

Multiple Choice Questions

Q5.1. To assess the efficiency of a firm's investment management, an analyst would analyze the firm's

- A. NOPAT margin
- B. Operating asset turnover
- C. Financial spread
- D. Financial leverage

Q5.2. To assess the efficiency of a firm's operating management, an analyst would analyze the firm's

- A. NOPAT margin
- B. Operating asset turnover
- C. Financial spread
- D. Financial leverage

Q5.3. One difference between the traditional and the alternative approach to decomposing return on equity is that

- A. The traditional approach defines leverage as debt-to-equity, whereas the alternative approach defines leverage as assets-to-equity.
- B. Only the traditional approach explicitly shows the impact of financial spread on return on equity.
- C. The approaches use different definitions of profit margins and asset turnover.
- D. One approach uses beginning-of-year balance sheet items to calculate ratios, whereas the other approach uses end-of-year balance sheet items.

Q5.4. At the end of fiscal year 2019, company Z discloses the following balance sheet:

Assets		Equity and Liabilities	
Cash	€500,000	Current debt	€300,000
Non-cash current assets	€800,000	Other current liabilities	€700,000
Non-current assets	€1,300,000	Non-current debt	€1,400,000
Minority equity investments	€300,000	Deferred tax liability	€150,000
		Equity	€350,000
Total	<u>€2,900,000</u>	Total	<u>€2,900,000</u>

The company needs a cash balance of €300,000 for its operations. Company Z's net non-current operating assets equal

- A. €1,400,000
- B. €1,300,000
- C. €1,150,000
- D. €2,900,000

Q5.5. At the end of fiscal year 2019, company Z discloses the following balance sheet:

Assets		Equity and Liabilities	
Cash	€500,000	Current debt	€300,000
Non-cash current assets	€800,000	Other current liabilities	€700,000
Non-current assets	€1,300,000	Non-current debt	€1,400,000
Minority equity investments	€300,000	Deferred tax liability	€150,000
		Equity	€350,000
Total	€2,900,000	Total	€2,900,000

The company needs a cash balance of €300,000 for its operations. Company Z's operating working capital and investment assets equal

- €400,000 and €500,000, respectively
- €100,000 and €500,000, respectively
- €400,000 and €300,000, respectively
- €100,000 and €300,000, respectively

Q5.6. At the end of fiscal year 2018, company X discloses the following income statement:

Revenue	€6,500,000
Operating expense	(€4,800,000)
Interest income	€600,000
Interest expense	(€900,000)
Tax expense	(€490,000)
Profit or loss	€910,000

Company X's interest expense after tax and net operating profit after taxes equal

- €585,000 and €1,105,000, respectively
- €195,000 and €1,105,000, respectively
- €300,000 and €910,000, respectively
- €300,000 and €1,105,000, respectively

Q5.7. Company A discloses the following information:

- Return on equity = 15 percent
- Net operating and investment profit after taxes (NOPAT + NIPAT) = €500,000
- Business assets = €4,000,000
- Effective interest rate after tax = 8 percent

Company A's financial leverage (debt-to-equity ratio) is

- Between 40 and 49.9 percent
- Between 50 and 59.9 percent
- Between 60 and 69.9 percent
- Between 70 and 79.9 percent

Q5.8. Company B discloses the following information:

- Return on net operating assets = 10 percent

- Net operating profit after taxes = €500,000
- Revenue = €3,000,000
- Equity = €2,000,000

Company B's operating asset turnover is

- A. Between 40 and 49.9 percent
- B. Between 50 and 59.9 percent
- C. Between 60 and 69.9 percent
- D. Between 70 and 79.9 percent

Q5.9. Industry peers C and D disclose the following information:

	Company C	Company D
Operating asset turnover	5.6	2.3
Return on operating assets	10 percent	10 percent

Which of the two companies is more likely to follow a cost leadership strategy?

- A. Company C
- B. Company D

Q5.10. Company E discloses the following information:

- Inventories = €800,000
- Cost of sales = €4,500,000
- Business assets = €3,000,000

Company E's days' inventories is

- A. Between 30 and 39.9 days
- B. Between 40 and 49.9 days
- C. Between 50 and 59.9 days
- D. Between 60 and 69.9 days

Q5.11. If a firm's return on equity is 20 percent, its return on business assets is 14 percent, its revenue growth rate is 15 percent, and its dividend payout ratio is 50 percent, its sustainable growth rate equals

- A. 7 percent
- B. 7.5 percent
- C. 10 percent
- D. 15 percent

Q5.12. At the end of fiscal year 2018, company Y discloses the following information:

Net operating and investment profit after taxes (NOPAT + NIPAT)	€1,100,000
Interest expense after tax (= interest paid)	€500,000
Net investment in operating working capital (increase)	€700,000
Net investment in non-current assets / CAPX (increase)	€900,000

Non-operating losses	€90,000
Depreciation and amortization expense	€910,000
Increase in debt	550,000
Dividends paid	€300,000
Company Y's free cash flow available to debt and equity is	

- A. €200,000 (positive)
- B. €1,050,000 (positive)
- C. €500,000 (positive)
- D. (€500,000) (negative)

Q5.13. At the end of fiscal year 2018, company Y discloses the following information:

Net operating and investment profit after taxes (NOPAT + NIPAT)	€1,100,000
Interest expense after tax (= interest paid)	€500,000
Net investment in operating working capital (increase)	€700,000
Net investment in non-current assets / CAPX (increase)	€900,000
Non-operating losses	€90,000
Depreciation and amortization expense	€910,000
Increase in debt	550,000
Dividends paid	€300,000
Company Y's free cash flow available to equity is	

- A. €200,000 (positive)
- B. (€450,000) (negative)
- C. (€550,000) (negative)
- D. €550,000 (positive)

Answers:

- Q5.1: B,
- Q5.2: A,
- Q5.3: C,
- Q5.4: C,
- Q5.5: A,
- Q5.6: A,
- Q5.7: B,
- Q5.8: C,
- Q5.9: A,
- Q5.10: D,
- Q5.11: C,
- Q5.12 : C,
- Q5.13 : D