Corporate Financial Management & International Financial Management

Books:

Corporate Financial Management, Third Edition, Emery, Finnerty, & Stowe

Corporate Financial Management Problems

Ch. 17 B4

B4. (Coverage ratios) Mi Furst, Inc., has $100 million of earnings before interest and taxes and

$40 million of interest expense.

a. Calculate Mi Furst’s interest coverage ratio.

b. Calculate the pro forma interest coverage ratio assuming the issuance of $100 million of

10% debt with the issue proceeds to be invested fully in a plant under construction.

c. Calculate the pro forma interest coverage ratio assuming the issuance of $100 million

of 10% debt with the proceeds to be invested temporarily in commercial paper that

yields 8%.

Ch. 18 B5

B5. (Share repurchase) A firm’s common stock is trading at a P/E of 20. Its projected earnings

per share are $2.00, and its share price is $40. All its shareholders are tax exempt. An

open market purchase would result in projected earnings per share of $2.70. How would

you expect the announcement of the share repurchase program to affect the firm’s share

price?

Ch. 20 B9

B9. (Duration) A bond pays interest semiannually at a 10% APR. The bond has a sinking fund

that makes equal payments at the end of years 8, 9, and 10. The bond’s price is 105% of its

face amount.

a. Calculate the bond’s yield to maturity.

b. Calculate the bond’s average life.

c. Calculate the bond’s duration.

Ch. 21 B4

B4. (Net advantage to leasing) Brown Toyota is considering leasing $120,000 worth of computer

equipment. A four-year lease would require payments in advance of $33,000 per

year. Brown does not currently pay income taxes and does not expect to have to pay income

taxes in the foreseeable future. If Brown purchased the computer equipment, it would

depreciate the equipment on a straight-line basis down to an estimated salvage value of

$30,000 at the end of the fourth year. Brown’s cost of secured debt is 14%, and its cost of

capital is 20%. Calculate the net advantage to leasing.