EXERCISES FOR CHAPTER 10

With Solutions

**International Business Machines (IBM)**

Below is a summary of part of IBM’s Statement of Cash Flows for the year ended December 31, 2001 (in millions of dollars). The firm faces a 37% statutory tax rate.

|  |  |  |
| --- | --- | --- |
| Net cash provided from operating activities |  | 9,274 |
| Cash flow from investing activities: |  |  |
| Payments for plant, rental machines and other property |  | (5,616) |
| Proceeds from disposition of plant, rental machines and other property |  | 1,619 |
| Investment in software |  | (565) |
| Purchases of marketable securities |  | (1,079) |
| Proceeds from marketable securities |  | 1,393 |
| Net cash used in investing activities |  | (4,248) |

|  |  |  |
| --- | --- | --- |
| Supplemental data: |  |  |
| Cash paid during the year for: |  |  |
| Income taxes |  | 2,697 |
| Interest paid |  | 1,447 |
| Interest received |  | 617 |

1. From this information, calculate free cash flow for 2001.
2. What was the net amount of cash paid out of the firm in financing activities during 2001?

# IBM: Solution

(a)

|  |  |  |
| --- | --- | --- |
| Cash flow from operations reported |  | 9,274 |
| Net interest (1,447 – 617) | 830 |  |
| Tax (at 37%) | 307 | 523 |
|  |  | 9,797 |
| Investment minus securities transactions (4,248 + 314) |  | 4,562 |
| Free cash flow |  | 5,235 |

(Net securities transactions = 1,393 – 1,079 = 314: these are transactions in financials assets, not operating assets.)

(b)

The same: 5,235

[C – I = d + F]

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| Lượng tiền ròng từ HĐKD |  | 9,274 |
| Dòng tiền từ HĐĐT: |  |  |
| Tiền chi trả mua máy móc trang thiết bị |  | (5,616) |
| Tiền thu từ việc bán máy móc trang thiết bị cũ |  | 1,619 |
| Đầu tư vào IT |  | (565) |
| Mua chứng khoán ngắn hạn |  | (1,079) |
| Bán chứng khoán ngắn hạn |  | 1,393 |
| Lượng tiền ròng từ HĐĐT |  | (4,248) |

|  |  |  |
| --- | --- | --- |
| Thông tin bổ sung: |  |  |
| Tiền chi trả trong năm: |  |  |
| Thuế thu nhập |  | 2,697 |
| Trả lãi vay |  | 1,447 |
| Lợi tức nhận được |  | 617 |