24. *a.* The tax bubble causes average tax rates to catch up to marginal tax rates, thus eliminating the tax advantage of low marginal rates for high income corporations.

b. Taxes = 0.15($50,000) + 0.25($25,000) + 0.34($25,000) + 0.39($235,000) = $113,900

Average tax rate = $113,900 / $335,000 = 34%

The marginal tax rate on the next dollar of income is 34 percent.

For corporate taxable income levels of $335,000 to $10 million, average tax rates are equal to marginal tax rates.

Taxes = 0.34($10,000,000) + 0.35($5,000,000) + 0.38($3,333,333)= $6,416,667

Average tax rate = $6,416,667 / $18,333,334 = 35%

The marginal tax rate on the next dollar of income is 35 percent. For corporate taxable income levels over $18,333,334, average tax rates are again equal to marginal tax rates.

c. Taxes = 0.34($200,000) = $68,000
$68,000 = 0.15($50,000) + 0.25($25,000) + 0.34($25,000) + X($100,000);
X($100,000) = $68,000 – 22,250
X = $45,750 / $100,000
X = 45.75%

25.

Balance sheet as of Dec. 31, 2010

Cash	$ 6,067	Accounts payable	$ 4,384
Accounts receivable	8,034	Notes payable	1,171
Inventory	14,283	Current liabilities	$ 5,555
Current assets	$28,384		
		Long-term debt	$20,320
Net fixed assets	$50,888	Owners' equity	$53,397
Total assets	$79,272	Total liab. & equity	$79,272

Balance sheet as of Dec. 31, 2011

Cash	$ 6,466	Accounts payable	$ 4,644
Accounts receivable	9,427	Notes payable	1,147
Inventory	15,288	Current liabilities	$ 5,791
Current assets	$31,181		
		Long-term debt	$24,636
Net fixed assets	$54,273	Owners' equity	$55,027
Total assets	$85,454	Total liab. & equity	$85,454

Solutions Corporate Finance 10th Edition

Solutions Corporate Finance 10th Edition

If you were to habit such a