**1.(Weighted average cost of capital)** The Target capital structure for QM Industries is 37% common Equity for the firm is 17.6%, the cost of preferred stock is 10.8%, the before-tax cost of debt is 7.2%, and the firm’s tax rate is 35%, what is QM’s weighted average cost of capital?

QM’s WACC is \_\_\_\_\_% (Round to three decimal places)

**2.**Crypton Electronics has a capital structure consisting of 35% common stock and 65% debt. A debt issue of $1,000 par value, 6.2% bonds that mature in 15 years and pay annual interest will sell for $972. Common Stock of the firm is currently selling for $29.26 per share and the firm expects to pay a $2.15 dividend next year. Dividends have grown at the rate of 4.8% per year and are expected to continue to do so for the foreseeable future. What is Crypton’s cost of capital where the firm’s tax rate is 30%

Crypton’s cost of capital is \_\_\_\_\_\_% (Round to three decimal places.)

**3.(Weighted average cost of capital)** The target capital structure for Jowers Manafacturing is 54% common stock, 19% preferred stock, and 27 debt. If the cost of common equity for the firm is 19.7, the cost of preferred stock is 12.4%, and the beforetax cost of debt is 9.6%, what is Jowers’ cost capital? The firm’s tax rate is 34%.

Jowers’ WACC is \_\_\_\_\_%. (Round to three decimal places)

**4.(Weighted average cost of capital**) As a member of the Finance Department of Ranch Manufacturing, you supervisor has asked you to compute the appropriate discount rate to use when evaluating the purchase of new packaging equipment for the plan. Under the assumption that the firm’s present capital structure reflects the appropriate mix of capital sources for the firm, you have determined the market value of the firm’s capital structure as follows:

**Source of Capital Market Values**

**Bonds $3,500,000**

**Preferred Stock $1,800,000**

**Common Stock $5,600,000**

To finance the purchase, Ranch Manufacturing will sell 10-year bonds paying 6.8% per year at the market price of $1,041. Preferred stock paying a $2.01 dividend can be sold for $24.79. Common stock for Ranch Manufacturing is currently selling for $54.74 per share and the firm paid a $2.96 dividend last year. Dividends are expected to continue growing at a rate of 5.3% per year into the indefinite future. If firm’s tax rate is 30% what discount rate should you use to evaluate the equipment purchase?

Ranch Manufacturing’s WACC is \_\_\_\_\_\_\_\_% (Round to three decimal places.)

5.Abe Forrester and three of his friends from college have interested a group of venture capitalist in backing their business idea. The proposed operation would consist of a series of retail outlets to distribute and service a full line of vacuum cleaners and accessories. These stores would be located in Dallas, Houston, and San Antonio. To finance the new venture two plans have been proposed:

* Plan A is an all-common-equity structure in which $2.1 million dollars would be raised by selling 84,000 shares of common stock
* Plan B would involve issuing $1.3 million dollars in long-term bonds with an effective interest rate of 11.5% plus $0.8 million would be raised by selling 42,000 shares of common stock. The debt funds raised under Plan B have no fixed maturity date, in that this amount of financial leverage is considered a permanent part of the firm’s capital structure. Abe and his partners plan to use a 40% tax rate in their analysis, and they have hired you on a consulting basis to do the following:

Question

1. Find the EBIT indifference level associated with the two financing plans
2. Prepare a pro forma income statement for the EBIT level solved for in Part a that shows that EPS will be the same regardless whether Plan A or B is chosen.

The EBIT indifference level associated with the two financing plans is \_\_\_\_\_% (Round to nearest dollar)