The answer to the question is highlighted in red. Explanations are highlighted in green.

18. After the CFO of a firm constructed *preliminary, or initial,* pro forma financial statements for next year’s projected operations she told you that AFN\textsubscript{Initial} = $1.5 million. If the projections that were made are based on a 6 percent growth in operations, what information has the CFO provided you?
   a. To grow 6 percent next year, the firm must raise *exactly* $1.5 million in external, or additional, funds.
   b. If the firm increases its operations by 6 percent, taxes are forecasted to be $1.5 million next year.
   c. The total amount of funds (financing) the firm needs to raise to support a 6 percent growth in operations next year is less than $1.5 million.
   d. To grow 6 percent next year, the firm must raise *greater than* $1.5 million in external, or additional, funds.
   e. None of the above is a correct answer.

Remember that there are financing feedbacks associated with raising funds. For example, interest must be paid on new debt. As a result, the initial AFN is not high enough to cover all the new financing needs.

**RETURN TO THE SAMPLE QUESTIONS**