

Chapter Questions

CHAPTER 1

- 1) What is the purpose of an income statement?
- 2) What is the basic structure of an income statement? Provide a simple formula.
- 3) What are the nine major income statement components?
- 4) How does cost of goods sold differ from other operating expenses?
- 5) Please indicate whether the following expenses are most likely to be cost of goods sold or operating expenses.
 - a. Rent
 - b. Raw material
 - c. Salaries
 - d. Marketing
 - e. Finished goods
- 6) What does EBITDA stand for?
- 7) What is the formula for EBITDA margin?
- 8) What does EBIT stand for?
- 9) What is other income? Please provide an example.
- 10) How could one determine if other income should be included or excluded from EBITDA?
- 11) What is depreciation?
- 12) What is the difference between interest expense and interest income?
- 13) What are non-recurring items?
- 14) What are distributions? Please explain specific types.
- 15) Build and fully project the “Income Statement” tab located in the template entitled “NYSF_Practice_Template.xls.”

CHAPTER 2

- 1) What is the purpose of a cash flow statement?
- 2) How does a cash flow statement differ from an income statement?
- 3) What are the three major segments in a cash flow statement?
- 4) What is the formula for cash from operating activities?

- 5) What are the major components of cash from investing activities? Name at least three.
- 6) What are the major components of cash from financing activities?
- 7) If accounts receivable increases by \$10, please explain the effects on the income statement, cash flow statement, and balance sheet. Assume a 40% tax rate.
- 8) If accounts receivable now decreases by \$10, please explain the effects on the income statement, cash flow statement, and balance sheet.
- 9) If accrued expenses increases by \$30, please explain the effects on the income statement, cash flow statement, and balance sheet. Assume accrued expenses are related to SG&A, and a 40% tax rate.
- 10) If accrued expenses now decreases by \$30, please explain the effects on the income statement, cash flow statement, and balance sheet.
- 11) If depreciation expense increases by \$20, please explain the effects on the income statement, cash flow statement, and balance sheet. Assume a 40% tax rate.
- 12) We are in the business of buying and selling projectors, and we have just started the company. We can purchase projectors for \$100 each if we are buying in bulk of 20 and can be deferred as an account payable. We have not yet made any sales. What does the final balance sheet look like?
- 13) In the first period we have sold six projectors for \$400 each. Four of the six sales are on credit. Assume the tax rate is 40 percent. Now what does the final balance sheet look like?
- 14) Let's now assume we have incurred overhead costs of \$1,500, of which 50 percent has been paid in cash and the rest deferred. If there is any cash shortage, we would need to raise a revolving line of credit. Now what does the final balance sheet look like?
- 15) Build and project the "Cash Flow Statement" tab located in the template entitled "NYSF_Practice_Template.xls" as best you can. Note that without the depreciation and working capital schedules there will be a lot of missing line items. That is okay; just get the structure and total line items together for now.

CHAPTER 3

- 1) What is depreciation?
- 2) What is the purpose of accelerating depreciation?
- 3) What are the most common methods of accelerating depreciation?
- 4) What is a deferred tax asset?

- 5) How is a deferred tax asset most commonly created?
- 6) What is a deferred tax liability?
- 7) How is a deferred tax liability most commonly created?
- 8) A company just purchased a \$20MM asset that depreciates evenly over 20 years (straight line depreciation). Please explain the effects of the depreciation expense on the income statement, cash flow statement, and balance sheet. Just focus on the depreciation expense; do not worry about the actual asset purchase.
- 9) Now let's assume the company has decided to accelerate the depreciation in order to create a deferred tax liability. Please explain the additional effects of accelerating the depreciation expense on the income statement, cash flow statement, and balance sheet. For simplicity assume the accelerated depreciation rate is 20 percent in this period.
- 10) Build and project the "Depreciation" tab located in the template entitled "NYSF_Practice_Template.xls" as best you can. Use the given assumptions.

CHAPTER 4

- 1) What is working capital?
- 2) How does working capital differ from operating working capital?
- 3) Why is operating working capital more useful than working capital in modeling and analysis?
- 4) What is the formula for accounts receivable days?
- 5) What is the formula for accrued expenses days? Assume the accrued expenses are related to operating expenses as a whole.
- 6) What is the formula to project accounts receivables when given the days metric?
- 7) What is the formula to project accrued expenses when given the days metric? Assume the accrued expenses are related to operating expenses as a whole.
- 8) If accounts receivable increases by \$15, please explain the effects on the income statement, cash flow statement, and balance sheet. Assume a 40% tax rate.
- 9) If accounts receivable now decreases by \$15, please explain the effects on the income statement, cash flow statement, and balance sheet.
- 10) Build and project the "Operating Working Capital" tab located in the template entitled "NYSF_Practice_Template.xls" as best you can. Use the given assumptions.

CHAPTER 5

- 1) What are the purpose and structure of a balance sheet?
- 2) What are the two common modeling methods in relation to the cash flow statement and balance sheet? Explain each.
- 3) What is the recommended method of modeling in relation to the cash flow statement and balance sheet? Why?
- 4) If you had only one statement to choose in order to best review the overall financial health of the company, which statement would you choose?
- 5) If you could look at only two statements to assess the overall health of a company, which two would you choose?
- 6) What is the core formula for making balance sheet projections?
- 7) Build and project the “Balance Sheet” tab located in the template entitled “NYSF_Practice_Template.xls” using the recommended methods.

CHAPTER 6

- 1) What is the purpose of the debt schedule?
- 2) What is the difference between mandatory and non-mandatory issuances and retirements?
- 3) What is the cash available to pay down debt?
- 4) What is the purpose of calculating cash available to pay down debt in a debt schedule?
- 5) How is cash flow at the end of the year calculated in a debt schedule?
- 6) Explain the circular reference created once the debt schedule is linked into the rest of the model.
- 7) How is a circular reference #Value! Error resolved in the model?
- 8) Build and project the “Debt Schedule” tab located in the template entitled “NYSF_Practice_Template.xls” using the recommended methods. Link the model completely through.

CHAPTER 7

- 1) What is the difference between book value and market value?
- 2) How is the market value of a business calculated?
- 3) How is the enterprise value of a business calculated?

- 4) Why is it important to remove cash from net debt to arrive at an enterprise value of a business?
- 5) Why is Market Value / EBITDA not a good comparable multiple?
- 6) What are the three major methods of valuation?
- 7) What is the difference between a market multiple and a purchase multiple?

CHAPTER 8

- 1) What is the purpose of the discounted cash flow analysis?
- 2) What is one major advantage of the discounted cash flow analysis?
- 3) What are the major disadvantages of the discounted cash flow analysis?
- 4) What is the formula for calculating unlevered free cash flows?
- 5) What is the formula to properly discount a cash flow?
- 6) What is the weighted average cost of capital formula?
- 7) What is a typical WACC of a standard business?
- 8) What is the cost of equity? Please include the formula.
- 9) What is the market risk premium for the United States?
- 10) Please explain the terminal value and the two methods.

CHAPTER 9

- 1) What is the purpose of the comparable company analysis?
- 2) What is one major advantage of the comparable company analysis?
- 3) What are the major disadvantages of the comparable company analysis?

CHAPTER 10

- 1) What is the purpose of the precedent transactions analysis?
- 2) What is one major advantage of the precedent transactions analysis?
- 3) What are the major disadvantages of the precedent transactions analysis?

