

ERRATA

Ross, Thompson, Christensen, Westerfield, Jordan, *Fundamentals of corporate finance 4e.*

p. 83 Net debt/equity ratio

The textbook description of the calculation for this ratio is rather ambiguous. The formula indicates that intangible assets should be deducted from ordinary shareholders' equity while the example does not. We will resolve this discrepancy by defining the formula as:

$$\text{Net/debt equity ratio} = \frac{\text{Interest-bearing debt} - \text{cash}}{\text{Ordinary shareholders' equity} - \text{intangible assets}}$$

So for Ellen Company Ltd, the net debt/equity ratio is:

$$\text{Net debt / equity} = \frac{\$39,419 - 5,641}{\$125,564 - 28,273} = 0.35$$

p. 89-90 Table 3.4: Common Financial Ratios

Please correct the following ratios in Table 3.4:

$$\text{Net debt/equity ratio} = \frac{\text{Interest - bearing debt} - \text{cash}}{\text{Total equity} - \text{intangible assets}}$$

$$\text{Debt to gross cash flow} = \frac{\text{Interest} - \text{bearing debt}}{\text{Net profit after tax} + \text{Depreciation} + \text{Amortisation}}$$

p. 424 Example 12.2

Example 12.2 incorrectly states that the cost of acquisition is \$2 per unit. Instead, it should read \$2 per order, as the EOQ model assumes that acquisition (or order) costs are a fixed cost per order.

p. 545 Value of the call provision

There is an error in the calculation of interest saving near the top of page 545. The interest saving is \$15 - \$6.70 = \$8.30 per year. The present value of the interest savings is \$8.30/0.067 = \$123.88, and the net present value of refunding in one year is \$123.88 - 15 = \$108.88 per debenture. Given a 50% chance of an interest rate decline, the expected value from refunding is 0.50 × \$108.88 = \$54.44 and the value of the call feature is \$54.44/1.1 = \$49.49.