MIDTERM REVIEW
CONNECT THE IDEAS

BOONE BOWLES | NOVEMBER 5, 2026

1 | Firms and value | Remember

- Legal form affects liability, taxation, continuity and access to capital.
- Ownership and control can be separate. Incentives and oversight matter.
- Bigger earnings, more sales or a larger firm do not automatically mean more value.
- Ask what creates durable cash flows, and how stakeholders affect them.

1 | Firms and value | Try it

1. A CEO rejects a valuable long-term investment to protect this year's bonus. What is the main concern?

A. Too little depreciation B. An agency conflict C. A shortage of shareholders

2. Which feature most directly helps a corporation pool capital at scale?

A. Transferable ownership shares B. A guarantee of positive profits C. Every owner manages operations

3. An LLC is taxed as a partnership. Which statement fits our class comparison?

A. Its owners necessarily have unlimited liability B. Its profits must face C-corporation double taxation C. Liability protection and pass-through taxation can coexist

1 | Firms and value | Answers

1 | B The pay rule rewards a personal objective that can conflict with long-term owner value.

2 | A Many investors can hold and transfer claims without running day-to-day operations.

3 | C Legal liability and tax treatment are different dimensions. The question explicitly specifies partnership taxation.

2 | Statements and ratios | Remember

- Balance sheet: a date. Income statement and cash-flow statement: a period.
- Compare like dates, units and definitions; book value and market value differ.
- DuPont separates profitability, asset efficiency and the equity denominator.
- Profit is not cash flow: investment in fixed assets and working capital uses cash.

2 | Statements and ratios | Try it

1. Which statement reports the amount of inventory held on a particular date?

A. Income statement B. Balance sheet C. Statement of cash flows

2. Two firms have equal ROE. What does DuPont tell us?

A. Their profit margins must match B. Their asset turnover must match C. Different combinations of the three drivers can produce the same ROE

3. A firm reports positive net income but spends heavily on equipment and inventory. Its FCF can be:

A. Negative B. Necessarily equal to net income C. Positive by definition

2 | Statements and ratios | Answers

1 | B Inventory is an asset balance at a date. Its purchase and sale affect other statements over time.

2 | C Equal products do not require equal factors. Identify which driver differs before interpreting performance.

3 | A Cash investment can exceed after-tax operating cash generation.

Walmart and Target: financial data

Amounts in millions of U.S. dollars. Use the printed figures; keep intermediate calculations unrounded.

Fiscal year	Walmart 2026	Walmart 2025	Target 2025	Target 2024
Revenue / sales	713,163	680,985	104,780	106,566
Cost of sales	535,395	511,753	75,511	76,502
Operating income	29,825	29,348	5,117	5,566
Net interest expense	2,431	2,245	445	411
Net income attributable to parent	21,893	19,436	3,705	4,091
Cash and cash equivalents	10,727	9,037	5,488	4,762
Inventory	58,851	56,435	12,304	12,740
Current assets	84,874	79,458	20,005	19,454
Current liabilities	107,469	96,584	21,230	20,799
Total assets	284,668	260,823	59,490	57,769

Periods. Latest year ends January 31, 2026 for both firms. Prior year ends January 31, 2025 (Walmart) and February 1, 2025 (Target). Income figures cover full fiscal years; asset and liability figures are year-end balances.

Definitions for this exercise. Walmart revenue includes membership and other income; Target uses reported net sales. Net income is attributable to the parent. Use year-end assets for turnover. Coverage here means operating income divided by **net interest expense**, as reported by both firms. Gross-margin comparisons are affected by cost classifications.

Ratio reminders. Current ratio = current assets / current liabilities. Net margin = net income / revenue. Asset turnover = revenue / assets. Gross margin = (revenue − cost of sales) / revenue. Growth = (latest − prior) / prior.

Sources: Walmart FY2026 Form 10-K, pp. 52 and 54; Target FY2025 Form 10-K, Item 8. Retrieved November 4, 2026.

