

FA Module 6 Free cash flow practice exam questions

(The attached PDF file has better formatting.)

A firm has the following figures for its GAAP financial statements:

- ! Operating cash flow = 619
- ! Interest paid = 54
- ! Tax rate = 13%
- ! Non-cash charges (depreciation and amortization) = 78
- ! Fixed capital expenditures = 191
- ! Working capital expenditures = 134
- ! Shareholder dividends paid = 28
- ! New borrowing during the year = 73
- ! Debt repayment during the year = 48

Question 6.1: Free cash flow to the firm

What is the free cash flow to the firm?

$$\text{Solution 6.1: } 619 + 54 \times (1 - 13\%) - 191 = 474.98$$

(cash flow from operations + interest paid \times (1 – the tax rate) – fixed capital investments)

Question 6.2: Free cash flow to equity

What is the free cash flow to equity?

$$\text{Solution 6.2: } 619 - 191 + (73 - 48) = 453$$

(cash flow from operations – fixed capital investments + net borrowing)