Fact Pattern:

Tosh Enterprises reported the following account information:

Accounts receivable	400,000	Inventory	$800,000
Accounts payable	260,000	Land	500,000
Bonds payable, due in 10 years	600,000	Short-term prepaid expense	80,000
Cash	200,000		
Interest payable, due in 3 months	20,000		

1) The current ratio for Tosh Enterprises is

A. 1.68

B. 2.14

C. 5.00

D. 5.29

Fact Pattern:

Tosh Enterprises reported the following account information:

Accounts receivable	400,000	Inventory	$800,000
Accounts payable	260,000	Land	500,000
Bonds payable, due in 10 years	600,000	Short-term prepaid expense	80,000
Cash	200,000		
Interest payable, due in 3 months	20,000		

2) What is Tosh Enterprises' quick (acid-test) ratio?

A. 0.68

B. 1.68

C. 2.14

D. 2.31

Fact Pattern:

Tosh Enterprises reported the following account information:

Accounts receivable	400,000	Inventory	$800,000
Accounts payable	260,000	Land	500,000
Bonds payable, due in 10 years	600,000	Short-term prepaid expense	80,000
Cash	200,000		
Interest payable, due in 3 months	20,000		

3) Tosh Enterprises' amount of working capital is

A. $600,000

B. $1,120,000

C. $1,200,000

D. $1,220,000

Question4) A financial analyst has obtained the following data from financial statements:

Cash	$ 200,000
Marketable securities	100,000
Accounts receivable, net	300,000
Inventories, net	480,000
Prepaid expenses	120,000
Total current assets	$1,200,000
Accounts payable	$250,000
Income taxes	50,000
Accrued liabilities	100,000
Current portion of long-term debt	200,000
Total current liabilities	$600,000

In order to determine ability to pay current obligations, the financial analyst would calculate the cash ratio as

A. 0.50

B. 0.80

C. 1.00

D. 1.20

Question 5) Given an acid-test ratio of 2.0, current assets of $5,000, and inventory of $2,000, the value of current liabilities is

A. $1,500

B. $2,500

C. $3,500

D. $6,000

Fact Pattern:
A company has a current ratio of 1.4, a quick, or acid-test, ratio of 1.2, and the following partial summary balance sheet:

Cash	$ 10
Accounts receivable	___
Inventory	___
Fixed assets	___
Total assets	$100
Current liabilities	$___
Long-term liabilities	40
Stockholders' equity	30
Total liabilities and equity	$___

6) The company has an accounts receivable balance of

A. $26

B. $36

C. $66

D. $100

7) What is the acid-test (or quick) ratio?

Cash	$ 10,000
Marketable securities	18,000
Accounts receivable	120,000
Inventories	375,000
Prepaid expenses	12,000
Accounts payable	75,000
Long-term debt -- current portion	20,000
Long-term debt	400,000
Sales	1,650,000

A. 1.56

B. 1.97

C. 2.13

D. 5.63

Question 8) A company has current assets of $400,000 and current liabilities of $500,000. The company's current ratio will be increased by

A. The purchase of $100,000 of inventory on account.

B. The payment of $100,000 of accounts payable.

C. The collection of $100,000 of accounts receivable.

D. Refinancing a $100,000 long-term loan with short-term debt.

9) A corporation has a current ratio of 2 to 1 and a quick ratio (acid test) of 1 to 1. A transaction that would change the quick ratio but **not** the current ratio is the

A. Sale of inventory on account at cost.

B. Collection of accounts receivable.

C. Payment of accounts payable.

D. Purchase of a patent for cash.

Fact Pattern:

The selected data pertain to Tilghman Company at December 31:

Quick assets	$208,000
Acid test ratio	2.6 to 1
Current ratio	3.5 to 1
Net sales for the year	$1,800,000
Cost of sales for the year	$990,000
Average total assets for the year	$1,200,000

10) Tilghman Company's current liabilities at December 31 equal

A. $59,429

B. $80,000

C. $134,857

D. $187,200

11) The balance sheet of a luggage manufacturer reports the following:

Cash	$531,000
Accounts receivable	439,000
Inventory	300,000
Marketable securities	200,000

Current liabilities	500,000
Long-term liabilities	676,000

Based on the information provided, the luggage manufacturer's quick ratio is

A. 1.25

B. 1.94

C. 2.34

D. 2.94

12) A mobile home manufacturer has a quick ratio of 2.0. Assuming nothing else changes, which of the following actions would decrease the firm's quick ratio?

A. Collecting cash from issuing stock.

B. Writing off obsolete inventory.

C. Converting short-term debt into long-term debt.

D. Buying inventory on credit with 30-day terms.

Fact Pattern:

The selected data pertain to Tilghman Company at December 31:

Quick assets	$208,000
Acid test ratio	2.6 to 1
Current ratio	3.5 to 1
Net sales for the year	$1,800,000
Cost of sales for the year	$990,000
Average total assets for the year	$1,200,000

13) Tilghman Company's inventory balance at December 31 is

A. $72,000

B. $187,200

C. $231,111

D. $282,857

Fact Pattern: The information below pertains to Devlin Company.

