

Question 1 of 79

Information from Gatsby Industries' 20x7 income statement is shown in the accompanying chart. Based on this information, what was Gatsby's gross profit rate for 20x7? Round to the nearest hundredth.

Net sales	\$65,000
Cost of goods sold	24,500
Operating expenses	18,600
Income tax expense	<u>6,500</u>
Net income	<u>\$15,400</u>

- A. 76.31%
- B. 23.69%
- C. **62.31%** ✓
- D. 33.69%

Explanation:

(Choice A) Gross profit is defined as Net Sales – Cost of Goods Sold. Gross profit rate is defined as Gross Profit ÷ Net Sales. It measures the percentage of sales revenue left after the cost of the inventory is deducted. Gatsby's total expenses as a percentage of net sales is 56.08% [$\$49,600$ ($\$24,500 + \$18,600 + \$6,500$) ÷ $\$65,000$]. The question asks about Gatsby's gross profit rate, not its total expenses as a percentage of net sales. Therefore, this is an incorrect answer.

(Choice B) Gross profit is defined as Net Sales – Cost of Goods Sold. Gross profit rate is defined as Gross Profit ÷ Net Sales. It measures the percentage of sales revenue left after the cost of the inventory is deducted. Gatsby's return on sales (Net Income ÷ Net Sales) is 23.69% ($\$15,400$ ÷ $\$65,000$). The question asks about Gatsby's gross profit rate, not its return on sales. Therefore, this is an incorrect answer.

(Choice C) Gross profit is defined as Net Sales – Cost of Goods Sold. Gross profit rate is defined as Gross Profit ÷ Net Sales. It measures the percentage of sales revenue left after the cost of the inventory is deducted. Gatsby's gross profit rate is 62.31% [$\$40,500$ ($\$65,000 - \$24,500$) ÷ $\$65,000$]. Therefore, this is the correct answer.

(Choice D) Gross profit is defined as Net Sales – Cost of Goods Sold. Gross profit rate is defined as Gross Profit ÷ Net Sales. It measures the percentage of sales revenue left after the cost of the inventory is deducted. Gatsby's operating income as a percentage of net sales (Net Sales – Cost of Goods Sold – Operating Expenses) is 33.69% [$\$21,900$ ($\$65,000 - \$24,500 - \$18,600$) ÷ $\$65,000$]. The question asks about Gatsby's gross profit

rate, not its operating income as a percentage of net sales. Therefore, this is an incorrect answer.

Question 2 of 79

Which of the following would **not** be included on a balance sheet?

- A. Prepaid rent
- B. Retained earnings
- C. Cost of goods sold ✓**
- D. Accumulated depreciation

Explanation:

(Choice A) Prepaid rent is an asset account on the balance sheet.

(Choice B) Retained earnings is an equity account on the balance sheet.

(Choice C) Cost of goods sold are expenses incurred to manufacture a product—therefore, they are classified as an income statement account.

(Choice D) Accumulated depreciation is a contra asset account on the balance sheet.

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Last month, Shiloh Shoes had net sales of \$40,000. If the firm's cost of goods sold was \$28,000, then

A. Shiloh's gross profit on sales was \$12,000. ✓

B. Shiloh's gross profit on sales was \$68,000.

C. Shiloh's net income was \$12,000.

D. Shiloh's net income was \$68,000.

Explanation:

(Choice A) Gross profit is defined as Net Sales – Cost of Goods Sold. Shiloh's gross profit is \$12,000 ($\$40,000 - \$28,000$). Therefore, this is the correct answer.

(Choice B) Gross profit is defined as Net Sales – Cost of Goods Sold. Shiloh's gross profit would be \$68,000 ($\$40,000 + \$28,000$) if cost of goods sold is added to revenue. This is not the correct formula. Therefore, this is an incorrect answer.

(Choice C) Net income is the difference between net sales and all expenses. Since the only expense listed is cost of goods sold, it is not possible to calculate net income. Therefore, this is an incorrect answer.

(Choice D) Net income is the difference between net sales and all expenses. Since the only expense listed is cost of goods sold, it is not possible to calculate net income. Therefore, this is an incorrect answer.

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The following table presents balance sheet data for Continental Manufacturing Co. for two years. All data in thousands:

Assets	December 31	
	20x4	20x3
Current assets:		
Cash	\$ 14,000	\$ 12,458
Accounts receivable	45,489	35,486
Inventory	39,239	32,568
Prepaid expenses	<u>3,400</u>	<u>2,581</u>
Total current assets	102,128	83,093
Long-term investments	128,580	104,600
Property, plant and equipment, net	<u>789,145</u>	<u>771,258</u>
Total assets	<u>\$1,019,853</u>	<u>\$958,951</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 98,789	\$ 85,451
Other current liabilities	<u>3,456</u>	<u>5,157</u>
Total current liabilities	102,245	90,608
Long-term debt	<u>456,781</u>	<u>414,760</u>
Total liabilities	559,026	505,368
Stockholders' equity:		
Common stock	100,000	100,000
Additional paid-in capital	275,000	275,000
Retained earnings	<u>85,827</u>	<u>78,583</u>
Total stockholders' equity	<u>460,827</u>	<u>453,583</u>
Total liabilities and stockholders' equity	<u>\$1,019,853</u>	<u>\$ 958,951</u>

Based on common size analysis, long-term investments as a percent of total assets

A. increased by 1.7%. ✓

B. decreased by 1.7%.

C. increased by 22.9%.

D. decreased by 22.9%.

Explanation:

(Choice A) In common size analysis, all items on the balance sheet are expressed as a percentage of total assets. The values for 20x3 and 20x4 are 10.9% ($\$104,600 \div \$958,951$) and 12.6% ($\$128,580 \div \$1,019,853$), respectively. This represents an increase of 1.7 percentage points ($12.6\% - 10.9\%$). Therefore, this is the correct answer.

(Choice B) In common size analysis, all items on the balance sheet are expressed as a percentage of total assets. The values for 20x3 and 20x4 are 10.9% ($\$104,600 \div \$958,951$) and 12.6% ($\$128,580 \div \$1,019,853$), respectively. This represents an increase

of 1.7 percentage points (12.6% – 10.9%), not a decrease. Therefore, this is an incorrect answer.

(Choice C) Long-term investments increased by 22.9% from 20x3 to 20x4 ($(\$128,580 - \$104,600) \div \$104,600$). However, the question does not ask for the percentage change in the account balance. Therefore, this is an incorrect answer.

(Choice D) Long-term investments increased by 22.9% from 20x3 to 20x4 ($(\$128,580 - \$104,600) \div \$104,600$), not decreased. In addition, the question does not ask for the percentage change in the account balance. Therefore, this is an incorrect answer.
