

Homework — Finance, the Firm, and the Statements

Required questions - turn in to the TAs

Homework for Week 1. Each set belongs to the video of the same number. **One question in each set is required;** answer it and turn it in to the TAs. The rest are optional practice, and worked answers to those are published alongside the set. A full set takes about twenty minutes. Work them before the case session.

Homework • 1.1

1. Explain, in three sentences, why equity holders are described as having a "residual" claim, and why that makes their required return higher than a lender's.

Homework • 1.2

1. Classify each as a stock or a flow: cash at 31 December; cost of goods sold for the year; inventory at 31 December; dividends paid during the year; total debt outstanding.

Homework • 1.3

1. A business reports revenue of GH¢14.0 million, cost of goods sold of GH¢8.4 million, operating expenses of GH¢3.2 million, depreciation of GH¢600,000, interest of GH¢500,000, and tax at 25%. Build the income statement down to net income and compute all three margins.

Homework • 1.4

1. A company reports net income of GH¢3.0 million and depreciation of GH¢1.2 million. Receivables fell by GH¢800,000, inventory rose by GH¢1.5 million, and payables fell by GH¢400,000. Compute cash flow from operating activities, and state in one sentence why it differs from net income.

Homework • 1.5

1. A company reports net income of GH¢5 million every year for three years. Over the same three years its operating cash flow is negative GH¢1 million, negative GH¢3 million, and negative GH¢6 million, while its debt rises steadily. Write four sentences describing what is most likely happening and what you would ask management.