Statement of Financial Position as of May 31

(in thousands)

	Year 2	Year 1
Assets		
Current assets		
Cash	$ 45	$ 38
Trading securities	30	20
Accounts receivable (net)	68	48
Inventory	90	80
Prepaid expenses	22	30
Total current assets	$255	$216
Investments, at equity	38	30
Property, plant, and equipment (net)	375	400
Intangible assets (net)	80	45
Total assets	$748	$691
Liabilities		
Current liabilities		
Accounts payable	$ 70	$ 42
Accrued expenses	5	4
Notes payable	35	18
Income taxes payable	15	16
Total current liabilities	$125	$ 80
Long-term debt	35	35
Deferred taxes	3	2
Total liabilities	$163	$117
Equity		
Preferred stock, 6%, $100 par value, cumulative	$150	$150
Common stock, $10 par value	225	195

Income Statement for the year ended May 31

(in thousands)

	Year 2	Year 1
Net sales	$480	$460
Costs and expenses		
Costs of goods sold	330	315
Selling, general, and administrative	52	51
Interest expense	8	9
Income before taxes	$ 90	$ 85
Income taxes	36	34
Net income	$ 54	$ 51

Additional paid-in capital --		
common stock	114	100
Retained earnings	96	129
Total equity	$585	$574
Total liabilities and equity	$748	$691

14) Devlin Company's acid-test ratio at May 31, Year 2, was

A. 0.60 to 1.

B. 0.90 to 1.

C. 1.14 to 1.

D. 1.86 to 1.

Fact Pattern: The Statement of Financial Position for King Products Corporation for the fiscal years ended June 30, Year 2, and June 30, Year 1, is presented below. Net sales and cost of goods sold for the year ended June 30, Year 2, were $600,000 and $440,000, respectively.

King Products Corporation
Statement of Financial Position
(in thousands)

	June 30	
	Year 2	Year 1
Cash	$ 60	$ 50
Marketable securities (at market)	40	30
Accounts receivable (net)	90	60
Inventories (at lower of cost or market)	120	100
Prepaid items	30	40
Total current assets	$ 340	$280
Land (at cost)	$ 200	$190
Building (net)	160	180
Equipment (net)	190	200
Patents (net)	70	34
Goodwill (net)	40	26
Total long-term assets	$ 660	$630
Total assets	$1,000	$910
Notes payable	$ 46	$ 24

Accounts payable	94	56
Accrued interest	30	30
Total current liabilities	$ 170	$110
Notes payable, 10% due 12/31/Year 7	$ 20	$ 20
Bonds payable, 12% due 6/30/Year 10	30	30
Total long-term debt	$ 50	$ 50
Total liabilities	$ 220	$160
Preferred stock -- 5% cumulative, $100 par, nonparticipating, authorized, issued and outstanding, 2,000 shares	$ 200	$200
Common stock -- $10 par, 40,000 shares authorized, 30,000 shares issued and outstanding	300	300
Additional paid-in capital -- common	150	150
Retained earnings	130	100
Total equity	$ 780	$750
Total liabilities & equity	$1,000	$910

15) King Products Corporation's quick (acid-test) ratio at June 30, Year 2, was

A. 0.6

B. 1.1

C. 1.8

D. 2.0

Fact Pattern: The data presented below show actual figures for selected accounts of McKeon Company for the fiscal year ended May 31, Year 1, and selected budget figures for the Year 2 fiscal year. McKeon's controller is in the process of reviewing the Year 2 budget and calculating some key ratios based on the budget. McKeon Company monitors yield or return ratios using the average financial position of the company. (Round all calculations to three decimal places if necessary.)

	5/31/Year 2	5/31/Year 1
Current assets	$210,000	$180,000
Noncurrent assets	275,000	255,000
Current liabilities	78,000	85,000
Long-term debt	75,000	30,000
Common stock ($30 par value)	300,000	300,000
Retained earnings	32,000	20,000

Year 2

Operations

Sales*	$350,000
Cost of goods sold	160,000
Interest expense	3,000
Income taxes (40% rate)	48,000
Dividends declared and paid in Year 2	60,000
Administrative expense	67,000

*All sales are credit sales.

	Current Assets	
	5/31/Year 2	5/31/Year 1
Cash	$ 20,000	$10,000
Accounts receivable	100,000	70,000
Inventory	70,000	80,000
Prepaid expenses	20,000	20,000

16) McKeon Company's current ratio for Year 2 is

A. 1.373

B. 1.176

C. 2.118

D. 2.692

Question 17) A corporation has decided to include certain financial ratios in its year-end annual report to shareholders. Selected information relating to its most recent fiscal year is provided below.

Cash	$10,000
Accounts receivable	20,000
Prepaid expenses	8,000
Inventory	30,000
Available-for-sale securities	

At cost	9,000
Fair value at year end	12,000
Accounts payable	15,000
Notes payable (due in 90 days)	25,000
Bonds payable (due in 10 years)	35,000

The quick (acid-test) ratio at year end is

A. 2.00 to 1.

B. 1.925 to 1.

C. 1.80 to 1.

D. 1.05 to 1.

Question 18) Selected financial data for a corporation are shown below.

	January 1	December 31
Cash	$ 48,000	$ 62,000
Accounts receivable (net)	68,000	47,000
Trading securities	42,000	35,000
Inventory	125,000	138,000
Plant and equipment (net)	325,000	424,000
Accounts payable	32,000	84,000
Accrued liabilities	14,000	11,000
Deferred taxes	15,000	9,000
Long-term bonds payable	95,000	77,000

Net income for the year was $96,000. The current ratio at the end of the year is

A. 1.55

B. 1.71

C. 2.71

D. 2.97

Fact Pattern: CPZ Enterprises had the following account information.

Accounts receivable	$200,000
Accounts payable	80,000
Bonds payable, due in 10 years	300,000
Cash	100,000
Interest payable, due in 3 months	10,000
Inventory	400,000
Land	250,000
Notes payable, due in 6 months	50,000
Prepaid expenses	40,000

The company has an operating cycle of 5 months.

19)The current ratio for CPZ Enterprises is

A. 1.68

B. 2.14

C. 5.00

D. 5.29

Fact Pattern: CPZ Enterprises had the following account information.

