

## Advanced Operating Models – Quiz Questions

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### Noncontrolling Interests & Investments in Equity Interests

Assume that Parent Company owns 70% of Other Company. Given the following financial information, calculate the missing data in the blue boxes and answer the next few questions using this data.

	Parent Company	Other Company	Combined
<b>Operating Income:</b>	\$ 950	\$ 55	\$ 1,005
<b>Other Income, Net:</b>	50	(5)	\$ 45
<b>Pre-Tax Income:</b>	\$ 1,000	\$ 50	\$ 1,050
Effective Tax Rate:	40.0%	40.0%	
Provision for Income Taxes:	400	20	
<b>Net Income Attributable to All:</b>	600	30	
Earnings Attributable to Noncontrolling Interests:			
<b>Net Income Attributable to Parent:</b>	\$ 600	\$ 30	

1. **Based on the spreadsheet shown above, what's the correct figure for Earnings Attributable to Noncontrolling Interests in the "Combined" column?**
  - a. (\$9)
  - b. \$9
  - c. \$21
  - d. \$30
  
2. **What's the correct figure for Net Income Attributable to Parent in the "Combined" column?**
  - a. \$630
  - b. \$609
  - c. \$639
  - d. \$621
  
3. **Once you've subtracted the Earnings Attributable to Noncontrolling Interests on the income statement, what do you do with it on the cash flow statement?**
  - a. You flip the sign and add it back there because you still receive the earnings of a company, in cash, if you own over 50% of it.
  - b. You only add it back if it's a negative (i.e. the other company had positive earnings) – if it's already a positive on the income statement you don't do anything on the cash flow statement.
  - c. You reflect dividends issued by the other company separately in cash flow from financing, but otherwise do nothing with the earnings on the CFS.
  - d. You don't have to do anything on the cash flow statement because Earnings Attributable to Noncontrolling Interests is a true cash expense.

4. **Let's say that the Parent Company only owned 30% of the Other Company instead. How would this income statement change?**
- It wouldn't change – you would still consolidate financials and subtract the earnings that are not attributable to the parent.
  - You would no longer consolidate the financials, and instead you would just add 30% of Other Company's Net Income to Net Income Attributable to All at the end.
  - You would not consolidate the financials at all, and you would not reflect the other company's earnings anywhere on the income statement since there's less than 50% ownership.
  - You would show dividends issued by the other company on the income statement, but nothing else.

Continuing with this same example of **Noncontrolling Interests** and a 70% ownership stake in another company, let's now assume that the Equity section of the Balance Sheet for the **combined company** consists of the following items **BEFORE** we have taken into account net income, dividends, and so on in the current period (i.e. these line items all correspond to the "previous" Balance Sheet):

- **Noncontrolling Interests:** \$23
- **Common Stock & APIC:** \$370
- **Retained Earnings:** \$420

Use **ALL** of the same figures as in questions #1 – 4 above for Net Income Attributable to All, Earnings Attributable to Noncontrolling Interests, and Net Income Attributable to Parent.

Assume that the combined company issues dividends of \$200, shown on the cash flow statement, in this period.

Based on these assumptions, please answer the following questions:

5. **What is the Noncontrolling Interests figure shown on the “current” version of the balance sheet, once all the changes above and the net income from the income statement have been factored in?**
- a. \$14
  - b. \$32
  - c. (\$168)
  - d. (\$186)
  - e. \$44
  - f. \$2
  - g. Cannot determine without knowing the amount of dividends that the Other Company issues, rather than just the combined dividend amount.
6. **What is the correct figure for Retained Earnings once all these changes have been factored in?**
- a. \$1050
  - b. \$1041
  - c. \$850
  - d. \$841
7. **Let’s say that that the *Other Company* now issues dividends of \$20 and the parent company issues dividends of \$200. How does this affect the new Retained Earnings number?**
- a. No impact – you only include dividends from the parent company on the combined cash flow statement.
  - b. You need to reflect the portion of dividends (70%) that the parent company is entitled to on the cash flow statement and subtract these from retained earnings.
  - c. You add the two numbers together and subtract \$220 from Retained Earnings now, rather than subtracting the \$200 we had before.
  - d. You show the combined dividends of \$220 in Cash Flow from Financing, but you add back the \$20 of dividends from the other company in Cash Flow from Operations, so there’s no net effect on Retained Earnings.

