5.05 Analyzing Statements of Cash Flows II

Question 1
An analyst compiles the following common-sized cash flow statements as a percentage of revenue for a company:

	20X4	20X5
Net income	9.0%	11.1%
Depreciation and amortization	5.0%	6.7%
Changes in operating assets and liabilities	−5.5%	−7.2%
Cash flow from operations	8.5%	10.6%
Purchase of equipment	−5.0%	−6.7%
Cash flow from investing	−5.0%	−6.7%
Issuance of debt	6.0%	2.2%
Repayment of debt	−6.0%	−1.7%
Dividend payments	−1.5%	−1.7%
Cash flow from financing	−1.5%	−1.1%
Net change in cash	2.0%	2.8%
Cash paid for interest	2.5%	2.2%

The company had total revenue of MXN 1,000 million in 20X4, MXN 900 million in 20X5, and a tax rate of 20% for both years. The analyst's *most appropriate* conclusion is that the company is:
A. increasing its free cash flow to equity.
B. growing its dividend in line with net income.
C. expanding its net investments in equipment.

Question 2
A company reports the following information:

Cash flow item	KRW millions
Net income	660
Depreciation and amortization expense	−260
Interest expense	−40
Working capital expenditures	−120
Capital expenditures	−200
Proceeds from long-term debt	535
Repayments of long-term debt	−500

If the company has a 25% tax rate, which of the following cash flow measures is *greatest*?
A. Free cash flow
B. Free cash flow to equity
C. Free cash flow to the firm

Question 3
An analyst gathers the following data on a company:

Selected Data (SGD *millions*)		
	Prior Year	Current Year
Net income	200	215
Depreciation	5	5
Interest expense	20	20
Net working capital	44	53
Long-term debt	300	295
Capital expenditures	40	30

The company's tax rate is 25% and current year's free cash flow to the firm (FCFF) is SGD 196 million. Based only on this information, free cash flow to equity (FCFE) for the current year is *closest* to:
A. SGD 176 million.
B. SGD 181 million.
C. SGD 191 million.

Question 4
An analyst has compiled the following information for a company's latest fiscal year:

	$ millions
Net income	39.0
Depreciation	15.0
Interest expense	6.0
Tax expense	13.0
Pretax income	52.0

In the same period, the company also purchased machinery for $10 million. Cash from operations (CFO) for the period was $14.5 million. If the company reports under US GAAP, the free cash flow to the firm (FCFF) is *closest* to:
A. $4.5 million
B. $9.0 million
C. $29.0 million

Question 5
This year, a company has
- £30 million in cash from operations (CFO),
- £6 million in after-tax interest expense that it treats as cash from financing (CFF),
- £2 million in interest received from other companies' bonds that it previously purchased, which it treats as cash from investing (CFI), and
- £15 million in capital expenditures.

Under IFRS, the company's free cash flow to the firm (FCFF) is *closest* to:
A. £15 million
B. £17 million
C. £19 million

Question 6
A company reports the following information:

MXN millions	Prior Year	Current Year
Net income	550	600
Depreciation	75	90
Interest expense	100	100
Net working capital	200	220
Long-term debt	750	780

The company's tax rate is 30%. If capital expenditures for the year are MXN 300 million, then free cash flow to equity for the current year (in MXN millions) is *closest* to:

A. 370
B. 400
C. 440

Question 7
An analyst has gathered the following information for a company's fiscal year 20X9:

Selected Items from Financial Statements (USD)	
Cash flow from operations (CFO)	1,000,000
Cash flow from investing (CFI)	35,000
Cash flow from financing (CFF)	50,000
Interest paid	250,000
Taxes paid	150,000

Based only on this information, under US GAAP, the company's interest coverage ratio is *closest* to:
A. 3.6
B. 5.6
C. 5.9

Question 8
A consultant gathers the following data on a company:

Selected Data (BRL *millions*)		
	Prior Year	Current Year
Net income	500	550
Depreciation	25	40
Interest expense	50	50
Net working capital	150	170
Long-term debt	700	730

If the company's tax rate is 20% and current year capital expenditures were BRL 60 million, then free cash flow to the firm (in BRL millions) for the current year is *closest* to:
A. 540
B. 550
C. 560

Question 9
An analyst reviews the following common-sized cash flow statement:

Cash Flow From Operating Activities	Percentage of Net Revenue
	20X7
Net income	20.00
Depreciation	7.00
Change in accounts receivable	(9.00)
Change in inventory	(6.00)
Change in accounts payable	8.50
Net cash provided by operating activites	20.50

Which of the following *best describes* the impact on net cash provided by operating activities?

A. The increase in inventory decreases cash flow

B. The decrease in accounts payable increases cash flow

C. The decrease in accounts receivable decreases cash flow