1.1 Which of the following is not a primary source of raising money or capital for the firm?

A. Assets
B. Common stock
C. Preferred stock
D. Bonds

1.2 A firm's purchase of plant and equipment would be considered a

A. use of cash for financing activities.
B. use of cash for operating activities.
C. source of cash for operating activities.
D. use of cash for investment activities.

1.3 Assuming a tax rate of 21%, depreciation expenses of $500,000 will

A. reduce income by $15,000.
B. reduce taxes by $105,000.
C. reduce taxes by $150,000.
D. have no effect on income or taxes, since depreciation is not a cash expense.

1.4 Which one of the following is the financial statement that shows a financial snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets?

A. income statement
B. creditor’s statement
C. balance sheet
D. cash flow statement
E. sources and uses statement

1.5 A company sells used equipment with a book value of $100,000 for $250,000 cash. How would this transaction affect the company’s balance sheet?

A. Equity rises $250,000; net plant and equipment falls $250,000.
B. Cash rises $250,000; net plant and equipment falls $100,000; equity rises $150,000.
C. Cash rises $250,000; accounts receivable falls $100,000; goodwill rises $150,000.
D. Cash rises $250,000; net plant and equipment falls $250,000.

1.6 A company purchases a new $10 million building financed half with cash and half with a bank loan. How would this transaction affect the company’s balance sheet?

A. Net plant and equipment rises $10 million; cash falls $10 million; bank debt rises $5 million.
B. Net plant and equipment rises $5 million; cash falls $10 million; bank debt rises $5 million.
C. Net plant and equipment rises $5 million; cash falls $5 million; bank debt rises $5 million.
D. Net plant and equipment rises $10 million; cash falls $5 million; bank debt rises $5 million.

1.7 Which one of the following is a source of cash?

A. decrease in accounts receivable
B. decrease in common stock
C. decrease in long-term debt
D. decrease in accounts payable
E. increase in inventory

1.8 Depreciation expense:

A. reduces both taxes and net income.
B. increases net fixed assets as shown on the balance sheet.
C. is a noncash item that increases net income.
D. decreases current assets, net income, and operating cash flows.

1.9 In examining the liquidity ratios, the primary emphasis is the firm's

A. ability to effectively employ its resources.
B. overall debt position.
C. ability to pay short-term obligations on time.
D. ability to earn an adequate return or profits.

1.10 An increasing average receivables collection period indicates

A. the firm is generating more income.
B. accounts receivable are going down.
C. the company is becoming more efficient in its collection policy.
D. the company is becoming less efficient in its collection policy.

1.11 In comparison to industry averages, Okra Corp. has a low inventory turnover, a high current ratio, and an average quick ratio. Which of the following would be the most reasonable inference about Okra Corp.?

A. Its current liabilities are too low.
B. Its cost of goods sold is too low.
C. Its cash and securities balance is too low.
D. Its inventory level is too high.