Q-1. Solution: A.

The direct method of cash flow statement presentation shows the specific cash inflows and outflows that result in reported cash flow from operating activities; e.g., cash from customers, cash to suppliers, etc. companies using IFRS reporting standards can decide to report interest and dividend receipts as either an investing or an operating activity, whereas under U.S. GAAP, they must report such income as an operating activity. The listed operating and investment activities indicate that the company reports under IFRS, using the direct method.

Q-2. Solution: C.

CFO = Net income + depreciation + delta current liabilities - delta current asset + loss – gains = 240 + 40 + 50 – 20 – 10 + 30 – 4. Note that the increase in PP&E cannot be classified as cash flows from operating activities.

Q-3. Solution: B.

Interest expense is equal to ending interest payable plus cash paid for interest less beginning interest payable. The calculation is as follows:

	£ millions
Interest expense = Ending interest payable + Cash paid for interest – Beginning interest payable	84.5 + 103.3 – 90.4 = 97.4

Q-4. Solution: A.

Ending year net book value is $59 million (=105 –46), and the beginning year net book value is $60 million (=100 –40).

Q-5. Solution: B.

Calculation of the free cash flow to the firm (FCFF):

	$ millions
Net income	90
+ Non-cash charges	15.2
+ Interest expense × (1-tax rate)	28 × (1-0.4) = 16.8
- Capital expenditures	(34.3)
- Working capital expenditures	(13)
FCFF	74.7