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 × 10% / (1 – 10%) = 25.44

(tax expense = net income × 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 × (4.7 - 1)) / (4.7 - 1) = 12.23

(Other fixed charges = (net income + tax expense – interest expense × (fixed charge coverage ratio – 1)) / (fixed charge coverage ratio – 1))