

Accounting Fundamentals: Financial Statement Analysis

Directions:

Answer the following questions.

1. Which of the following would be considered a good working capital ratio?
 - A. .15
 - B. .85
 - C. 1.5**
 - D. 8.5

2. Stevie's Shoes has current assets of \$300,000 and current liabilities of \$1,200,000. What is their working capital ratio?
 - A. 25%**
 - B. 40%
 - C. 250%
 - D. 400%

3. Amy's Office Supply has current assets of \$50,000, \$10,000 in inventory and current liabilities of \$20,000. What is the current ratio? What does this ratio mean?
 - A. 2.5, they have \$2.50 of liquid assets to cover each \$1 of current liability**
 - B. .25, they have \$.25 of liquid assets to cover each \$1 of current liability
 - C. .4, they have \$.40 of liquid assets to cover each \$1 of current liability
 - D. 4.0, they have \$4.00 of liquid assets to cover each \$1 of current liability

4. Whitney's Windows has a gross margin of \$35,000 and net sales of \$45,000. What is their gross profit margin?
 - A. 1.56
 - B. 1.29
 - C. .78**
 - D. .64

5. Jake's Jump Ropes has a return on sales ratio of .45, Mike's Motors has a return on sales ratio of .48, Brett's Fine Cheeses has a return on sales ratio of .40 and Pam's Pet Company has a return on sales ratio of .38. Which company has the most pretax profit per dollar of sales?
 - A. Jake's Jump Ropes
 - B. Mike's Motors**
 - C. Brett's Fine Cheeses
 - D. Pam's Pet Company

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6. Angela's Accessories has \$100,000 in net profit and \$400,000 in net sales. How much net profit does Angela's Accessories see for every \$1 of net sales?
- A. \$4.00
 - B. \$2.50
 - C. \$.40
 - D. \$.25**
7. Which of the following is the debt service coverage ratio for Clayton's Candy Shop if it has \$15,000 net operating income and \$12,000 of total debt service?
- A. 12.5
 - B. 1.25**
 - C. .125
 - D. .0125
8. Which of the following measures the amount of profit a company can extract from its total sales during a typical reporting period?
- A. Net profit margin**
 - B. Return on sales
 - C. Return on investment
 - D. Net equity
9. Pond Printing has an accounts receivable turnover ratio of 2.0. How often is the company collecting its receivables?
- A. Twice a day
 - B. Twice a week
 - C. Twice a month
 - D. Twice a year**
10. Adams Advertisements has an operating ratio of .90. Which of the following statements accurately describes the ratio?
- A. \$.10 of operating expense for every \$1 in sales
 - B. \$.90 of operating expense for every \$1 in sales**
 - C. \$9.00 of operating expense for every \$1 in sales
 - D. \$1.00 of operating expense for every \$1 in sales