The dollar value of equity sales plus retained earnings minus dividends paid.
B) The dollar value of equity sales plus retained earnings plus dividends paid.
C) The dollar value of equity sales minus any equity repurchases.
D) The dollar value of equity sales plus dividends paid.
E) The dollar value of equity sales plus retained earnings.

Answer: C

369) A negative cash flow to stockholders means:

A) The firm is bankrupt.
B) Stockholders were a source of cash for the period.
C) Cash flow to creditors must also be negative.
D) The firm repurchased a significant number of outstanding shares.
E) Cash flow from assets must also be negative.

Answer: B

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370) Capital gains is best described as:
A) The increase in the market value of current assets.
B) The increase in the market value of long-term capital assets.
C) The growth in value of investments that were purchased at a lower price than the amount sold.
D) The increase in value of a firm's intangible assets.
E) The increase in value of shareholders' equity.
Answer: C

371) When evaluating project cash flows in a financial decision, _____.
A) Taxes are irrelevant unless income for the firm is greater than zero.
B) Taxes can generally be ignored since they are a non-cash expense.
C) The financial manager should use the tax rate that is equal to the total tax liability divided by total taxable income.
D) The financial manager should compute and use the marginal tax rate.
E) The marginal tax rate and average tax rate are of equal importance.
Answer: D

372) Cash flow to creditors must increase when:
A) The interest rate on the firm's debt decreases.
B) The operating cash flow increases and the cash flow to stockholders decreases.
C) A firm borrows more than it repays in any one given year.
D) A firm increases its long-term debt by more than its interest expense in any given year.
E) The cash flow to stockholders is constant and the cash flow from assets increases.
Answer: E

373) Which of the following represents a use of the matching principle in accounting?
A) Revenues from a credit sale are recorded when the receivable is received.
B) The production costs of inventory are recorded along with the revenue from the sale on the date the sale is made.
C) The cost of purchasing an item on account is recorded when the payable is paid.
D) Revenues are recorded when cash is received, and costs recorded when payments are made.
E) Costs are recorded as fixed or variable on the date of the transaction.
Answer: B

374) Which one of the following will decrease a firm's net working capital?
A) the purchase of a fixed asset using short-term debt
B) the acquisition of a building using long-term debt
C) the sale of inventory for cash
D) the payment of a receivable by a customer
E) an increase in the cash account balance
Answer: A

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375) Which of the following will increase cash flow from assets?
A) The sale of machinery and equipment at book value
B) The purchase of inventory on credit
C) The sale of inventory at cost
D) An increase in bonds payable
E) An increase in accounts receivable due to a profitable sale
Answer: B

376) Which one of the following will decrease the value of the owners' equity on a statement of financial position?
A) The sale of inventory at a profit.
B) A decrease in the amount of long-term debt owed by a firm.
C) Dividends paid during the year in an amount which exceeds the net income for the year.
D) The purchase of new equipment using the proceeds of a bank loan.
E) The sale of new shares of stock.
Answer: C

377) Financial leverage refers to:
A) The ratio of retained earnings to shareholders' equity.
B) The ratio of paid-in surplus to shareholders' equity.
C) The amount of receivables present in the firm's asset structure.
D) The proportion of debt used in a firm's capital structure.
E) The ratio of cost-of-goods-sold to total sales.
Answer: D

378) Which one of the following will increase the value of shareholders' equity?
A) The sale of fixed assets at their book value
B) The repayment of short-term debt
C) The conversion of short-term debt to long-term debt
D) The repurchase of outstanding shares of stock by the issuer
E) Positive net income and a dividend payout ratio of 60 percent
Answer: E

379) Which of the following is a true statement?
A) The statement of financial position tells investors exactly what the firm is worth.
B) Accounting income is generally equal to firm cash flow.
C) Accounting statements are usually prepared to match the timing of income and expenses.
D) Assets are usually listed on the statement of financial position at market value.
E) The statement of financial position equity account represents the market value of the firm to shareholders.
Answer: C

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380) Loss carry-back is best described as:

A) Restatement of all prior years' financial statements if material errors are found
B) Using a year's capital losses to offset capital gains in future years.
C) Using a year's capital losses to offset capital gains in past years.
D) Restatement of retained earnings if past losses are discovered.
E) The taxable difference between adjusted cost of disposal and UCC, when UCC is smaller.

