FA Module 7 Interest coverage ratio reverse practice exam questions
(The attached PDF file has better formatting.)
A firm has

- an effective tax rate of $10 \%$
- an interest coverage ratio of 5.5
- a fixed charge coverage ratio of 4.7
- net income of 229

Question 7.1: Tax expense
What is the firm's tax expense?
Answer 7.1: $229 \times 10 \% /(1-10 \%)=25.44$
(tax expense $=$ net income $\times$ effective tax rates $/(1-$ effective tax rate $)$

Question 7.2: Interest expense
What is the firm's interest expense?
Answer 7.2: $(229+25.44) /(5.5-1)=56.54$
interest expense $=($ net income + tax expense $) /($ interest coverage ratio -1$)$

Question 7.3: Other fixed charges
What are the firm's other fixed charges (besides interest expense)?
Answer 7.3: $(229+25.44-56.54 \times(4.7-1)) /(4.7-1)=12.23$
(Other fixed charges $=($ net income + tax expense - interest expense $\times($ fixed charge coverage ratio -1$)) /$ (fixed charge coverage ratio - 1) )

