**5.** To find the book value of current assets, we use: NWC = CA – CL. Rearranging to solve for current assets, we get:

CA = NWC + CL = $380,000 + 1,100,000 = $1,480,000

The market value of current assets and fixed assets is given, so:

Book value CA = $1,480,000 Market value CA = $1,600,000

Book value NFA = $3,700,000 Market value NFA = $4,900,000

Book value assets = $5,180,000 Market value assets = $6,500,000

**12.** Cash flow to stockholders = Dividends paid – Net new equity

Cash flow to stockholders = Dividends paid – [(Commonend + APISend) – (Commonbeg + APISbeg)]

Cash flow to stockholders = $490,000 – [($815,000 + 5,500,000) – ($740,000 + 5,200,000)]

Cash flow to stockholders = $115,000

Note, APIS is the additional paid-in surplus.

**14.** To find the OCF, we first calculate net income.

Income Statement

Sales $196,000

Costs 104,000

Other expenses 6,800

Depreciation 9,100

EBIT $76,100

Interest 14,800

Taxable income $61,300

Taxes 21,455

Net income $39,845

Dividends $10,400

Additions to RE $29,445

*a.* OCF = EBIT + Depreciation – Taxes = $76,100 + 9,100 – 21,455 = $63,745

*b.* CFC = Interest – Net new LTD = $14,800 – (–7,300) = $22,100

Note that the net new long-term debt is negative because the company repaid part of its long-

term debt.

*c.* CFS = Dividends – Net new equity = $10,400 – 5,700 = $4,700

*d.* We know that CFA = CFC + CFS, so:

CFA = $22,100 + 4,700 = $26,800

CFA is also equal to OCF – Net capital spending – Change in NWC. We already know OCF. Net capital spending is equal to:

Net capital spending = Increase in NFA + Depreciation = $27,000 + 9,100 = $36,100

Now we can use:

CFA = OCF – Net capital spending – Change in NWC

$26,800 = $63,745 – 36,100 – Change in NWC

Solving for the change in NWC gives $845, meaning the company increased its NWC by $845.

**15.** The solution to this question works the income statement backwards. Starting at the bottom:

Net income = Dividends + Addition to ret. earnings = $1,500 + 5,100 = $6,600

Now, looking at the income statement:

EBT – EBT × Tax rate = Net income

Recognize that EBT × Tax rate is simply the calculation for taxes. Solving this for EBT yields:

EBT = NI / (1– tax rate) = $6,600 / (1 – 0.35) = $10,154

Now you can calculate:

EBIT = EBT + Interest = $10,154 + 4,500 = $14,654

The last step is to use:

EBIT = Sales – Costs – Depreciation

$14,654 = $41,000 – 19,500 – Depreciation

Solving for depreciation, we find that depreciation = $6,846

**16.** The balance sheet for the company looks like this:

Balance Sheet

Cash $195,000 Accounts payable $405,000

Accounts receivable 137,000 Notes payable 160,000

Inventory 264,000 Current liabilities $565,000

Current assets $596,000 Long-term debt 1,195,300

Total liabilities $1,760,300 Tangible net fixed assets 2,800,000

Intangible net fixed assets 780,000 Common stock ??

Accumulated ret. earnings 1,934,000

Total assets $4,176,000 Total liab. & owners’ equity $4,176,000

Total liabilities and owners’ equity is:

TL & OE = CL + LTD + Common stock + Retained earnings

Solving for this equation for equity gives us:

Common stock = $4,176,000 – 1,934,000 – 1,760,300 = $481,700

**19.** Income Statement

Sales $730,000

COGS 580,000

A&S expenses 105,000

Depreciation 135,000

EBIT –$90,000

Interest 75,000

Taxable income –$165,000

Taxes (35%) 0

*a.* Net income –$165,000

*b.* OCF = EBIT + Depreciation – Taxes = –$90,000 + 135,000 – 0 = $45,000

*c.* Net income was negative because of the tax deductibility of depreciation and interest expense. However, the actual cash flow from operations was positive because depreciation is a non-cash expense and interest is a financing expense, not an operating expense.