Answer: C

381) Loss carry-forward is best described as:

A) Using a year's capital losses to offset capital gains in future years.
B) When CCA and UCC are equal at the end of an asset's useful life.
C) The taxable difference between adjusted cost of disposal and UCC, when UCC is smaller.
D) Using a year's capital losses to offset capital gains in past years.
E) The difference between UCC and adjusted cost of disposal when the UCC is greater.

Answer: A

382) Terminal loss is best described as:

A) Using a year's capital losses to offset capital gains in past years.
B) Using a year's capital losses to offset capital gains in future years.
C) The taxable difference between adjusted cost of disposal and UCC, when UCC is smaller.
D) When CCA and UCC are equal at the end of an asset's useful life.
E) The difference between UCC and adjusted cost of disposal when the UCC is greater.

Answer: E

383) Average tax rate is best described as:

A) The percentage of your income that goes to pay taxes.
B) The rate set for differing tax brackets.
C) The extra tax you would pay if you earned one more dollar.
D) The total dollar value of tax that is paid.
E) Pre-payments to Canada Revenue Agency to lower tax commitments.

Answer: A

384) Marginal tax rate is best described as:

A) Pre-payments to Canada Revenue Agency to lower tax commitments.
B) The extra tax you would pay if you earned one more dollar.
C) The rate set for differing tax brackets.
D) The total dollar value of tax that is paid.
E) The percentage of your income that goes to pay taxes.

Answer: B

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385) Which of the following is/are true regarding the statement of financial position and statement of comprehensive income?

A) The statement of comprehensive income reflects a summary of activity that occurs over some period of time while the statement of financial position is a snapshot taken at a single point in time.
B) Both represent a summary of activity that occurs over some time period.
C) Both are independent of the statement of cash flows.
D) The two statements, taken together, give an accurate estimate of the firm's cash flows and market value.
E) Only the statement of financial position is required in developing the statement of cash flows.

Answer: A

386) Which of the following are characteristics of a liquid asset?

A) Are highly specialized equipment.
B) Provide high yields.
C) Include the firm's shares and bonds.
D) There is a significant loss in value if sold.
E) Can be converted into cash quickly, with little or no loss in value, and generally earn low returns.

Answer: E

387) Your _____ tax rate is the amount of tax payable on the next dollar you earn.

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

Answer: D

388) Your _____ tax rate measures the total taxes you pay divided by your taxable income.

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

Answer: E

389) XYZ Company had a net income of $40 million in 2015. The firm paid no dividends. If there were no further changes to the stockholders' equity accounts, then _____ by $40 million.

A) Common stock must have decreased
B) Retained earnings must have increased
C) Total shareholders' equity must have decreased
D) The market value of the firm's stock must have decreased
E) Total debt must have increased.

Answer: B

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390) Which one of the following statements concerning liquidity is correct?
A) Trademarks and patents are highly liquid.
B) If you can sell an asset in 18 months, it is a liquid asset.
C) The less liquidity a firm has, the lower the probability the firm will encounter financial difficulties.
D) If you can sell an asset next year at a price equal to its actual value, the asset is highly liquid.
E) Statement of financial position accounts are listed in order of decreasing liquidity.
Answer: E

391) Net acquisitions is best described as:
A) Using a year's capital losses to offset capital gains in past years.
B) Using a year's capital losses to offset capital gains in future years.
C) The increase in value of an investment, when converted to cash.
D) The taxable difference between adjusted cost of disposal and UCC, when UCC is smaller.
E) Total installed cost of capital acquisitions minus adjusted cost of any disposals within an asset pool.
Answer: E

392) Recaptured depreciation is best described as:
A) Using a year's capital losses to offset capital gains in past years.
B) When CCA and UCC are equal at the end of an asset's useful life.
C) The difference between UCC and adjusted cost of disposal when the UCC is greater.
D) The taxable difference between adjusted cost of disposal and UCC, when UCC is smaller.
E) Using a year's capital losses to offset capital gains in future years.
Answer: D

393) Realized capital gains is best described as:
A) Total installed cost of capital acquisitions minus adjusted cost of any disposals within an asset pool.
B) The increase in value of an investment, when converted to cash.
C) The taxable difference between adjusted cost of disposal and UCC, when UCC is smaller.
D) Using a year's capital losses to offset capital gains in future years.
E) Using a year's capital losses to offset capital gains in past years.
Answer: B

394) To estimate the amount of cash which could be received if an asset were sold today, you should use the asset's:
A) Book value.
B) Historical cost.
C) Market value.
D) Value as shown on the latest statement of financial position.
E) Depreciated historical cost.
Answer: C

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395) Which one of the following situations will cause cash flow to creditors to be negative?

