**IFN 415 Financial Statement Analysis Study Questions**

**1)** The longer the firm's accounts payable period, the:

A) longer the firm's cash cycle.   
 **B) less the firm must invest in net working capital.**  
 C) shorter the firm's inventory period.  
 D) greater the delay in the accounts receivable period

**2)** Under the terms of a sight draft, the buyer's bank:

A) enters into a factoring arrangement.   
 **B) is instructed to make immediate payment.**  
 C) treats the invoice like a postdated check.  
 D) forwards the acceptance to the seller until due.

**3)** Which one of the following statements is correct about banker's acceptances?

A) They are equivalent to a sight draft.   
 **B) The bank guarantees payment of the invoice.** C) The bank retains title to the merchandise.  
 D) They represent the norm for installment sales.

**4)** The purpose of credit analysis is to:

**A) decide whether or not to grant credit to a customer.**   
 B) modify the terms of trade credit.  
 C) organize the right side of the balance sheet.  
 D) reconcile the accounts receivable balance.

**5)** Which one of the following is *not* an inventory carrying cost?

A) Opportunity cost of capital for inventory investment   
 B) Cost of shelf space  
 **C) Cost of buying raw materials**  
 D) Insurance expense for the inventory

**6)** Which one of the following statements typically describes the break-even probability of collection for repeat sale customers?

A) The break-even probability is higher than for single sale customers.   
 **B) The break-even probability is lower than for single sale customers.**  
 C) The break-even probability does not change between single sale and repeat sale customers.  
 D) Sales should never be refused for customers offering the potential of repeat sales.

**7)** Money market securities usually have a maturity of:

A) more than 1 year.   
 B) 1 to 3 years.  
 C) less than a week.  
 **D) less than 1 year**

**8)** A firm's inventory and accounts payable periods are 80 and 42 days, respectively. If the cash cycle is 65 days, what is the firm's receivable period?

**A) 27 days**   
 B) 38 days  
 C) 57 days  
 D) 103 days

**9)** A time draft that has been signed by the customer is termed:

**A) a trade acceptance.**   
 B) a trade discount.  
 C) an overdue account.  
 D) a conditional sale.

**10)** When sales are made without the accompaniment of a formal debt contract, the sales are said to be on:

A) sight draft.   
 B) trade credit.  
 **C) open account.**  
 D) conditional sale term

**11)** The difference between total assets of a firm and its total liabilities is called

A) net current assets.   
 **B) net worth.**  
 C) net liabilities.   
 D) net working capital.

**12)** ROA can be increased by increasing asset turnover.

⊚ **true**  
 ⊚ false

**13)** On the balance sheet, assets are listed in increasing order of liquidity.

⊚ true  
 **⊚ false**

**14)** Net working capital (NWC) is calculated as

A) current liabilities - current assets.   
 B) total assets - total liabilities.  
 C) current assets + current liabilities.  
 **D) current assets - current liabilities.**

**15)** Which of the following costs are not accounted for on the income statement

**A) Opportunity cost**   
 B) Legal costs   
 C) Indirect labor  
 D) Direct labor

**16)** The market for short-term investments is called

A) capital market.   
 B) stock market.  
 **C) money market.**  
 D) bond market.

**17)** The most important function of a short-term financial plan is

A) to help develop the long-term financial plan.   
 B) None of these answers are correct.  
 **C) to cover the forecasted requirements in the most economical way possible.**  
 D) to develop a cash budget.

**18)** Short-term financial decisions

A) are easily reversed.   
 **B) involve short-lived assets, involve short-lived liabilities, and are easily reversed.**  
 C) involve short-lived liabilities.  
 D) involve short-lived assets.