Accounts receivable	$200,000
Accounts payable	80,000
Bonds payable, due in 10 years	300,000
Cash	100,000

Interest payable, due in 3 months	10,000
Inventory	400,000
Land	250,000
Notes payable, due in 6 months	50,000
Prepaid expenses	40,000

The company has an operating cycle of 5 months.

20) What is CPZ's acid-test (quick) ratio?

A. 0.68

B. 1.68

C. 2.14

D. 2.31

Fact Pattern:

Lisa, Inc.

Statement of Financial Position

December 31, Year 2

(000s)

Assets	Year 2	Year 1
Current assets:		
Cash	$ 30	$ 25
Trading securities	20	15
Accounts receivable (net)	45	30
Inventories (at lower of cost or market)	60	50
Prepaid items	15	20
Total current assets	170	140
Long-term investments:		

Securities (at cost)	25	20
Property, plant, & equipment:		
Land (at cost)	75	75
Building (net)	80	90
Equipment (net)	95	100
Intangible assets		
Patents (net)	35	17
Goodwill (net)	20	13
Total long-term assets	330	315
Total assets	$500	$455
Liabilities & Shareholders' Equity		
Current liabilities:		
Notes payable	$ 23	$ 12
Accounts payable	47	28
Accrued interest	15	15
Total current liabilities	85	55
Long-term debt:		
Notes payable 10% due 12/31/Year 9	10	10
Bonds payable 12% due 12/31/Year 8	15	15
Total long-term debt	25	25
Total liabilities	$110	$ 80
Shareholders' equity:		
Preferred -- 5% cumulative, $100 par, non-participating, 1,000 shares authorized, issued and outstanding	$100	$100
Common -- $10 par 20,000 shares authorized, 15,000 issued and outstanding shares	150	150
Additional paid-in capital -- common	75	75
Retained earnings	65	50
Total shareholders' equity	$390	$375
Total liabilities & equity	$500	$455

21) Lisa, Inc.'s acid-test (quick) ratio at December 31, Year 2, was

A. 1.1:1.0

B. 1.8:1.0

C. 2.0:1.0

D. 2.5:1.0

Fact Pattern:

RST Corporation Comparative Income Statements for the Years 5 and 6

	Year 6	Year 5
Sales (all are credit)	$285,000	$200,000
Cost of goods sold	150,000	120,000
Gross profit	$135,000	$ 80,000
Selling and administrative expenses	65,000	36,000
Income before interest and income taxes	$ 70,000	$ 44,000
Interest expense	3,000	3,000
Income before income taxes	$ 67,000	$ 41,000
Income tax expense	27,000	16,000
Net income	$ 40,000	$ 25,000

RST Corporation Comparative Balance Sheets End of Years 5 and 6

Assets	Year 6	Year 5
Current assets:		
Cash	$ 5,000	$ 4,000
Short-term marketable investments	3,000	2,000
Accounts receivable (net)	16,000	14,000
Inventory	30,000	20,000
Total current assets	$ 54,000	$ 40,000
Noncurrent assets:		
Long-term investments	11,000	11,000
Property, plant, and equipment	80,000	70,000
Intangibles	3,000	4,000
Total assets	$148,000	$125,000

Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 11,000	$ 7,000
Accrued payables	1,000	1,000
Total current liabilities	$ 12,000	$ 8,000
Long-term Liabilities:		
0% Bonds payable, due in Year 12	30,000	30,000
Total liabilities	$ 42,000	$ 38,000
Stockholders' equity:		
Common stock, 2,400 shares, $10 par	$ 24,000	$ 24,000
Retained earnings	82,000	63,000
Total stockholders' equity	$106,000	$ 87,000
Total liabilities and stockholders' equity	$148,000	$125,000

The market value of RST's common stock at the end of Year 6 was $100.00 per share.

22) RST's acid-test (or quick) ratio at the end of Year 6 is

A. 2.40 to 1.

B. 2.18 to 1.

C. 2.00 to 1.

D. 1.50 to 1.

Fact Pattern: Broomall Corporation has decided to include certain financial ratios in its year-end annual report to shareholders. Selected information relating to its most recent fiscal year is provided below.

Cash	$ 10,000
Accounts receivable:	

– Beginning of year	24,000
– End of year	20,000
Prepaid expenses	8,000
Inventory:	
– Beginning of year	26,000
– End of year	30,000
Available-for-sale securities:	
– Historical cost	9,000
– Fair value at year end	12,000
Accounts payable	15,000
Notes payable (due in 90 days)	25,000
Bonds payable (due in 10 years)	35,000
Net credit sales for year	220,000
Cost of goods sold	140,000

23) Broomall's working capital at year end is

A. $40,000

B. $37,000

C. $28,000

D. $10,000

Fact Pattern: Broomall Corporation has decided to include certain financial ratios in its year-end annual report to shareholders. Selected information relating to its most recent fiscal year is provided below.

Cash	$ 10,000
Accounts receivable:	

– Beginning of year	24,000
– End of year	20,000
Prepaid expenses	8,000
Inventory:	
– Beginning of year	26,000
– End of year	30,000
Available-for-sale securities:	
– Historical cost	9,000
– Fair value at year end	12,000
Accounts payable	15,000
Notes payable (due in 90 days)	25,000
Bonds payable (due in 10 years)	35,000
Net credit sales for year	220,000
Cost of goods sold	140,000

24) Broomall's quick (acid-test) ratio at year end is

A. 2.00 to 1.

B. 1.925 to 1.

C. 1.80 to 1.

D. 1.05 to 1.

Fact Pattern: Shown below are beginning and ending balances for certain of Grimaldi, Inc.'s accounts.