A) When the rate of interest on all outstanding loans is decreased
B) When the amount of the loan paid off exceeds both the amount of a new loan plus the interest paid
C) When the amount of a new loan exceeds both the interest and principal payments made
D) When there are no new loans and the interest paid exceeds the principal repaid on a loan
E) When there are no new loans and the current loan is paid off in full

Answer: C

396) Which of the following statements about liquidity is true?

A) You can get an accurate picture of the liquidity of a firm by looking at its current assets.
B) Accounts receivable are generally considered to be more liquid than cash.
C) If a firm has a high degree of liquidity, it also faces a high degree of financial distress.
D) An asset is liquid if it can be sold quickly regardless of price.
E) At times, too little liquidity can result in lower profits for a firm since there is often a trade-off between liquidity and profitability.

Answer: B

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

397) An impairment loss is defined as the amount by which the carrying value of an asset or cash-generating unit exceeds its recoverable amount. What is the implication of an impairment loss on a firm's financial statements?

Answer: The difference between a company's carrying amount and its recoverable amount is considered an impairment loss. This means that the firm will have to write-down and reduce the value of the asset, while also recording an impairment loss expense. The effect will lower Total assets and equity categories in the statement of financial position. Additionally, the impairment loss will lower the statement of comprehensive income that will flow into the shareholders' equity category previously mentioned.

398) Discuss how financial statement accounts are inter-connected along with the order that financial statements should be prepared.

Answer: There are extensive connections between accounts in the statement of financial position and the statement of comprehensive income. For instance, accounts receivable relates to revenue account; while inventory relates to cost of goods sold. Additionally, accounts payable relates to a variety of expense accounts.

The order in which statements are completed are as follows: statement of comprehensive income, retained earned earnings and statement of financial position. The cash flow statement uses information from these three statements to determine change in cash from one period to the next.

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399) What is a liquid asset and why is it necessary for a firm to maintain a reasonable level of liquid assets?

Answer: Liquid assets are those that can be sold quickly with little or no loss in value. A firm that has sufficient liquidity will be less likely to experience financial distress.

400) Discuss the difference between book values and market values on the statement of financial position and explain which is more important to the financial manager and why.

Answer: The accounts on the statement of financial position are generally carried at historical cost, not market values. Although the book value of current assets and current liabilities may closely approximate market values, the same cannot be said for the rest of the statement of financial position accounts. Ultimately, the financial manager should focus on the firm's stock price, which is a market value measure. Hence, market values are more meaningful than book values.

401) Explain why the statement of comprehensive income is not a good representation of cash flow.

Answer: Most statement of comprehensive incomes contain some noncash items, so these must be accounted for when calculating cash flows. More importantly, however, since GAAP is used to create statement of comprehensive incomes, revenues and expenses are booked when they accrue, not when their corresponding cash flows occur.

402) Why is interest expense excluded from the operating cash flow calculation?

Answer: Operating cash flow is designed to represent the cash flow a firm generates from its day-to-day operating activities. Interest expense arises out of a financing choice and thus should rightfully be considered as a cash flow to creditors.

403) Note that in all of our cash flow computations to determine cash flow from assets, we never include the addition to retained earnings. Why not? Is this an oversight?

Answer: The addition to retained earnings is not a cash flow. It is simply an accounting entry that reconciles the statement of financial position. Any additions to retained earnings will show up as cash flow changes in other statement of financial position accounts.

404) Explain the effects depreciation has on both the cash flows and the statement of comprehensive incomes of a firm.

Answer: Depreciation reduces both the taxable and net income of a firm as reflected on the statement of comprehensive incomes. While depreciation itself is a noncash expense it does affect the cash flows indirectly by reducing the cash outflow for taxes.

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405) Discuss the difference between book values and market values on the statement of financial position and explain which is more important to the financial manager and why.

