



# WALSH UNIVERSITY

**School *for* Professional Studies**

**BUS 406**

**Advanced Business Finance, II**

(Full Semester Format)

**ASSIGNMENT DUE ON THE FIRST NIGHT OF  
CLASS – PAGE 6.**

**Recommended Prerequisite: BUS 405**

**DIVISION OF BUSINESS, ECONOMICS AND COMMUNICATION**  
**BUS 406**  
**Advanced Business Finance, II**

**COURSE DESCRIPTION**

Continuation of BUS 405. Topics include: advanced capital budgeting techniques, cash flow estimation, cost of capital estimation, capital structure and leverage, dividend policy and its relationship to value, strategic financing decisions relative to common stock, long term debt and hybrid sources of funds. The course uses the case analysis approach.

**PREREQUISITIES**

This course assumes that you have a strong degree of comfort with major accounting and finance principles and are comfortable with excel spreadsheets and their applications in accounting and finance. BUS 221 is a prerequisite for this course. This course is a continuation of BUS 405 and it is strongly recommended that you complete BUS 405 prior to enrolling in BUS 406. If circumstances do not permit taking BUS 405 prior to BUS 406, the student will need to review time value of money and risk measurement concepts as these concepts are applied in BUS 406.

**COURSE OBJECTIVES**

After successful completion of this course, the student will

- Be able to apply capital budgeting models as tools for long-term allocation of capital,
- Be able to forecast relevant cash flows associated with long-term investment decisions,
- Be able to compute a market value weighted marginal cost of capital, apply it in capital budgeting and other long-term decisions, and understand its role allocation of firm capital,
- Analyze capital structure theories and apply them in capital structure decision-making,
- Explain and analyze the various dividend theories and policies and how these policies impact on value,
- Be able to discuss the features of long term sources of funds and the rationale for using different types of securities as sources of capital,
- Be familiar with the investment banking process,
- Discuss and analyze alternative financing arrangements,
- Model financial analysis using Excel spreadsheets and tools.

## **REQUIRED MATERIALS:**

### **TEXT:**

Essentials of Managerial Finance, Scott Besley and Eugene Brigham, 13th edition, Thompson, South-Western

### **OTHER:**

Calculator: Texas Instrument BA II Plus.

## **NOTES REGARDING ASSIGNMENTS AND WORKLOAD**

Advanced Finance I and II are the capstone courses for the finance major. Due to the rigor of the content and the required work-load, these courses are offered in the traditional semester format – fourteen, three hour meetings. While in class students are expected to actively participate in discussion and group activities. Outside of class, students are expected to do a minimum of 10 hours per week of study, homework assignments, case analysis and/or group projects.

The intent of the assigned text readings is to provide students with analytical and conceptual knowledge. The text readings build on and enhance the principles you learned in the first finance course and, in some applications, the tools you encountered in the first advanced finance course. The assigned homework problems and case reinforce this knowledge and are intended to develop computational, analytical and quantitative skills.

## **REQUIREMENTS AND EVALUATION**

Student performance is evaluated and grades assigned based on performance in four areas: homework, spreadsheet skill builders, case analyses, and an applied project.

## **HOMEWORK**

Homework problems are assigned for each chapter. Five homework sets worth ten points each will be collected and graded during the semester. The homework sets will be collected at the completion of the workshop in which they were assigned (the class period following the corresponding lecture). No homework set will be accepted late for any reason. For the student to receive credit for the assignment, the homework collected must be completed in good form.

Excel templates for end-of-chapter problems are available on the textbook website:

<http://besley.swlearning.com>

Follow the links “Student Resources,” “ excel models.” Use the templates when completing an assigned computer application problem. Provide a **summary** of the results (output) and discuss the implications of the analysis.

## **SKILL BUILDER EXERCISES**

Three excel skill builder exercises are described in Appendix iii. These exercises are intended to enhance your spreadsheet and financial modeling using the tools and functions in excel that are of particular importance for a person performing the finance function. Each skill builder is worth 20 points equally distributed between the quality of the analysis and application of your skills. Select two of the three skill builders to complete and turn in for a grade. You will print a hard copy of the skill builder to turn in to the instructor and post an electronic copy to the instructor's email. Your last name and SK# should appear in the message line.

