

FA Module 6 Free cash flow practice exam questions

(The attached PDF file has better formatting.)

[The following scenario applies to the next two questions.]

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)