Answer: The accounts on the statement of financial position are generally carried at historical cost, not market values. Although the book value of the current assets and the liabilities may closely approximate market values, the same cannot be said for the rest of the statement of financial position accounts. Market values are more relevant as they reflect today's value of an item whereas the statement of financial position reflects historical costs as adjusted by accounting methods. In addition, the financial manager should focus on the firm's stock price, which is a market value measure. Hence, market values are more meaningful than book values for a variety of reasons.

406) If depreciation is added back to operating cash flow and to additions to fixed assets, does this process add deprecation back twice? Is it not double-counting?

Answer: In both cases, depreciation is added back because it was previously subtracted when obtaining ending balances of net income and fixed assets. And, since depreciation is a noncash expense, we need to add it back in both instances, so there is no double counting.

407) Sometimes when businesses are critically delinquent on their tax liabilities, the tax authority comes in and literally seizes the business by chasing all of the employees out of the building and changing the locks. What does this tell you about the importance of taxes relative to our discussion of cash flow? Why might a business owner want to avoid such an occurrence?

Answer: Taxes must be paid in cash, and in this case, they are one of the most important components of cash flow. The reputation of a business can undergo irreparable harm if word gets out that the tax authorities have confiscated the business, even if only for a couple of hours until the business owner can come up with the money to clear up the tax problem. But, the bottom line is, if the owner can't come up with the cash, the tax authority has effectively put them out of business.

408) What does cash flow from assets represent? Elaborate by discussing operating cash flow, changes in net working capital, and additions to fixed assets.

Answer: Operating cash flow is the cash flow a firm generates from its day-to-day operations. In other words, it is the cash inflow generated as a result of putting the firm's assets to work. Changes in net working capital and fixed assets represent investments a firm makes in these assets. That is, a firm typically takes some of the cash flow it generates from using assets and reinvests it in new assets. Cash flow from assets, then, is the cash flow a firm generates by employing its assets, net of any acquisitions.

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409) When the half-year rule was introduced, do you think firms looked favourably or unfavourably upon the change?

Answer: Firms who purchased assets in January could now use only one-half of its original cost to calculate depreciation for the year, compared to the full cost that could have been used under the old system. Also, firms who could previously claim the original cost for a whole year, even thought they had only purchased and put in use the asset in December, had a reduction in the amount they could claim. (Therefore, all firms claim a smaller amount of depreciation in the first year so that their taxes increase and usable cash flows decrease.) Therefore, firms would not be in favour of the change.

410) Discuss the differences between net income and cash flow from operations. Which measure is more relevant to a corporate treasurer and why?

Answer: Noncash items, such as depreciation, reduce net income but do not affect cash flows. Interest expense is a cost of financing and not an operating expense; therefore it reduces net income but does not affect cash flow from operations. Cash flows are more relevant to the corporate treasurer since his/her focus is on the cash management of a firm and not the accounting management.

411) Explain why cash flow from assets must be positive over the long-term if a firm is to remain financially solvent.

Answer: Cash flow from assets must be positive over the long-term as a firm must be able to financially support its own operations. In the short-term, firms can borrow money and issue new securities in order to finance a negative cash flow from assets. However, if a firm does not show that it is financially viable after a period of time, the firm will no longer be able to raise funds in the capital markets.

412) How can you determine if a firm is self-sustaining by reviewing the firm's cash flow from assets?

Answer: If a firm's cash flow from assets is positive, you know that the firm is producing sufficient cash flow to meet the firm's normal operating costs. If the cash flow from assets is greater than the cash flow to creditors, then you also know that the firm is meeting its debt obligations and has some cash flow remaining which can be distributed to the firm's shareholders.

413) What does cash flow from assets represent? Elaborate by discussing operating cash flow, changes in net working capital, and additions to fixed assets.

Answer: Operating cash flow is the cash flow a firm generates from its day-to-day operations. In other words, it is the cash inflow generated as a result of putting the firm's assets to work. Changes in net working capital and fixed assets represent investments a firm makes in these assets. That is, a firm typically takes some of the cash flow it generates from using assets and reinvests it in new assets. Cash flow from assets, then, is the cash flow a firm generates by employing its assets, net of any fixed asset or net working capital acquisitions.

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