

Session 3A: Post class test solutions

1. Navistar has the lowest percent for Net PP&E as a percent of Gross PP&E, reflecting both its age (older companies tend to have written off more of their asset base than younger ones) and its asset types (physical equipment gets depreciated more quickly and completely).

	Navistar	Nordstrom	Google
Gross Property, Plant & Equipment	\$ 3,660.00	\$ 13,131.00	\$ 115,148.00
Accumulated Depreciation	\$ (2,333.00)	\$ (7,178.00)	\$ (30,561.00)
Net Property, Plant & Equipment	\$ 1,327.00	\$ 5,953.00	\$ 84,587.00
Net PP&E as % of Gross PP&E	36.26%	45.34%	73.46%

2. The conventional definition of working capital indicates that Google has the largest working capital needs, and that Nordstrom has negative working capital. However, cash & marketable securities are a large part of Google's current assets, and short-term debt comprises some part of working capital for each company. A more meaningful measure of working capital can be computed by netting out non-debt current liabilities from non-cash current assets. That adjustment makes a huge difference for Google.

	Navistar	Nordstrom	Google
Current Assets	\$ 4,525.00	\$ 3,230.00	\$ 152,578.00
Current Liabilities	\$ 2,683.00	\$ 3,520.00	\$ 45,221.00
Working Capital	\$ 1,842.00	\$ (290.00)	\$ 107,357.00

Non-cash Current Assets	\$ 3,028.00	\$ 2,377.00	\$ 32,903.00
Non-debt Current Liabilities	\$ 2,587.00	\$ 3,276.00	\$ 44,022.00
Non-cash & non-debt working capital	\$ 441.00	\$ (899.00)	\$ (11,119.00)

3. **e. All of the above.** Taking big restructuring charges, losing money, paying dividends that exceed earnings and buying back stock all drain shareholders' equity.
4. **c. Google has made a substantial acquisition and paid significantly more than book value for the target firm.** It is possible that the target company has significant intangible assets or that Google overpaid, but goodwill by itself does not give you that information.
5. **b. Underfunded pension fund and post-retirement obligations (total obligations netted out against pension fund assets).** In some countries, companies show pension fund assets on the asset side of the balance sheet and pension fund liabilities on the liability side, but the fact that Navistar has this item only on the liability side indicates that it is underfunded pension obligations.