	January 1	December 31

Cash	$ 48,000	$ 62,000
Marketable securities	42,000	35,000
Accounts receivable (net)	68,000	47,000
Inventory	125,000	138,000
Property, plant, and equipment (net)	325,000	424,000
Accounts payable	32,000	84,000
Accrued liabilities	14,000	11,000
Deferred taxes (noncurrent)	15,000	9,000
7% long-term bonds payable	95,000	77,000

Grimaldi's net income for the year was $96,000.

25) Grimaldi's acid-test ratio or quick ratio at the end of the year is

A. 0.83

B. 1.02

C. 1.15

D. 1.52

Fact Pattern: Shown below are beginning and ending balances for certain of Grimaldi, Inc.'s accounts.

	January 1	December 31
Cash	$ 48,000	$ 62,000
Marketable securities	42,000	35,000
Accounts receivable (net)	68,000	47,000
Inventory	125,000	138,000
Property, plant, and equipment (net)	325,000	424,000

Accounts payable	32,000	84,000
Accrued liabilities	14,000	11,000
Deferred taxes (noncurrent)	15,000	9,000
7% long-term bonds payable	95,000	77,000

Grimaldi's net income for the year was $96,000.

26) Grimaldi's current ratio at the end of the year is

A. 1.55
B. 1.71
C. 2.71
D. 2.97

27) All of the following are included when calculating the acid-test ratio **except**

A. Six-month treasury bills.
B. Prepaid insurance.
C. Accounts receivable.
D. 60-day certificates of deposit.

Question 28) A company's cash ratio will decrease if the company

A. Purchases commercial paper.
B. Purchases materials on account.
C. Sells goods for cash at a selling price lower than cost.
D. Receives cash by issuing a short-term note payable.

29) In analyzing the short-term liquidity of a firm, many analysts prefer to use the quick (or acid-test) ratio rather than the current ratio. The primary reason for this preference is that the

A. Quick ratio excludes account receivables.

B. Current ratio includes marketable securities that may be mispriced.

C. Pro-forma cash flow statements focus on cash only.

D. Conversion of inventory into cash is less reliable.

30) A firm has gathered financial statement data from three companies applying for credit as new customers. The company extends credit to customers on the credit terms 2/10, net 30. Prior to accepting the customers, a financial analyst with the firm performs a liquidity analysis. Summary data is shown below:

	Company F	Company G	Company H
Cash	$ 20,000	$ 12,850	$ 130,000
Accounts receivable	40,000	74,500	100,000
Inventory	170,000	42,240	354,300
Current assets	230,000	129,590	584,300
Total assets	567,888	260,400	780,560
Current liabilities	175,000	63,800	142,100
Total liabilities	487,120	97,680	364,760
Total shareholders' equity	80,768	162,720	415,800

When evaluating the liquidity of the three potential customers, which one of the following conclusions is correct?

A. Company H has the highest current ratio but the lowest acid-test ratio, so the firm should not accept Company H as a new customer.

B. Company G has a low debt to total assets ratio, so the firm should accept Company G as a new customer.

C. Company F has a low current ratio, so the firm should not accept Company F as a new customer.

D. Company F has a high long-term debt to equity ratio, so the firm should accept Company F as a new customer.

31) A corporation has $90 million in current assets. If the corporation has a current ratio of 1.2 and a quick ratio of 0.9, what is net working capital?

A. $10 million.

B. $15 million.

C. $81 million.

D. $108 million.

32) A credit manager considering whether to grant trade credit to a new customer is **most** likely to place primary emphasis on

A. Profitability ratios.

B. Valuation ratios.

C. Growth ratios.

D. Liquidity ratios.

33) A financial analyst has gathered the following select financial data on three companies.

	Company A	Company B	Company C
Total current assets	€500,000	€1,250,000	€870,000
Total current liabilities	€445,000	€970,000	€620,000

On the basis of the information provided above, the financial analyst is able to conclude that

A. Company A and Company B both have a higher liquidity than Company C.

B. Company B has the highest liquidity.

C. Company B and Company C both have a higher liquidity than Company A.

D. Company A has the highest liquidity.

34) A company has a current ratio of 2.0. Cash is 20%, accounts receivable is 40%, and inventory is 40% of total current assets. What is the acid-test ratio for the company?

A. 0.8

B. 1.2

C. 1.6

D. 2.0

35) A company has the following account balances.

Cash	$160,000
Equipment	50,000
Inventory	35,000
Accounts receivable	25,000
Accrued wages	10,000
Long-term debt	30,000
Accounts payable	5,000

What is the company's net working capital?

A. $180,000

B. $205,000

C. $220,000

D. $225,000

36) The balance sheet of Company XYZ as of 12/31/20X3 is shown below.

Assets		Liabilities and Shareholders' Equity	
Cash	$ 110	Accounts payable	$ 208
Accounts receivables	280	Notes payable	150
Inventories	175	Accrued expenses	50
Prepaid expenses	20	Deferred taxes	112
Property, plant, and equipment	700	Long-term debt	485
Intangible assets	100	Stockholders' equity	380
Total assets	$1,385	Total liabilities and shareholders' equity	$1,385

What was Company XYZ's net working capital as of 12/31/20X3?

A. $157

B. $65

C. $177

D. $227

37) A company located in China has reported on its first quarter balance sheet CNY 100,000 in cash, CNY 200,000 in accounts receivables, and CNY 90,000 in current liabilities. The controller has forecasted that during the second quarter, there will be no change in the accounts receivables, but the cash balance will increase by 5% and the current liabilities will decrease by 10%. Based on the controller's forecast, what is the forecasted quick ratio for the second quarter?