**8. How is a Parent Company's 20% ownership in another company recognized on the Parent Company's income statement?**

- a. It consolidates 100% of each income statement line item of the Other Company, and then subtracts the 80% of the Other Company's net income that it is **not** entitled to.
- b. The income statements are not consolidated. Instead, the Parent Company recognizes only the 20% of the Other Company's net income that it is entitled to, and it adds this portion to its own net income at the bottom.
- c. The Parent Company only recognizes dividends received from its investment in the Other Company on its income statement – not net income.
- d. If the Parent Company owns less than 30% of the Other Company, there are no differences on the income statement.

**9. A Parent Company with Net Income of \$50 owns 30% of Other Company with Net Income of \$20 – what will the combined Net Income Attributable to Parent at the bottom of the Parent Company's income statement be?**

- a. \$44
- b. \$36
- c. \$56
- d. \$64

**10. If a company owns 40% of another company that has Net Income of \$40 and pays a dividend of \$15, what adjustments do you make in the Cash Flow from Operations section of the combined Cash Flow Statement?**

- a. We add Net Income of \$16 and subtract the Dividend of \$6, because as a 40% owner the company receives the Net Income in cash, but must distribute the dividend to the majority shareholders.
- b. No changes are required because the Net Income of \$16 has already been reflected in the Net Income line at the top of the Cash Flow Statement and no adjustment is required for the dividend.
- c. We subtract Net Income of \$16 and add the dividend of \$6 because the company is not receiving the Net Income in cash, but it *is* receiving the dividend in cash.
- d. It's impossible to determine the answer without knowing the other company's tax rate.

## Projecting Revenue and Expenses and Building Multiple Scenarios

11. You've been reviewing equity research, investor presentations, earnings reports, and historical financial results to determine next year's revenue growth rate in a company's "Widgets" segment, which comprises 30% of its total revenue. You've found the following data points:

- In the most recent historical year, the company grew units sold at 5% and the average selling price (ASP) increased by 1%.
- Equity research analysts project between 4% and 6% growth in units sold next year, with a 1-2% increase in the average selling price (ASP).
- In a recent investor presentation, the company projected 8% growth in units sold next year, along with a 2% increase in average selling price (ASP).
- Historically, the company has grown its units sold at between 3% and 7%, and average prices have increased between 0% and 2% each year.
- You've also spoken with several of the company's largest customers, who have indicated that they do not expect to order significantly more or less next year.

**Based on these data points, what are the MOST appropriate numbers to use for the growth rates in this Widget segment, if you want to create "Base," "Downside," and "Upside" cases in your model?**

- a. Downside: 5% Units Sold Growth, 1% ASP Growth; Base: 6% Units Sold Growth, 1% ASP Growth; Upside: 8% Units Sold Growth, 2% ASP Growth.
- b. Downside: 3% Units Sold Growth, 0% ASP Growth; Base: 5% Units Sold Growth, 1% ASP Growth; Upside: 7% Units Sold Growth, 2% ASP Growth.
- c. Downside: 4% Units Sold Growth, 0% ASP Growth; Base: 6% Units Sold Growth, 1% ASP Growth; Upside: 8% Units Sold Growth, 1% ASP Growth.
- d. Downside: 3% Units Sold Growth, 2% ASP Growth; Base: 5% Units Sold Growth, 2% ASP Growth; Upside: 7% Units Sold Growth, 2% ASP Growth.

12. The “tops-down” method of projecting revenue uses which of the following steps?

- a. Forecasting total market size using historical growth rates and expected future growth.
- b. Determining the total number of “transactions” (sales, subscriptions, contracts signed, etc.) in a given period.
- c. Multiplying the total number of transactions by the estimated revenue per transaction.
- d. Estimating the company’s market share and multiplying by the total market size.
- e. Forecasting total revenue for the company, and then allocating it among different segments or revenue categories based on historical proportions.
- f. Multiplying a growth rate percentage by the company’s most recent historical revenue figure, and continuing that process throughout future years.

13. What is the MAIN reason why you would create detailed revenue projections by business segment – as opposed to projecting a simple revenue growth rate – when building a 3-statement model for a company?

