1. Talmud Book Company borrows $16,000 for 30 days at 9% interest. What is the dollar cost of the loan?

Dollar cost

Of loan = Amount Borrowed X interest Rate X Days loan is Outstanding/ Days in the year (360)

1. McGriff Dog Food Company normally takes 20 days to pay for average daily credit purchases of $9,000. Its average daily sales are $10,000 and it collects accounts in 25 days.
2. What is its net credit position? That is compute its accounts receivable and accounts payable and subtract the latter from the former.

Account receivable = average daily credit sales X average collection period.

Account payable = average daily credit purchase X average payment period.

1. If the firm extend its average payment period from 20 days to 32 days (and all else remains the same). What is the firm’s new net credit position? Has it improved its cash flow?

3). A brilliant young scientist is killed in a plane crash. It was anticipated that he could have earned $200,000 a year for the next 40 years. The attorney for the plaintiff’s estate argues that the lost income should be discounted back to the present at 4%. The lawyer for the defendant’s insurance company argues for a discount rate of 12%. What is the difference between the present value of the settlement at 4% and 12%? Compute each one separately.

4) Royal Jewelers Inc. has an after-tax cost of debt of 6%. What tax rate of 40%. What can you assume the yield on the debt is?

5) Russell Container Corporation has a $1,000 par value bond outstanding with 20 years to maturity. The bond carries an annual interest payment of $95 and is currently selling for $920 per bond. Russell Corp. is in

a 25% tax bracket. The firms wishes to known what the after tax cost of a new bond issue is likely to be. The yield to maturity on the new issue will be the same as the yield to maturity on the old issue because the risk and maturity date will be similar.

1. Compute the approximate yield to maturity.
2. Make the appropriate tax adjustment to determine the after-tax cost of debt.

6) Delta Corp has the following capital structure.

Cost after tax weight weight cost

Debt 61% 25% 1.53%

Preferred stock (kp) 7.6% 10 .76

Common equity (ke)

Retained earnings 15.1 65 9.82

Weighted average cost of capital (ka) 12.11%

1. If the firm has $26 million in retained earnings, at what size capital structure will the firm run out of retained earnings?
2. The 7.1 % cost of debt referred to above applies only to the first $13 million of debt. After that the cost of debt will go up. At what size capital structure will there be a change in the cost of debt?