A. 1.30

B. 3.39

C. 3.70

D. 3.77

38) A company has current liabilities of $2,000,000 and net working capital of $300,000. If the

company has a quick ratio of 0.8, the company has inventory of

A. $240,000

B. $700,000

C. $1,360,000

D. $1,600,000

39) North Bank is analyzing Belle Corp.'s financial statements for a possible extension of credit. Belle's quick ratio is significantly better than the industry average. Which of the following factors should North consider as a possible limitation of using this ratio when evaluating Belle's creditworthiness?

A. Fluctuating market prices of short-term investments may adversely affect the ratio.

B. Increasing market prices for Belle's inventory may adversely affect the ratio.

C. Belle may need to sell its available-for-sale investments to meet its current obligations.

D. Belle may need to liquidate its inventory to meet its long-term obligations.

40) In comparing the current ratios of two companies, why is it invalid to assume that the company with the higher current ratio is the better company?

A. The current ratio includes assets other than cash.

B. A high current ratio may indicate inadequate inventory on hand.

C. A high current ratio may indicate inefficient use of various assets and liabilities.

D. The two companies may define working capital in different terms.

Fact Pattern:
Tosh Enterprises reported the following account information:

Accounts receivable	$400,000	Inventory	$800,000
Accounts payable	260,000	Land	500,000
Bonds payable, due in 10 years	600,000	Short-term prepaid expense	80,000
Cash	200,000		
Interest payable, due in 3 months	20,000		

41) What will happen to the ratios below if Tosh Enterprises uses cash to pay 25% of the accounts payable?

Current Ratio Quick Ratio

A. Increase Increase

B. Decrease Decrease

C. Increase Decrease

D. Decrease Increase

42) A company uses the allowance method to account for credit losses. An account receivable that was previously determined uncollectible and written off was collected during May. The effect of the collection on the company's current ratio and total working capital is

Current Ratio Working Capital

A. None None

B. Increase Increase

C. Decrease Decrease

D. None Increase

43) A company has a 2-to-1 current ratio. This ratio would increase to more than 2 to 1 if

A. A previously declared stock dividend were distributed.

B. The company wrote off an uncollectible receivable.

C. The company sold merchandise on open account that earned a normal gross margin.

D. The company purchased inventory on open account.

Fact Pattern: Depoole Company is a manufacturer of industrial products that uses a calendar year for financial reporting purposes. Assume that total quick assets exceeded total current liabilities both before and after the transaction described. Further assume that Depoole has positive profits during the year and a credit balance throughout the year in its retained earnings account.

44) Depoole's payment of a trade account payable of $64,500 will

A. Increase the current ratio, but the quick ratio would not be affected.

B. Increase the quick ratio, but the current ratio would not be affected.

C. Increase both the current and quick ratios.

D. Decrease both the current and quick ratios.

Fact Pattern: Depoole Company is a manufacturer of industrial products that uses a calendar year for financial reporting purposes. Assume that total quick assets exceeded total current liabilities both before and after the transaction described. Further assume that Depoole has positive profits during the year and a credit balance throughout the year in its retained earnings account.

Question 45) Depoole's purchase of raw materials for $85,000 on open account will

A. Increase the current ratio.

B. Decrease the current ratio.

C. Increase net working capital.

D. Decrease net working capital.

Fact Pattern: Depoole Company is a manufacturer of industrial products that uses a calendar year for financial reporting purposes. Assume that total quick assets exceeded total current liabilities both before and after the transaction described. Further assume that Depoole has positive profits during the year and a credit balance throughout the year in its retained earnings account.

46) Depoole's collection of a current accounts receivable of $29,000 will

A. Increase the current ratio.

B. Decrease the current ratio and the quick ratio.

C. Increase the quick ratio.

D. Not affect the current or quick ratios.

Fact Pattern: Depoole Company is a manufacturer of industrial products that uses a calendar year for financial reporting purposes. Assume that total quick assets exceeded total current liabilities both before and after the transaction described. Further assume that Depoole has positive profits during the year and a credit balance throughout the year in its retained earnings account.

47) Obsolete inventory of $125,000 was written off by Depoole during the year. This transaction

A. Decreased the quick ratio.

B. Increased the quick ratio.

C. Increased net working capital.

D. Decreased the current ratio.

Fact Pattern: Depoole Company is a manufacturer of industrial products that uses a calendar year for financial reporting purposes. Assume that total quick assets exceeded total current liabilities both before and after the transaction described. Further assume that Depoole has positive profits during the year and a credit balance throughout the year in its retained earnings account.

48) Depoole's early liquidation of a long-term note with cash affects the

A. Current ratio to a greater degree than the quick ratio.

B. Quick ratio to a greater degree than the current ratio.

C. Current and quick ratio to the same degree.

D. Current ratio but not the quick ratio.

Fact Pattern: Excerpts from the statement of financial position for Landau Corporation as of September 30 of the current year are presented as follows.

Cash	$ 950,000
Accounts receivable (net)	1,675,000
Inventories	2,806,000
Total current assets	$5,431,000
Accounts payable	$1,004,000
Accrued liabilities	785,000
Total current liabilities	$1,789,000

The board of directors of Landau Corporation met on October 4 of the current year and declared the regular quarterly cash dividend amounting to $750,000 ($.60 per share). The dividend is payable on October 25 of the current year to all shareholders of record as of October 12 of the current year. Assume that the only transactions to affect Landau Corporation during October of the current year are the dividend transactions and that the closing entries have been made.

49) Landau Corporation's working capital was

A. Unchanged by the dividend declaration and decreased by the dividend payment.

B. Decreased by the dividend declaration and increased by the dividend payment.

C. Unchanged by either the dividend declaration or the dividend payment.

D. Decreased by the dividend declaration and unchanged by the dividend payment.

Fact Pattern: Excerpts from the statement of financial position for Landau Corporation as of September 30 of the current year are presented as follows.

