...see the preface for more information.

Basic Problems

1. Assume a corporation has earnings before depreciation and taxes of $90,000, depreciation of $40,000, and a 30 percent tax bracket. Compute its cash flow using the following format:

   Cash flow (LO12-2)

Earnings before depreciation and taxes	______
Depreciation	______
Earnings before taxes	______
Taxes @ 30%	______
Earnings after taxes	______
Depreciation	______
Cash flow	______

2. Assume a corporation has earnings before depreciation and taxes of $100,000, depreciation of $40,000, and a 40 percent tax bracket.

   Cash flow (LO12-2)

   a. Compute its cash flow using the following format:

Earnings before depreciation and taxes	______
Depreciation	______
Earnings before taxes	______
Taxes @ 40%	______
Earnings after taxes	______
Depreciation	______

   b. Compute the cash flow for the company if depreciation is only $20,000.

   c. How much cash flow is lost due to the reduced depreciation from $40,000 to $20,000?