1.

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The bonds after tax yield is given as Pre tax yield X (1-tax rate)
After Tax Yield = 9% X (1-0.36) = 9%X0.64=5.76%

2.

Corporate bonds issued by Johnson Corporation currently yield 8%. Municipal bonds of equal risk currently yield 6%. At what tax rate would an investor be in different between these two bonds?

[The below mentioned formula gives the equivalence between a taxable bond and the tax free municipal bond.
(1-Marginal Tax Rate) = Yield on Municipal Bond/Equivalent pre tax yield on corporate bond
(1-Marginal Tax Rate) = 6%/8%=0.75
Marginal tax rate == 1-0.75=25%
At a tax rate of 25%, an investor would be indifferent between these two bonds.

3.

Little Books Inc. recently reported $3 million of net income. Its EBIT was $6 million, and its tax rate was 40%. What was its interest expense? (Hint: Write out the headings for an income statement and then fill in the known values. Then divide $3 million net income by 1 − T = 0.6 to find the pre-tax income. The difference between EBIT and taxable income must be the interest expense. Use this same procedure

to work some of the other problems.)

 Net income = EBIT - Tax - Interest Expense, hence
3,000,000 = 6,000,000 - 0.40\*6,000,000 - Interest expense, therefore
Interest expense = 6,000,000 - 2,400,000 - 3,000,000 = 600,000

4.

Kendall Corners Inc. recently reported net income of $3.1 million and depreciation of $500,000. What was its net cash flow? Assume it had no amortization expense.

 EBITDA is the cash flow before depreciation. Since depreciation is a non-cash expense, it doesn't affect cash flow, therefore Net Cash Flow = 3.1 million