Cash flow Tests
Updating Earnings

- When valuing a firm, it is best to use updated numbers. Which of the following is most likely to be a good estimate of updated earnings?
  
a) Using the earnings reported in the most recent annual report or 10K
  
b) Multiplying the last quarterly earnings number by 4
  
c) Adding together the earnings over the last 4 quarters
  
d) Taking the earnings for the year to date and adding in expected earnings for the rest of the year
Capital Expenditures

• Capital expenditures should include any expenses incurred that create benefits over many years. Which of the following is a capital expenditure?

a) Building a manufacturing plant
b) R&D expenses
c) Advertising by a consumer product company
d) Recruiting and training expenses at a consulting firm/investment bank
e) All of the above
Tax Rates

The effective tax rate is the tax rate that most firms report in their financial statements. The marginal tax rate is the tax rate on their last dollar of income. Which tax rate is usually higher?

a) Marginal tax rate
b) Effective tax rate

Why?