**19)** Short-term financial decisions are conceptually easier to make than long-term decisions.

**⊚ true**  
 ⊚ false

**20)** The growth rate that a company can achieve using external funds is called the internal growth rate.

⊚ true  
 **⊚ false**

**21 )**Short-term financial plan models are offered by

I) banks;

II) accounting firms;

III) management consultants;

IV) specialized computer software firms

A) I, II, and III only   
 B) I only.  
 C) I and II only.  
 **D) I, II, III, and IV.**

**22)** The internal growth rate equals :

A) None of these answers are correct.   
 B) plowback ratio × profit margin.  
 **C) plowback ratio × return on equity × [equity/net assets].** D) plowback ratio × return on equity.

**23)** Briefly describe the cash cycle.

The cash cycle starts with cash. Firms use cash to buy raw materials. Raw materials are converted to finished goods and then sold on credit thus creating receivables. Receivables, when collected, convert back to cash. This is called the cash cycle.

**24)** Assume the following data: Plowback ratio = 50 percent; Return on equity = 20 percent; Equity to net assets ratio = 60 percent. Calculate the internal growth rate for the firm.

A) 12 percent   
 B) 10 percent  
 **C) 6 percent**  
 D) 17 percent

**25)** Most firms make a permanent investment in net working capital.

**⊚ true**  
 ⊚ false

**26)** Which of the following assets is the least liquid?

A) Accounts receivable   
 **B) Equipment and machinery**  
 C) Finished goods inventory  
 D) Marketable securities

**27)** Cash inflow, in cash budgeting, comes mainly from

**A) collections on accounts receivable.**   
 B) issue of securities.  
 C) short-term debt.  
 D) sale of seasoned equity.

**28)** The term *short-term planning* usually indicates planning for the next 12 months.

**⊚ true**  
 ⊚ false

**29)** When firms prepare a financial plan, they use the following:

A) Guessing simulations.   
 B) Guessing simulations and sensitivity analysis.  
 C) Guessing simulations, sensitivity analysis, and scenario analysis.  
 **D) Sensitivity analysis and scenario analysis.**

**30)** The firm's internal growth rate is defined as

A) retained earnings/net income.   
 B) retained earnings/total assets.  
 C) net income/net assets.  
 **D) reinvested earnings/net assets.**

**31)** Which of these events reduces cash holdings

A) The firm sells a parcel of land at a loss.   
 B) The firm changes its terms of sale and gives customers less time to pay for their purchases.  
 C) The firm sells a parcel of land at a profit.  
 **D) The firm pays more promptly for its raw materials.**

**32)** When a firm finances long-term assets with short-term sources of funding, it:

**A) violates the principle of matched maturities.**   
 B) will generally have lower interest expense.  
 C) improves the leverage ratio.  
 D) reduces the risk of cash shortage.

**33)** A firm's permanent working capital refers to the:

A) difference between fixed assets and current assets.   
 B) maximum difference between current assets and current liabilities.  
 **C) portion of net working capital that is financed from long-term sources.**  
 D) amounts that must be held to meet debt covenants

**34)** Financial planning is necessary because financing and investment decisions interact and should not be made independently.

**⊚ true**  
 ⊚ false

**35)** A financial plan:

A) should include all possible contingencies.   
 B) is generally considered to be a useless exercise due to unforeseen events.  
 **C) provides a basis for evaluating future performance.**  
 D) should always be based on the worst-case scenario.

**36)** Financial planning focuses on the big picture

**⊚ true**  
 ⊚ false

**37)** The rate at which the assets of a firm can grow without the requirement of any external sources of financing is the:

A) plowback rate.   
 **B) internal growth rate.**  
 C) sustainable growth rate.  
 D) pro forma growth rate.

**38)** Financial planning is concerned with possible surprises as well as the most likely outcomes.

**⊚ true**  
 ⊚ false

**39)** A firm's internal growth rate is all of the following *except*:

A) the ratio of reinvested earnings to assets.   
 B) the maximum growth rate without requiring external sources of new capital.  
 **C) the rate below which external financing is needed.**  
 D) the product of the plowback ratio, ROE, and the ratio of equity to assets.

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