- a. It’s for added accuracy – if you make estimates and create projections for several different business segments, it will always be more accurate than simply projecting total revenue growth.
- b. It’s not necessarily about accuracy, but it’s more about building in proper support for all your numbers and being able to back up overall revenue growth with specific assumptions.
- c. This step is only necessary when you’re building a model that has multiple scenarios in it – otherwise, if you’re just modeling a single scenario, building revenue projections by segment would not provide any benefit.
- d. You have to do this for any company with multiple business segments – otherwise, it would be inaccurate to project a simple revenue growth rate, as each segment may be very different.

14. **You've finished projecting unit sales growth and the average selling price of products across 3 business lines of a company you're analyzing. You also have 3 different scenarios in your model: the Upside case, the Base case, and Downside case. You check your Year 5 revenue against projections in equity research and the company's most recent investor presentation and find that your own estimate is about 5% higher than the median Year 5 revenue figure in those sets of projections. What should you do?**
- a. Adjust down the Year 5 average selling price or unit sales by the appropriate percentage so that your revenue number matches the median.
  - b. Go back and start adjusting downward either the unit sales growth numbers or the average selling price numbers, but NOT both, from Year 1 through Year 5, so that the Year 5 revenue figure is closer and so that there's a logical progression to that figure.
  - c. Do the same thing as described in the answer choice above, but feel free to adjust BOTH unit sales growth and the average selling prices to make your numbers match up.
  - d. You need more information before doing anything here – what matters isn't necessarily the median figure, but how closely the specific case you're looking at matches expectations.
15. **You're building a detailed expense model as part of a set of 3-statement projections for a technology company. You're estimating employee compensation in 3 expense categories: Sales & Marketing, Research & Development, and General & Administrative. How would you expect employee compensation figures for Salaries, Benefits, and Bonuses / Commissions to DIFFER among these 3 categories?**
- a. Salaries will tend to be highest in the Sales & Marketing and Research & Development categories.
  - b. Salaries and Bonuses / Commissions will be lowest in the General & Administrative category.
  - c. Bonuses / Commissions will be about the same in both the Sales & Marketing and Research & Development categories.
  - d. Growth in Bonuses / Commissions in the Sales & Marketing category will be most closely linked to the company's overall revenue growth.
  - e. Bonuses / Commissions will grow at a more predictable rate than Salaries.
  - f. Benefits will probably be about the same across all 3 categories of employees.

16. **We normally link expenses to revenue, regardless of different scenarios and cases for revenue and revenue growth, and do NOT create different cases for a company's expenses because:**
- a. It's not meaningful to calculate EV / EBIT and EV / EBITDA multiples for valuation purposes if the company's margins are changing in the forecast period.
  - b. Mixing different scenarios for both margins and revenue multiplies the number of cases to analyze and makes it difficult to compare a single Upside case to a Base case or Downside case.
  - c. We assume that the company's expenses are closely linked to its revenue – if a company isn't growing revenue as quickly, it will also not grow spending as quickly.
  - d. The Interest Income / (Expense) and D&A may change substantially over time, but ordinary business expenses, as a percentage of revenue, will not.
  - e. Unless the company is in growth mode or a cost-cutting phase, the margins shouldn't change dramatically.

## Projecting Specific Line Items on the Financial Statements

17. **Where does the "Excess Tax Benefits from Stock-Based Compensation" line item show up on the Cash Flow Statement?**
- a. You add it back in Cash Flow from Operations because it's a non-cash expense, just like normal Stock-Based Compensation.
  - b. You subtract it in Cash Flow from Operations because it's not a true operational activity and should not boost the company's operational cash flow.
  - c. You subtract it in Cash Flow from Operations but then add it back in Cash Flow from Financing, effectively "re-classifying" it to a financing cash flow.
  - d. You add it in the Cash Flow from Financing section because it represents the cash taxes saved by a company's share price appreciation.
  - e. Excess Tax Benefits are a true cash source of income and have already been reflected in Net Income, so you don't need to adjust for them anywhere on the Cash Flow Statement.

