

Accounting Fundamentals: Financial Statement Analysis

Directions:

Answer the following questions.

1. Which of the following would be considered a good working capital ratio?
 - .15
 - .85
 - 1.5
 - 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?
 - 25%
 - 40%
 - 250%
 - 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?
 - 2.5, they have \$2.50 of liquid assets to cover each \$1 of current liability
 - .25, they have \$.25 of liquid assets to cover each \$1 of current liability
 - .4, they have \$.40 of liquid assets to cover each \$1 of current liability
 - 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?
 - 1.56
 - 1.29
 - .78
 - .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?
 - Jake's Jump Ropes
 - Mike's Motors
 - Brett's Fine Cheeses
 - 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