Walmart / Target | Calculate first

1. Using the latest-year figures, which firm has the higher current ratio?

A. Walmart, about 1.27× B. Target, about 0.94× C. Target, about 1.06×

2. Which description fits the latest-year net profit margin and asset turnover?

A. Walmart has the higher margin and lower turnover B. Target has the lower margin and higher turnover C. Walmart has the lower margin and higher turnover

3. Target's operating-income coverage of net interest changed from the prior year to the latest year by:

A. Falling from about 13.54× to 11.50× B. Rising from about 11.50× to 13.54× C. Remaining unchanged

Walmart / Target | Answers 1–3

1 | B Walmart: 84,874 / 107,469 = 0.790×. Target: 20,005 / 21,230 = 0.942×. Neither number alone establishes financial distress.

2 | C Margins: Walmart 21,893 / 713,163 = 3.07%; Target 3,705 / 104,780 = 3.54%. Turnover: 2.51× versus 1.76×, using year-end assets.

3 | A 5,566 / 411 = 13.54×; 5,117 / 445 = 11.50×. Operating income fell while net interest expense rose.

Walmart / Target | Interpret the ratios

4. Which firm had the higher latest-year gross margin using the worksheet's revenue convention?

A. Walmart, about 24.93% B. Target, about 27.93% C. Walmart, about 75.07%

5. Walmart's revenue increased from 680,985 to 713,163. Approximate growth was:

A. 4.73% B. 95.49% C. 3.07%

6. Can these ratios alone establish which stock is the better investment?

A. Yes: choose the higher profit margin B. Yes: choose the higher asset turnover C. No: price, expected future cash flows and risk also matter

Walmart / Target | Answers 4–6

4 | B Walmart: (713,163 – 535,395) / 713,163 = 24.93%. Target: (104,780 – 75,511) / 104,780 = 27.93%. Cost classifications differ across retailers.

5 | A (713,163 – 680,985) / 680,985 = 4.73%. Use the prior-year amount in the denominator.

6 | C Historical ratios describe operations and financial position. Investment value also depends on what you pay and what happens next.

3 | Time, bonds and interest rates | Remember

- Draw dates first. Move every cash flow to the same valuation date.
- Match periods: semiannual coupon, semiannual yield, twice as many periods.
- For fixed promised payments: a higher required yield means a lower price.
- Risk structure compares similar maturities; term structure compares maturities.

3 | Time, bonds and interest rates | Try it

1. A $1,000 bond pays a 5% annual coupon semiannually and has 7 years left. At 6.5% annual YTM, what is its price just after a coupon?

A. $953.71 B. $916.71 C. $917.73

2. You receive $5,000 at each year-end in Years 4, 5 and 6, and nothing else. At 8% annually, what is the value today?

A. $12,885.48 B. $9,471.22 C. $10,228.91

3. Investors view a particular bond as less risky, with other influences fixed. What happens?

A. Demand rises; price rises; yield falls B. Supply rises; price falls; yield rises C. The coupon rate rises automatically

3 | Time, bonds and interest rates | Answers

1 | B N = 14; rate per half-year = 3.25%; PMT = $25; FV = $1,000. Solve PV = –$916.71: the quoted price is $916.71. Use END mode and P/Y = C/Y = 1 for these period inputs.

2 | C First find the Year 3 value: N = 3, I/Y = 8, PMT = 5,000, FV = 0 → $12,885.48. Discount it three more years: 12,885.484936 / 1.08^3 = $10,228.91. Use END mode.

3 | A The demand curve shifts right. The promised coupon stays fixed; price adjusts and yield moves inversely.

Interest rates | Two more checks

1. An upward yield curve with a positive maturity premium proves future short rates will rise. True or false?

A. True B. False C. Only if the bond pays coupons

2. Expected inflation rises, holding other drivers fixed. In the market for nominal bonds:

A. Demand shifts right; supply left B. Both curves shift left C. Demand shifts left; supply right

Interest rates | Answers

1 | B False. A positive term premium can create an upward slope even with flat expected short rates.

2 | C Investors expect lower real returns and borrowers face lower expected real repayment costs. Price falls and nominal yield rises.

4 | Project decisions and cash flows | Remember

- Compare with versus without the project. For replacement, use replace minus keep.
- Exclude sunk costs; include opportunity costs and lost contribution.
- FCF = NOPAT – ΔNFA – ΔNWC.

- Use NPV to choose feasible alternatives; test timing, inputs and terminal cash flows.