18. If Excess Tax Benefits from Stock-Based Compensation is POSITIVE in the financing section of the cash flow statement, has the company's share price been rising or falling since the stock was issued?
- a. Rising
  - b. Falling
  - c. Cannot determine from the information given
19. What's the best method for projecting Accounts Receivable in a 3-statement model?
- a. Use Days Payables Outstanding, which is an estimate of the average number of days that customers owe the company before paying in cash.
  - b. Use Days Inventory Outstanding, which is an estimate of the average number of days it takes to be paid for Inventory that has been sold to customers.
  - c. Use Days Sales Outstanding, which is an estimate of the average number of days that it takes the company to collect owed payments from customers in cash.
  - d. Make it a percentage of Revenue, since the two items are linked very closely, and use the historical average AR as a percentage of Revenue going forward.
20. Assume that Days Sales Outstanding (DSO) for the prior three historical years has been 28, 30 and 26, respectively. If we base the next year's DSO on the average of the prior three historical years and the forecast revenue in the next year is \$5 million, what should the closing Accounts Receivable balance be at the end of the forecast financial year? Note there are 365 days in the forecast financial year.
- a. \$178,571
  - b. \$383,562
  - c. \$356,164

21. Which of the following answer choices are VALID methods of projecting future dividends to be issued by a company?
- a. Assume that the company cuts dividends to \$0 in future years, because they're not a truly "necessary" part of spending – unlike CapEx or Working Capital.
  - b. Take an average of prior years' dividends as a % of net income to determine the average payout ratio, and then multiply that by projected net income in each future year.
  - c. Take an average of historical dividends per share, and then multiply that number by the projected shares outstanding each year.
  - d. Use the company's own guidance to estimate future dividend payments on a per-share basis.
  - e. Assume a constant number for dividends going forward, because you don't know which specific line item(s) dividends should be a percentage of.
22. Currently, a company has approximately 150 million shares outstanding, at a share price of \$10.00, for a market cap of \$1.5 billion. It has announced plans to reduce its share count from 150 million to 140 million over the next 3 years.

Historically, the company has repurchased an average of \$20 million worth of shares each year and has issued \$10 million worth of new shares each year.

Which of the following would be VALID methods for projecting share issuances and repurchases over the next 3 years in your 3-statement model for the company?

- a. Assume that the company repurchases approximately \$33 million worth of shares per year, reducing its share count by 3.3 million each year, assuming a constant \$10.00 share price. Also assume that it issues no new shares during this period.
- b. Assume that the company repurchases \$43 million worth of shares each year, but also continues to issue \$10 million worth of new shares per year, also resulting in a net decrease of 3.3 million shares each year.
- c. Assume that the company's share price will increase from \$10.00 to \$15.00 by the end of the period due to its increasing Net Income, so that it has to repurchase \$33 million worth of shares in Year 1, \$41.3 million in Year 2, and \$49.5 million in Year 3.
- d. Assume that the company repurchases all \$100 million worth of shares in Year 1, instantly reducing its share count to 140 million.

## Other Topics: PP&E Schedules, Quarterly Projections, and Different Depreciation Methods

23. You're reviewing the PP&E Schedule for a company that a co-worker recently created. You've discovered several problems with it. A screenshot of the PP&E Schedule is shown below:

PP&E Schedule (Straight-Line Depreciation Over Useful Lives of Assets)									
(\$ in Millions)									
	Historical			Projected					
	Hist. Year 1	Hist. Year 2	Hist. Year 3	Year 1	Year 2	Year 3	Year 4	Year 5	
Total Revenue:	\$ 4,120	\$ 4,408	\$ 4,673	\$ 4,907	\$ 5,152	\$ 5,358	\$ 5,572	\$ 5,739	
<b>Gross PP&amp;E:</b>									
Land:	\$ 140	\$ 154	\$ 163	\$ 179	\$ 195	\$ 212	\$ 230	\$ 249	
Buildings:	192	222	253	336	423	513	607	704	
Leasehold Improvements:	150	163	173	229	287	348	411	476	
Computers & Equipment:	250	274	314	417	524	636	753	873	
Furniture & Fixtures:	88	102	111	143	177	213	249	287	
<b>Total Gross PP&amp;E:</b>	<b>820</b>	<b>915</b>	<b>1,014</b>	<b>1,303</b>	<b>1,607</b>	<b>1,922</b>	<b>2,250</b>	<b>2,588</b>	
<b>CapEx % Revenue by Segment:</b>									
Land:	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	
Buildings:	1.6%	1.7%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	
Leasehold Improvements:	1.0%	1.3%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	
Computers & Equipment:	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	
Furniture & Fixtures:	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7%	
<b>Total CapEx % Revenue:</b>	<b>5.7%</b>	<b>6.1%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.9%</b>	
<b>Historical and Projected CapEx by Segment:</b>									
Land:	\$ 15	\$ 14	\$ 13	\$ 16	\$ 16	\$ 17	\$ 18	\$ 18	
Buildings:	65	75	83	83	87	90	94	97	
Leasehold Improvements:	41	57	52	56	58	61	63	65	
Computers & Equipment:	86	92	98	103	108	112	116	120	
Furniture & Fixtures:	28	29	30	32	34	35	37	38	
<b>Total CapEx:</b>	<b>235</b>	<b>267</b>	<b>276</b>	<b>289</b>	<b>303</b>	<b>316</b>	<b>328</b>	<b>338</b>	
<b>Useful Lives:</b>									
Land:			20 years						
Buildings:			10 years						
Leasehold Improvements:			10 years						
Computers & Equipment:			5 years						
Furniture & Fixtures:			5 years						
<b>Depreciation "Waterfall" Schedule:</b>									
Original Balance:				136	136	136	136	136	
Year 1 Additions:					42	42	42	42	
Year 2 Additions:						44	44	44	
Year 3 Additions:							45	45	
Year 4 Additions:								47	
<b>Total Depreciation:</b>	<b>185</b>	<b>233</b>	<b>243</b>	<b>136</b>	<b>177</b>	<b>221</b>	<b>266</b>	<b>314</b>	
<b>Net PP&amp;E:</b>	<b>\$ 425</b>	<b>\$ 459</b>	<b>\$ 492</b>	<b>\$ 645</b>	<b>\$ 771</b>	<b>\$ 866</b>	<b>\$ 927</b>	<b>\$ 952</b>	
Depreciation % Revenue:	4.5%	5.3%	5.2%	2.8%	3.4%	4.1%	4.8%	5.5%	
Depreciation % CapEx:	78.7%	87.3%	88.0%	47.0%	58.5%	70.1%	81.2%	92.8%	
CapEx % Revenue:	5.7%	6.1%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	
CapEx % Net PP&E:	55.3%	58.2%	56.1%	44.8%	39.3%	36.4%	35.4%	35.5%	

**Using this schedule and your own knowledge of what a proper PP&E Schedule should look like, which of the following answer choices represent potential PROBLEMS or actual ERRORS in the screenshot above?**

- a. You should never use straight-line depreciation on the PP&E Schedule or on the book version of the financial statements in general.
- b. Land should never depreciate, so it's incorrect to assume a Useful Life of 20 years and build in depreciation for it.
- c. CapEx should never be projected as a percentage of revenue, since, in theory, CapEx actually drives revenue.
- d. The Useful Life for the Buildings segment is too low – it should be at least 20-30 years rather than 10 years.
- e. The Useful Lives for Computers & Equipment and Furniture & Fixtures may be too high – computers usually need to be replaced more often than once every 5 years.
- f. Depreciation is always less than CapEx, which means that Net PP&E will keep increasing indefinitely over time.
- g. Depreciation is too low in Year 1 of the projections, because we're just assuming a lump-sum straight-line number based on the entire previous Gross PP&E balance.
- h. There's no Salvage Value assumed, so the implication is that the Assets are all worthless at the end of their Useful Lives – which is usually not true.
- i. In addition to showing Gross PP&E and CapEx by segment, we should also show Net PP&E and Depreciation by segment.

24. In the schedule shown above, we're projecting CapEx as a percentage of revenue. Some people argue, however, that it is better to project CapEx as an absolute dollar amount (e.g. \$200 in Year 1, \$225 in Year 2, and \$250 in Year 3 rather than 5% of revenue in all 3 years), because CapEx spending drives revenue growth, not the other way around. Which of the following answer choices represent VALID reasons why we might ignore this and still project CapEx as a percentage of revenue anyway?
- a. We don't have enough information to estimate these numbers – for example, management may not indicate what they expect to spend on CapEx in the next few years.
  - b. There are multiple scenarios in this model, and projecting CapEx as an absolute dollar amount may not make sense for the Upside and Downside cases.
  - c. This particular company re-invests in its business based on its sales growth, not the other way around – CapEx does little to drive revenue growth.
  - d. CapEx is “jumping around” too much historically and doesn't trend in a clear direction – so using the historical average of CapEx as a percentage of revenue is the only way to project it properly.
25. Based on the PP&E Schedule and Revenue numbers shown above, what industry is this company MOST likely in, and what type of company is it?
- a. It is spending a high percentage of its CapEx on Computers & Equipment, so most likely it is a high-growth technology company.
  - b. Since the Useful Life of Buildings is only 10 years, most likely it is a fairly well-established company in an industry like industrials or aerospace & defense.
  - c. CapEx spending is fairly even across most segments, so this is probably a company in an industry like healthcare or consumer retail that doesn't spend a disproportionate amount in any one segment.
  - d. It's difficult to assess a specific industry just based on this information; the company, however, seems fairly mature given the lower growth rates and CapEx and D&A at 3-6% of revenue.