Cash	$ 950,000
Accounts receivable (net)	1,675,000
Inventories	2,806,000

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50) Landau Corporation's current ratio was

A. Decreased by the dividend declaration and increased by the dividend payment.

B. Unchanged by either the dividend declaration or the dividend payment.

C. Decreased by the dividend declaration and unchanged by the dividend payment.

D. Increased by the dividend declaration and unchanged by the dividend payment.

Fact Pattern: Excerpts from the statement of financial position for Markham Corporation as of April 30 of the current year are presented as follows:

Cash	$ 725,000
Accounts receivable (net)	1,640,000
Inventories	2,945,000
Total current assets	$5,310,000
Accounts payable	$1,236,000
Accrued liabilities	831,000
Total current liabilities	$2,067,000

The board of directors of Markham met on May 5 of the current year and declared a quarterly cash dividend in the amount of $800,000 ($.50 per share). The dividend was paid on May 28 of the current year to shareholders of record as of May 15 of the current year. Assume that the only transactions that affected Markham during May of the current year were the dividend transactions and that the closing entries have been made.

51) Markham's working capital would be

A. Decreased by the dividend declaration and increased by the dividend payment.

B. Unchanged by either the dividend declaration or the dividend payment.

C. Decreased by the dividend declaration and unchanged by the dividend payment.

D. Increased by the dividend declaration and unchanged by the dividend payment.

Fact Pattern: Excerpts from the statement of financial position for Markham Corporation as of April 30 of the current year are presented as follows:

Cash	$ 725,000
Accounts receivable (net)	1,640,000
Inventories	2,945,000
Total current assets	$5,310,000
Accounts payable	$1,236,000
Accrued liabilities	831,000
Total current liabilities	$2,067,000

The board of directors of Markham met on May 5 of the current year and declared a quarterly cash dividend in the amount of $800,000 ($.50 per share). The dividend was paid on May 28 of the current year to shareholders of record as of May 15 of the current year. Assume that the only transactions that affected Markham during May of the current year were the dividend transactions and that the closing entries have been made.

52) Markham's current ratio would be

A. Decreased by the dividend declaration and increased by the dividend payment.

B. Increased by the dividend declaration and unchanged by the dividend payment.

C. Unchanged by either the dividend declaration or the dividend payment.

D. Unchanged by the dividend declaration and decreased by the dividend payment.

53) The following transactions occurred during a company's first year of operations:

I. Purchased a delivery van for cash
II. Borrowed money by issuance of short-term debt
III. Purchased treasury stock

Which of the items above caused a change in the amount of working capital?

A. I only.
B. I and II only.
C. II and III only.
D. I and III only.

Fact Pattern: CPZ Enterprises had the following account information.

Accounts receivable	$200,000
Accounts payable	80,000
Bonds payable, due in 10 years	300,000
Cash	100,000
Interest payable, due in 3 months	10,000
Inventory	400,000
Land	250,000
Notes payable, due in 6 months	50,000
Prepaid expenses	40,000

The company has an operating cycle of 5 months.

54) What will happen to the ratios below if CPZ Enterprises uses cash to pay 50% of the accounts payable?

	Current Ratio	Quick Ratio
A.	Increase	Increase

B. Decrease Decrease

C. Increase Decrease

D. Decrease Increase

Fact Pattern: Jensen Corporation's board of directors met on June 3 and declared a regular quarterly cash dividend of $.40 per share for a total value of $200,000. The dividend is payable on June 24 to all stockholders of record as of June 17. Excerpts from the statement of financial position for Jensen Corporation as of May 31 are presented as follows.

Cash	$ 400,000
Accounts receivable (net)	800,000
Inventories	1,200,000
Total current assets	$2,400,000
Total current liabilities	$1,000,000

Assume that the only transactions to affect Jensen Corporation during June are the dividend transactions.

55) Jensen's working capital would be

A. Unchanged by the dividend declaration and decreased by the dividend payment.

B. Decreased by the dividend declaration and increased by the dividend payment.

C. Unchanged by either the dividend declaration or the dividend payment.

D. Decreased by the dividend declaration and unchanged by the dividend payment.

Fact Pattern: Jensen Corporation's board of directors met on June 3 and declared a regular quarterly cash dividend of $.40 per share for a total value of $200,000. The dividend is payable on June 24 to all stockholders of record as of June 17. Excerpts from the statement of financial position for Jensen Corporation as of May 31 are presented as follows.

Cash	$ 400,000
Accounts receivable (net)	800,000

Inventories	1,200,000
Total current assets	$2,400,000
Total current liabilities	$1,000,000

Assume that the only transactions to affect Jensen Corporation during June are the dividend transactions.

56) Jensen's current ratio would be

A. Unchanged by the dividend declaration and decreased by the dividend payment.

B. Decreased by the dividend declaration and increased by the dividend payment.

C. Unchanged by either the dividend declaration or the dividend payment.

D. Decreased by the dividend declaration and unchanged by the dividend payment.

Fact Pattern: Jensen Corporation's board of directors met on June 3 and declared a regular quarterly cash dividend of $.40 per share for a total value of $200,000. The dividend is payable on June 24 to all stockholders of record as of June 17. Excerpts from the statement of financial position for Jensen Corporation as of May 31 are presented as follows.

Cash	$ 400,000
Accounts receivable (net)	800,000
Inventories	1,200,000
Total current assets	$2,400,000
Total current liabilities	$1,000,000

Assume that the only transactions to affect Jensen Corporation during June are the dividend transactions.

