1) In financial statement analysis, expressing all financial statement items as a percentage of base-year amounts is called

A. Horizontal common-size analysis.

B. Vertical common-size analysis.

C. Variance analysis.

D. Ratio analysis.

2) In assessing the financial prospects for a firm, financial analysts use various techniques. An example of vertical, common-size analysis is

A. An assessment of the relative stability of a firm's level of vertical integration.

B. A comparison in financial ratio form between two or more firms in the same industry.

C. Advertising expense is 2% greater compared with the previous year.

D. Advertising expense for the current year is 2% of sales.

3) A company has provided the following data pertaining to one of its products.

Year	Unit Sales	Unit Sales Price	Gross Profit Margin
1	1,000	$50	45%
2	1,200	$55	48%

Which one of the following statements is **correct**?

A. The cost per unit sold decreased 3% during Year 2.

B. The dollar amount of gross profit increased by 3% during Year 2.

C. The percentage increase in the sales price exceeded the percentage increase in the cost per unit sold during Year 2.

D. The cost per unit increased during Year 2, in line with the increase in unit sales.

4) An enterprise is in the process of comparing its current financial performance for Year 3 with the prior 2 years. The enterprise experienced exceptionally strong growth between Years 1 and

2, with a slight decrease in sales between Years 2 and 3.

	Year 1	Year 2	Year 3
Net sales	$4,560,000	$30,980,400	$26,583,220
Cost of goods sold	2,378,900	24,655,340	21,444,985
Selling expenses	490,000	1,289,466	2,099,800
General and administrative expenses	290,500	500,000	600,000

Which one of the following statements is correct when using common-size analysis to compare the results?

A. The enterprise's profitability increased each year due to more efficient production processes.

B. The enterprise experienced the highest proportion of selling expenses in Year 2, which led to the high net sales.

C. The enterprise increased the percentage of general and administrative expenses each year in order to manage the company's growth.

D. The enterprise's proportion of gross profit was lowest in Year 3 due to high production costs.

5) The following financial information is given.

	Year 1	Year 2
Book value of assets	$18,000	$26,000
Market value of equity	18,000	60,000
	12 months ended Year 1	12 months ended Year 2
Sales	$ 1,000	$ 1,300
Cost of goods sold	500	700
Operating income	500	600
Depreciation expense	200	200
Interest expense	100	100
Pretax income	200	300
Income tax expense	80	120
Net income	$ 120	$ 180

Using a common-size income statement, did operating income and net income increase or decrease?

Operating income	Net income

A. Increased Increased

B. Increased Decreased

C. Decreased Increased

D. Decreased Decreased

6) A company has had the following financial results for the last four years.

	Year 1	Year 2	Year 3	Year 4
Sales	$1,250,000	$1,300,000	$1,359,000	$1,400,000
Cost of goods sold	750,000	785,000	825,000	850,000
Gross profit	500,000	515,000	534,000	550,000
Inflation factor	1.00	1.03	1.07	1.10

The company has analyzed these results using vertical common-size analysis to determine trends. The performance of the company can **best** be characterized by which one of the following statements?

A. The common-size gross profit percentage has decreased as a result of an increasing common-size trend in cost of goods sold.

B. The common-size trend in sales is increasing and is resulting in an increasing trend in the common-size gross profit margin.

C. The common-size trend in cost of goods sold is decreasing which is resulting in an increasing trend in the common-size gross profit margin.

D. The increased trend in the common-size gross profit percentage is the result of both the increasing trend in sales and the decreasing trend in cost of goods sold.

7) Select information from a company's year-end balance sheet is shown below.

Balance Sheet

As of December 31, Year 1

Cash	$ 50,000

Accounts receivable	120,000
Inventory	75,000
Property, plant and equipment, net	250,000
Total assets	$495,000
Accounts payable	$ 35,000
Long-term debt	100,000
Total liabilities	135,000
Common stock	300,000
Retained earnings	60,000
Total equity	360,000
Total liabilities and equity	$495,000

Based on the above information, a common-size balance sheet for the company will show

A. Long-term debt at 74%.

B. Property, plant and equipment, net at 69%.

C. Retained earnings at 17%.

D. Accounts receivables at 24%.

8) The dollar value of a company's ending inventory on its balance sheet was $500,000, $600,000, and $400,000 for Years 1, 2, and 3, respectively. In preparing a horizontal analysis with Year 1 as the base year, the percentage change shown for Year 3 would be

A. (25%)

B. (20%)

C. 20%

D. 80%

9) A financial analyst is reviewing a company's most recent fiscal year financial statements. The relevant data is shown below.

