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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%
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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
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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.
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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%.
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Intrepid Outdoors is a sporting goods store. Their net sales were \$123,000 each year from 20x6 to 20x9. In which year would they have their lowest profit margin, given the net income in the table shown here?

Year	Net Income
20x6	\$32,400
20x7	\$43,600
20x8	\$34,100
20x9	\$40,500

- A. 20x6
 - B. 20x7
 - C. 20x8
 - D. 20x9
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All of the following are categories of cash flows on the statement of cash flows EXCEPT:

- A. sales activities
 - B. financing activities
 - C. investing activities
 - D. operating activities
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Which of the following is an example of a base level for assets on a company's balance sheet?

- A. Current liabilities
 - B. Total assets
 - C. Total liabilities
 - D. Common stock
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If a company's gross profit as a percentage of net sales declines by 3%, it can be inferred that

- A. its operating expenses as a percentage of net sales increased.
 - B. its operating expenses as a percentage of net sales decreased.
 - C. its cost of goods as a percentage of net sales increased.
 - D. its cost of goods as a percentage of net sales decreased.
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Sparks, Sparks, and Sparks is a legal firm founded by three brothers. The firm has been in business for 20 years. Recently, the company hired Mary Rogers to oversee the financial side of the business. As a method to understand its business better, she analyzed the financial results over the last five years, focusing primarily on the different profit margins. Below are the results:

	20X7	20X6	20X5	20X4	20X3
Gross Margin	97%	97%	97%	96%	97%
Operating Margin	35%	40%	43%	48%	50%
Profit Margin	26%	25%	26%	24%	23%

What would explain this pattern of changing margins?

- A. Sparks, Sparks, and Sparks is a service company, so the gross margin is irrelevant.
 - B. Salaries have been decreasing over time while interest and tax expense have been increasing.
 - C. Sparks, Sparks, and Sparks has been using profits to pay off high interest debt and give the founding partners substantial raises.
 - D. Sparks, Sparks, and Sparks is growing the firm by hiring more lawyers and has financed this growth with additional debt.
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The GBF Company has the following financial information:

	Year 1	Year 2
Net sales	\$20,000	\$19,500
Cost of goods sold	\$8,000	\$7,700
Gross profit	\$12,000	\$11,800
Selling and administrative expenses	\$5,000	\$4,900
Income from operations	\$7,000	\$6,900
Interest expense	\$2,000	\$2,050
Income before taxes	\$5,000	\$4,850
Tax expense	\$1,300	\$1,100
Net income	\$3,700	\$3,750

Which of the following conclusions is correct?

A	Selling and administrative expenses decreased relative to net sales in Year 2.
B	Tax expense decreased relative to net sales in Year 2.
C	Cost of goods sold decreased relative to net sales in Year 2.

- A. B and C
 - B. A only
 - C. A, B, and C
 - D. B only
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