57) Jensen's quick (acid test) ratio would be

A. Unchanged by the dividend declaration and decreased by the dividend payment.

B. Decreased by the dividend declaration and increased by the dividend payment.

C. Unchanged by either the dividend declaration or the dividend payment.

D. Decreased by the dividend declaration and unchanged by the dividend payment.

58) All of the following are affected when merchandise is purchased on credit **except**

A. Total current assets.

B. Net working capital.

C. Total current liabilities.

D. Current ratio.

59) An entity has total assets of $7,500,000 and a current ratio of 2.3 times before purchasing $750,000 of merchandise on credit for resale. After this purchase, the current ratio will

A. Remain at 2.3 times.

B. Be higher than 2.3 times.

C. Be lower than 2.3 times.

D. Be exactly 2.53 times.

60) If allowance for credit losses is increased, this adjustment will

A. Increase the acid test ratio.

B. Increase working capital.

C. Reduce debt-to-asset ratio.

D. Reduce the current ratio.

61) A firm must increase its acid test ratio above the current 0.9 level in order to comply with the terms of a loan agreement. Which one of the following actions is **most** likely to produce the desired results?

A. Expediting collection of accounts receivable.

B. Selling auto parts on account.

C. Making a payment to trade accounts payable.

D. Purchasing marketable securities for cash.

62) The owner of a chain of grocery stores has bought a large supply of mangoes and paid for the fruit with cash. This purchase will adversely impact which one of the following?

A. Working capital.

B. Current ratio.

C. Quick or acid test ratio.

D. Price earnings ratio.

63) Both the current ratio and the quick ratio for Spartan Corporation have been slowly decreasing. For the past two years, the current ratio has been 2.3-to-1 and 2.0-to-1. During the same time period, the quick ratio has decreased from 1.2-to-1 to 1.0-to-1. The disparity between the current and quick ratios can be explained by which one of the following?

A. The current portion of long-term debt has been steadily increasing.

B. The cash balance is unusually low.

C. The accounts receivable balance has decreased.

D. The inventory balance is unusually high.

64) The acid test ratio shows the ability of a company to pay its current liabilities without having to

A. Reduce its cash balance.

B. Borrow additional funds.

C. Collect its receivables.

D. Liquidate its inventory.

65) If a company has a current ratio of 2.1 and pays off a portion of its accounts payable with cash, the current ratio will

A. Decrease.

B. Increase.

C. Remain unchanged.

D. Move closer to the quick ratio.

66) A condensed comparative balance sheet for a company appears below:

	12/31/Year 1	12/31/Year 2
Cash	$ 40,000	$ 30,000
Accounts receivable	120,000	100,000
Inventory	200,000	300,000
Property, plant, & equipment	500,000	550,000
Accumulated depreciation	(280,000)	(340,000)
Total assets	$ 580,000	$ 640,000
Current liabilities	$ 60,000	$ 100,000
Long-term liabilities	390,000	420,000
Stockholders' equity	130,000	120,000
Total liabilities and equity	$ 580,000	$ 640,000

In looking at liquidity ratios at both balance sheet dates, what happened to the (1) current ratio and (2) acid test (quick) ratio?

(1) Current Ratio	(2) Acid Test Ratio

A. Increased Increased

B. Increased Decreased

C. Decreased Increased

D. Decreased Decreased

67) A firm has the following current assets.

Cash	€ 250,000
Marketable securities	100,000
Accounts receivable	800,000
Inventories	1,450,000
Total current assets	€ 2,600,000

If current liabilities are €1,300,000, the firm's

A. Current ratio will decrease if a payment of €100,000 cash is used to pay €100,000 of accounts payable.

B. Current ratio will not change if a payment of €100,000 is used to pay €100,000 of accounts payable.

C. Acid-test (quick) ratio will decrease if a payment of €100,000 cash is used to purchase inventory.

D. Acid-test (quick) ratio will not change if a payment of €100,000 cash is used to purchase inventory.

68) A company has $80 million in current assets, comprised of $30 million in inventory and $50 million in cash and marketable securities. The company's current liabilities total $50 million. If the company purchases an additional $10 million in inventory with $10 million in cash, the effect of this transaction on the company would be to

A. Decrease the current ratio and increase the quick ratio.

B. Decrease the quick ratio while the current ratio remains unchanged.

C. Leave both the current ratio and the quick ratio unchanged.

D. Decrease the current ratio and decrease the quick ratio.

69) During the current year, Corporation A had 100,000 shares of common stock outstanding. On July 1, Corporation A issued a 4-for-1 stock split. Additionally, on September 2, A declared a dividend of $0.75 per common share, and the payment is expected to be made in January of the following year. If A had current assets of $2,000,000 and current liabilities of $1,200,000 before the declaration of the stock dividend, what is the percentage change in the current ratio as a result of the dividend declaration?

A. 15% decrease.

B. 20% decrease.

C. 2% decrease.

D. 6% decrease.

70) At the beginning of the year, Company C had the following items on its balance sheet:

Cash	$100,000
Marketable securities	70,000
Inventory	25,000
Prepaid assets	50,000
Net accounts receivable	30,000
Current liabilities	125,000

During the course of the year, C declared and paid dividends of $1 per share on its 40,000 shares of common stock. Assuming that the dividend payment is the only transaction in the year, what is the percentage change in the quick ratio as a result of the dividends?

A. 18% increase.

B. 15% decrease.

C. 26% increase.

D. 20% decrease.

71) Corporation M had the following items on its balance sheet at the end of Year 1:

Cash	$ 55,000
Marketable securities	60,000
Inventory	35,000
Land	70,000
Office building	100,000
Accounts payable (due 2/1/Y2)	40,000

Interest payable (due 6/1/Y3)	20,000
Wages payable (due 1/5/Y2)	10,000

What is M's working capital at the end of Year 1?

