

PROBLEM SET 1: REVIEW OF ACCOUNTING AND CASH FLOWS

Estimate the FCFF and FCFE for Crosby Corporation in 2004.

Tax rate = 33,33%

FORMULA:

FCFF= EBIT (1 - TAX RATE) + DEPRECIATION - NON-CASH WORKING CAPITAL VARIATION - CAPITAL EXPENDITURES

FREE CASH FLOWS TO FIRM	
330.000 (1-0,3333)	(=)220.110
(+) 150.000	(=)370.110
- (-120.000)	(=)490.110
(-) 390.000	FCFF=100.110

FORMULA:

FCFE= NET INCOME + DEPRECIATION - ΔNON CASH WORKING CAPITAL - CAPITAL EXPENDITURES -RETIREMENT OF BONDS, REPURCHASE OF COMMON STOCK -PAYMENT OF DIVIDENDS + SALES OF BOND, COMMON STOCK, PREFERED STOCK AND OTHER SECURITIES

FREE CASH FLOWS TO EQUITY	
(+) 160.000	
(+) 150.000	310.000
-(-) 120.000	430.000
- 390.000	40.000
(+) 50.000	FCFE=90.000