Holthausen and Zmijewski 2nd Edition Errata - 2019-02-15

1. Chapter 2

Chapter 2, pages 51 – 52 Valuation in Practice 2.3

($ in millions)	2016 Reported		ROR	Adjustments	2016 Adjusted		ROR
Return on Assets							
Net income	$ 46,561	=	15.2%	–$ 2,136	$ 44,425	=	32.0%
Average total assets	$306,016			–$167,248	$138,768		
Return on Equity							
Net income	$ 45,687	=	36.9%	–$ 1,262	$ 44,425	=	185.6%
Average common equity	$123,802			–$ 99,870	$ 23,933		

Change to

($ in millions)	2016 Reported		ROR	Adjustments	2016 Adjusted		ROR
Return on Assets							
Unlevered Income	$ 46,561	=	15.2%	–$ 2,136	$ 44,425	=	32.0%
Average total assets	$306,016			–$167,248	$138,768		
Return on Equity							
Net income	$ 45,687	=	36.9%	–$ 1,262	$ 44,425	=	185.6%
Average common equity	$123,802			–$ 99,870	$ 23,933		

2. Chapter 3

Chapter 3, pages 116 – 117.

“In this example, EBIT is equal to the company’s income, $70,000, plus its interest expense, $20,000, plus its income taxes, $40,000, or $130,000 (assuming we include the municipal bond interest in EBIT). The accounting-based income tax on EBIT is equal to actual income tax paid plus the interest tax shield, $48,000 ($48,000 = $40,000 + $8,000). ~~This income tax~~ In this example, the accounting-based income tax on EBIT is also equal to the income taxes paid on EBIT because the company only has a permanent difference (no temporary difference), and thus, the accounting-based income tax on EBIT (income tax expense on EBIT) is equal to the income tax that would be paid on EBIT.”

3. Chapter 4

Chapter 4, page 180.

"Of course with the passage of the Tax Cuts and Jobs Act of 2017, companies must now pay taxes on those previously unrepatriated earnings (~~8%~~ 15.5% on liquid assets and ~~15.5%~~ 8% on illiquid assets) and they have eight years in which to do so (8% in each of first five years, 15% in year 6, 20% in year 7 and 25% in year 8, starting in 2018)."

4. Chapter 6

Chapter 6 - Note that in P6.8 the number of days used was 360 rather than 365 per formula in the book for Days Sales in Inv, Days in A/P and Days Sales in A/R. Changing the number of days to 365 changes the numbers in the problem so wait to do this

5. Chapter 10

Chapter 10 - p. 461.

"The Bakwin Company has $10,000 of debt outstanding, which has a 6% interest rate. Since Bakwin has a 40% income tax rate on all income, its interest tax shield based on this debt is $240 ($240 = $10,000 x ~~0.6~~ 0.06 x 0.4)."

Chapter 10 - Problem 10.8 on p. 476.

"The company's current free cash flow is ~~$100~~ $1,000"

6. Chapter 13

Chapter 10 – p. 626.

"The percentage change in the multiple is equal to one ~~minus~~ plus the percentage change in the numerator value divided by one plus the percentage change in the denominator minus 1."