A. $170,000

B. $100,000

C. $80,000

D. $250,000

72) At the beginning of the current year, Corporation G had current assets of $300,000 and current liabilities of $100,000. Additionally, noncurrent assets were $200,000 and noncurrent liabilities were $150,000. By the end of the year, current assets had increased by 10% and current liabilities increased by 25%. Also, noncurrent assets and liabilities each increased by 5% by the end of the year. By what amount does working capital change by the end of the year?

A. $2,500 increase.

B. $7,500 increase.

C. $5,000 increase.

D. $50,000 increase.

73) Corporation H had current assets of $250,000 at the beginning of the year and $50,000 of current liabilities. Which of the following transactions would result in an increase of working capital?

A. A declaration of dividends.

B. Purchasing $50,000 of inventory with cash.

C. Purchasing $50,000 of inventory on account.

D. Issuing a $10,000 10-year bond with principal and interest due in 10 years.

74) A characteristic of all assets and liabilities included in working capital is that they are

A. Cash equivalents.

B. Current.

C. Monetary.

D. Marketable.

75) Which of the following ratios is(are) useful in assessing a company's ability to meet currently maturing or short-term obligations?

Acid-Test Ratio	Debt-to-Equity Ratio

A. No No

B. No Yes

C. Yes Yes

D. Yes No

76) Selected financial data from Drew Company follow:

	As of December 31
Cash	$ 75,000
Accounts receivable (net)	225,000
Merchandise inventory	270,000
Trading securities	40,000
Land and building (net)	500,000
Mortgage payable -- current portion	30,000
Accounts payable and accrued liabilities	120,000
Short-term notes payable	50,000

	Year Ended December 31
Sales	$1,500,000
Cost of goods sold	900,000

Drew's quick (acid-test) ratio as of December 31 is

A. 3.6 to 1.

B. 3.1 to 1.

C. 2.0 to 1.

D. 1.7 to 1.

77) Redwood Co.'s financial statements had the following information at year-end:

Cash	$ 60,000
Accounts receivable	180,000
Allowance for credit losses	8,000
Inventory	240,000
Short-term marketable securities	90,000
Prepaid rent	18,000
Current liabilities	400,000
Long-term debt	220,000

What was Redwood's quick ratio?

A. 0.81 to 1

B. 0.83 to 1

C. 0.94 to 1

D. 1.45 to 1

78) Heath Co.'s current ratio is 4:1. Which of the following transactions will normally increase its current ratio?

A. Purchasing inventory on account.

B. Selling inventory on account.

C. Collecting an account receivable.

D. Purchasing machinery for cash.

79) Information from Dominic Company's year-end financial statements is as follows:

	Year 1	Year 2
Current assets	$ 4,000,000	$ 4,200,000
Current liabilities	2,000,000	1,800,000
Equity	5,000,000	5,400,000
Net sales	16,600,000	17,600,000
Cost of goods sold	12,400,000	12,800,000
Operating income	1,000,000	1,100,000

What is the current ratio at December 31, Year 2?

A. 1.38 to 1.

B. 2.94 to 1.

C. 2.33 to 1.

D. 3.00 to 1.

80) At December 30, Vida Co. had cash of $200,000, a current ratio of 1.5:1, and a quick ratio of .5:1. On December 31, all cash was used to reduce accounts payable. How did these cash payments affect the ratios?

	Current Ratio	Quick Ratio
A.	Increased	Decreased
B.	Increased	No effect
C.	Decreased	Increased
D.	Decreased	No effect

81) Galad Corp. has current assets of $180,000 and current liabilities of $360,000. Which of the following transactions would improve Galad's current ratio?

A. Refinancing a $60,000 long-term mortgage with a short-term note.

B. Purchasing $100,000 of merchandise inventory with a short-term account payable.

C. Paying $40,000 of short-term accounts payable.

D. Collecting $20,000 of short-term accounts receivable.

82) A company has a current ratio of 2 to 1. This ratio will decrease if the company

A. Receives a 5% stock dividend on one of its marketable securities.

B. Pays a large account payable which had been a current liability.

C. Borrows cash on a 6-month note.

D. Sells merchandise for more than cost and records the sale using the perpetual inventory method.

83) If a company converts a short-term note payable into a long-term note payable, this transaction will

A. Decrease working capital only.

B. Decrease both working capital and the current ratio.

C. Increase working capital only.

D. Increase both working capital and the current ratio.

84) A company's year-end balance sheet is shown below:

Assets	
Cash	$ 300,000
Accounts receivable	350,000
Inventory	600,000
Property, plant, and equipment (net)	2,000,000

	$3,250,000

Liabilities and Shareholder Equity	
Current liabilities	$ 700,000
Long-term liabilities	600,000
Common stock	800,000
Retained earnings	1,150,000
	$3,250,000

What is the current ratio as of December 31?

A. 1.79

B. 0.93

C. 0.67

D. 0.43

85) On June 30 of this year, Oliva Co., a calendar-year entity, issued a 6-month note payable in exchange for stock that it intends to hold as a long-term investment. Oliva Company's current and quick ratios are 1.8 and 1.5, respectively. What is the effect of issuing the note?

Current Ratio	Quick Ratio	Working Capital

A. Increase Increase Increase

B. Increase Increase Decrease

C. Increase Decrease Decrease

D. Decrease Decrease Decrease

86) Assuming a current ratio of 1.5, which of the following decreases the current ratio but has no effect on working capital?

A. Purchase of inventory on credit.

B. Recognition of a credit sale.

C. Recognition of a sale for cash.

D. Sale of a trading security for cash.

87) Stent Co. had total assets of $760,000, capital stock of $150,000, and retained earnings of $215,000. What was Stent's debt-to-equity ratio?

A. 2.63

B. 1.08

C. 0.52

D. 0.48