26. You're reviewing a set of annual 3-statement model projections for a company over the next 5 years. Your Managing Director looks at the projections and asks you to create a set of quarterly projections instead, so that he can share more granular data with a potential buyer. Which of the following answer choices represent CORRECT steps in this process of converting annual projections into quarterly projections?
- a. Allocate a percentage of annual revenue and expenses to each quarter based on historical trends (e.g. 20% of revenue in Q1, 25% in Q2, 30% in Q3, and 25% in Q4).
  - b. Assume Year-over-Year (YoY) growth rates for revenue and expenses in each quarter, and then at the end make sure total revenue and expenses equal the annual numbers.
  - c. Calculate the key drivers for Balance Sheet line items such as Days Sales Outstanding on a quarterly basis and apply those drivers to calculate the quarterly versions of all the figures in future periods.
  - d. Estimate future interest rates on a quarterly basis, and use those to project the interest income / (expense) in each future quarter.
  - e. Assume an even split of certain Cash Flow Statement items, such as CapEx and Dividends Issued, in each quarter (e.g. divide the annual number by 4).
  - f. Calculate Quarter-in-Current-Year-over-Quarter-in-Previous-Year revenue growth rates for the historical periods, simply for informational purposes.
  - g. Allocate non-cash expenses such as Amortization of Intangibles and Stock-Based Compensation based on the historical percentage in each quarter.

27. Continuing with the same scenario outlined in the question above, now you must calculate the “Last Twelve Months” (LTM) numbers for key metrics such as revenue and EBITDA. The company’s fiscal quarters end on February 28<sup>th</sup>, May 31<sup>st</sup>, August 31<sup>st</sup>, and November 30<sup>th</sup>, and its fiscal year ends on February 28<sup>th</sup>. The current date is September 30<sup>th</sup>. How would you calculate the LTM figures for EBITDA here, based on your quarterly projections? Note that there may be more than one correct answer.
- a. November 30<sup>th</sup> Quarter in Prior Year + February 28<sup>th</sup> Quarter in Prior Year + May 31<sup>st</sup> Quarter in Current Year + August 31<sup>st</sup> Quarter in Current Year.
  - b. Most Recent Fiscal Year (February 28<sup>th</sup>) + May 31<sup>st</sup> Quarter in Current Year + August 31<sup>st</sup> Quarter in Current Year + August 31<sup>st</sup> to September 30<sup>th</sup> Partial Period in Current Year – May 31<sup>st</sup> Quarter in Prior Year – August 31<sup>st</sup> Quarter in Prior Year – August 31<sup>st</sup> to September 30<sup>th</sup> Partial Period in Prior Year.
  - c. Can’t determine this without having exact figures for the August 31<sup>st</sup> – September 30<sup>th</sup> period.
  - d. Most Recent Fiscal Year (February 28<sup>th</sup>) + May 31<sup>st</sup> Quarter in Current Year + August 31<sup>st</sup> Quarter in Current Year – May 31<sup>st</sup> Quarter in Prior Year – August 31<sup>st</sup> Quarter in Prior Year.
28. Suppose that a company you’re analyzing decides to switch its accounting methods. Previously, it has used straight-line Depreciation for both book and tax purposes. Now, it decides to use a variation of the straight-line method for tax purposes so that it can save on cash taxes in the early years following initial CapEx spending or asset purchases. Which of the following Depreciation methods will produce the GREATEST increase in the Deferred Tax Liability in Year 1, the first year immediately following this change?
- a. Declining-Balance.
  - b. Double-Declining Balance.
  - c. Sum of Years’ Digits.
  - d. Cannot determine without additional information.