Assets ($000)		Liabilities and Equity ($000)	
Cash	$ 150	Accounts payable	$ 300
Accounts receivable	250	Notes payable	200

Inventory	400	Long-term debt	500
Plant and equipment, net	1,200	Common equity	1,000
Total	$2,000	Total	$2,000

The analyst would like to examine the company in relation to other firms in the industry utilizing common-size financial statements. The appropriate comparative value for current assets is

A. 20%

B. 25%

C. 35%

D. 40%

10) A company has the following balances on its financial statements:

Revenue	$32,000,000
Cost of sales	16,000,000
Net income	4,000,000
Total assets	80,000,000
Total equity	40,000,000

A common-size income statement would show net income as

A. 5.0%

B. 10.0%

C. 12.5%

D. 25.0%

11) An abbreviated common-size income statements for Year 1's actual results and Year 2's anticipated results are shown below.

	Year 1	Year 2

Sales	100%	100%
Cost of goods sold	50%	50%
Selling and administrative expenses	40%	?
Operating Income	10%	?

The corporation estimates that units sold will increase by 5% in Year 2 with no price increase to its customers and no anticipated cost increases from its vendors. Assume selling and administrative expenses are 5% variable and 95% fixed. If all predictions materialize, the corporation should expect selling and administrative expenses in Year 2 to be

A. Less than 40% of sales.

B. 40% of sales.

C. Greater than 40% but no more than 42% of sales.

D. Greater than 42% of sales.

12) The accounting manager of a manufacturer of farming equipment was asked by the CFO to analyze the company's last 5 years of operations. The accounting manager prepared the following analysis:

Common Base Year Income Statement

Base Year = December 31, Year 1

	Year 2	Year 3	Year 4	Year 5	Year 6
Sales	1.01	1.03	1.05	1.07	1.10
Cost of goods sold	1.05	1.03	1.02	1.00	0.98
Selling and administrative expenses	1.01	1.01	1.01	1.02	1.03
Research and development	1.00	0.98	0.99	1.00	1.01
Income from operations	1.02	1.02	1.03	1.05	1.09

Which one of the following statements is consistent with this analysis?

A. The company should decrease the sales force.

B. The new marketing strategy has been unsuccessful.

C. The company should decrease research and development expenses.

D. The new production process has successfully reduced manufacturing expenses.

13) Shown below are components of a company's financial statements.

Sales revenue	$ 600,000
Cost of goods sold	300,000
Total assets	2,400,000
Total equity	1,500,000
Net income	120,000

What percentage value would net income be on a common size financial statement?

A. 5%

B. 8%

C. 20%

D. 40%

14) A financial analyst is reviewing a competitor's income statements for the past 2 years.

	Year 1	Year 2
Sales	£250,000	£275,000
Cost of goods sold	155,000	160,000
Gross profit	95,000	115,000
Selling expenses	35,000	40,000
General expenses	45,000	50,000
Operating income before income taxes	15,000	25,000
Taxes related to operations	2,500	3,500
Net income	£ 12,500	£ 21,500

The financial analyst is able to conclude that the competitor's

A. Common size income statements will show operating income before income taxes at 22% for Year 2.

B. Common size income statements will show taxes related to operations at 16% for Year 2.

C. Common base year income statements will show that gross profit increased by 17% in Year 2 as compared to Year 1.

D. Common base year income statements will show that selling expenses increased by 14% in Year 2 as compared to Year 1.

15) A company's financial statements from the past 2 years have the following values.

	Previous year	Current year
Sales revenue	$ 6,000,000	$ 6,600,000
Net income	500,000	540,000
Total assets	10,000,000	10,500,000
Inventory	600,000	500,000

Using horizontal analysis, what account has the **largest** percentage change?

A. Sales revenue.

B. Net income.

C. Total assets.

D. Inventory.

16) A useful tool in financial statement analysis is the common-size financial statement. What does this tool enable the financial analyst to do?

A. Evaluate financial statements of companies within a given industry of approximately the same value.

B. Determine which companies in the same industry are at approximately the same stage of development.

C. Compare the mix of assets, liabilities, capital, revenue, and expenses within a company over time or between companies within a given industry without respect to relative size.

D. Ascertain the relative potential of companies of similar size in different industries.