ACCOUNTING 202

CHAPTER 15

TRUE-FALSE STATEMENTS

1. Intracompany comparisons of the same financial statement items can often detect changes in financial relationships and significant trends.

2. Calculating financial ratios is a financial reporting requirement under generally accepted accounting principles.

3. Measures of a company's liquidity are concerned with the company's ability to service long-term debt.

4. Analysis of financial statements is enhanced with the use of comparative data.

5. Comparisons of company data with industry averages can provide some insight into the company's performance over time.

6. Vertical and horizontal analyses are concerned with the format used to prepare financial statements.

7. Horizontal, vertical, and circular analyses are the most common tools of financial statement analysis.

8. Horizontal analysis is a technique for evaluating a financial statement item in the current year with other items in the current year.

9. Another name for trend analysis is horizontal analysis.

10. In a vertical analysis of an income statement, each item on the income statement is expressed as a percentage of sales.

11. In horizontal analysis, if an item has a negative amount in the base year, and a positive amount in the following year, no percentage change for that item can be computed.

12. Common size analysis expresses each item within a financial statement in terms of a percent of a base amount.

13. Vertical analysis is a more sophisticated analytical tool than horizontal analysis.

14. Vertical analysis is useful in making comparisons of companies of different sizes.

15. Meaningful analysis of financial statements will include either horizontal or vertical analysis, but not both.

MULTIPLE CHOICE QUESTIONS

16. Which one of the following is primarily interested in the liquidity of a company?
    a. Federal government.
    b. Stockholders.
    c. Long-term creditors.
    d. Short-term creditors.

17. Comparisons of financial data made within a company are called
    a. intracompany comparisons.
    b. interior comparisons.
    c. intercompany comparisons.
    d. intramural comparisons.

18. A technique for evaluating financial statements that expresses the relationship among selected items of financial statement data is
    a. common size analysis.
    b. horizontal analysis.
    c. ratio analysis.
    d. vertical analysis.

19. Which one of the following is *not* a tool in financial statement analysis?
    a. Horizontal analysis
    b. Circular analysis
    c. Vertical analysis
    d. Ratio analysis

20. In analyzing financial statements, horizontal analysis is a
    a. requirement.
    b. tool.
    c. principle.
    d. theory.

21. Horizontal analysis is also called
    a. linear analysis.
    b. vertical analysis.
    c. trend analysis.
    d. common size analysis

22. Assume the following sales data for a company:

2008	$1,000,000
2007	900,000
2006	750,000
2005	500,000

    If 2005 is the base year, what is the percentage increase in sales from 2005 to 2007?
    a. 100%
    b. 180%
    c. 80%
    d. 55.5%

23. In performing a vertical analysis, the base for sales revenues on the income statement is
    a. net sales.
    b. sales.
    c. net income.
    d. cost of goods available for sale.

24. In performing a vertical analysis, the base for sales returns and allowances is
    a. sales.
    b. sales discounts.
    c. net sales.
    d. total revenues.

25. In performing a vertical analysis, the base for cost of goods sold is
    a. total selling expenses.
    b. net sales.
    c. total revenues.
    d. total expenses.

26. Each of the following is a liquidity ratio *except* the
    a. acid-test ratio.
    b. current ratio.
    c. debt to total assets ratio.
    d. inventory turnover.

27. A liquidity ratio measures the
    a. income or operating success of an enterprise over a period of time.
    b. ability of the enterprise to survive over a long period of time.
    c. short-term ability of the enterprise to pay its maturing obligations and to meet unexpected needs for cash.
    d. number of times interest is earned.

28. The current ratio is
    a. calculated by dividing current liabilities by current assets.
    b. used to evaluate a company's liquidity and short-term debt paying ability.
    c. used to evaluate a company's solvency and long-term debt paying ability.
    d. calculated by subtracting current liabilities from current assets.

29. The acid-test (quick) ratio
    a. is used to quickly determine a company's solvency and long-term debt paying ability.
    b. relates cash, short-term investments, and net receivables to current liabilities.
    c. is calculated by taking one item from the income statement and one item from the balance sheet.
    d. is the same as the current ratio except it is rounded to the nearest whole percent.

30. Walker Clothing Store had a balance in the Accounts Receivable account of $780,000 at the beginning of the year and a balance of $820,000 at the end of the year. Net credit sales during the year amounted to $5,840,000. The average collection period of the receivables in terms of days was
    a. 30 days.
    b. 365 days.
    c. 100 days.
    d. 50 days.

31. Parr Hardware Store had net credit sales of $3,900,000 and cost of goods sold of $3,000,000 for the year. The Accounts Receivable balances at the beginning and end of the year were $600,000 and $700,000, respectively. The receivables turnover was
    a. 5.6 times.
    b. 6.5 times.
    c. 4.6 times.
    d. 6 times.

Use the following information for questions 32-33.

Waters Department Store had net credit sales of $8,000,000 and cost of goods sold of $6,000,000 for the year. The average inventory for the year amounted to $2,000,000.

32. Inventory turnover for the year is
    a. 4 times.
    b. 7 times.
    c. 3 times.
    d. 2 times.

33. The average number of days to sell the inventory during the year was
    a. 183 days.
    b. 122 days.
    c. 91 days.
    d. 52 days.

Answers:

True and false
1. T 2. F 3. F 4. T 5. F 6. F 7. F 8. F 9. T
10. T 11. T 12. T 13. F 14. T 15. F

Multiple choice
16. D 17. A 18. C 19. B 20. B 21. C 22. C 23. A
24. C 25. B 26. C 27. C 28. C 29. B 30. D 31. D 32. C 33. B