## **CASE ANALYSIS**

A case in Cases in Managerial Finance is assigned for most of the chapters covered in the textbook. Students are expected to complete the case analysis for each assigned case. The analysis involves answering all the end of case questions, completing any required calculations and performing any computer applications indicated in the case questions.

Five cases worth 25 points each will be collected and graded sometime during the semester. You may choose to prepare a case with a partner and turn in one written case preparation. A case write-up must reflect an integrated, cohesive analysis. You and your partner will receive the same grade. You and your partner will act as discussion leader for one case during the semester. Case grades will be assigned based on both the quality and written presentation of the analysis and the quality and presentation of the accompanying spreadsheet analysis. A maximum of 10 points will be assigned to a presentation.

All students will also be evaluated based on their demonstration of preparedness during class discussion of the cases. No case will be accepted for a grade after the class period in which the case was discussed. Again, to receive credit the collected cases must be completed in good form. Excel templates accompany many of the cases. Your facilitator will make these available to you.

## **PROJECT: COST OF CAPITAL ESTIMATE**

Each student will compute a cost of capital estimate for an enterprise of their choice. A complete description of the project and resource materials is provided in the appendix. The project is worth 50 points.

## EVALUATION AND GRADE ASSIGNMENT

Graded Item	#	Points/Item	Total Points
Cases	5	25	125
Homework	5	10	50
Skill Builder	2	20	40
Project	1	50	50
Total Points			265

Percent	Grade
94-100	A
90-93	A-
87-89	B+
84-86	B
80-83	B-
77-79	C+
74-76	C
70-73	C-
67-69	D+
64-66	D
60-63	D-
Below 60	F

### POLICIES

#### Academic Integrity

The School for Professional Studies subscribes to the academic honesty policy published in the most recent edition of the Walsh University Undergraduate Catalog and the SPS Student Handbook. Plagiarism and other forms of cheating or dishonesty may result in a failing grade on the test or assignment or suspension. Misrepresenting someone else's work as you own is considered a violation of those policies and will result in a grade of "F" on the assignment and possibly an "F" in the course. See the above referenced publications for complete information.

#### Attendance

Attendance is mandatory for all sessions of this course. See the SPS Student Handbook for the complete attendance policy.

#### Make-up Work

Acceptance of late assignments or make-up of missed assignments or quizzes is at the discretion of the facilitator who will announce the policy at the first workshop.

#### ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP ONE

1. Carefully read pages 1-5 of this module to familiarize you with the expected course outcomes, workload and assignments.
2. Select a target company for the "Cost of Capital Project"
3. Read and be prepared to discuss Chapter 6.
4. Complete ST-1 on page 273.
5. Download excel models from the "Student Resource" link at <http://besley.swlearning.com>.

## **WORKSHOP ONE**

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### **OBJECTIVES**

After completion of this workshop, the student will

- Understand the role of capital budgeting in allocating the long-term resources of the firm
- Be able to compute and apply various capital budgeting techniques
- Explain the rationale of each of the computational techniques
- Discuss the pros and cons of each of the techniques
- Analyze and apply the techniques in a value maximizing framework

### **ACTIVITIES**

1. Introduction of facilitator and students
2. Explanation of course requirements, expectations, learning outcomes and methods of evaluation
3. Selection of a student representative.
4. Presentation and discussion of the material in Chapter 6, Capital Budgeting and Asset Valuation
5. Review ST-1
6. Class shares target company selection and discusses timeline

### **ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP TWO**

1. Read Appendix 6-A.
  2. Complete Chapter 6 ST-2, page 273.
  3. Complete homework problems 6-2, 6-3, 6-4.
  4. Read Chapter 7 through page 292.
  5. Interview a company representative to determine how your company generates and evaluates ideas for capital projects.

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## **WORKSHOP TWO**

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### **OBJECTIVES**

After completing this workshop, the student will be able to

- Use excel functions to compute the NPV, IRR, MIRR
- Use excel tools to compute Payback Period, Discounted Payback Period, Profitability Index (BCR)
- Construct and analyze a Net Present Value Profile
- Define the relevant cash flows used in a capital budgeting analysis and explain the rationale for their use

### **ACTIVITIES**

1. Facilitator led discussion of the capital budgeting process in practice
2. Presentation and discussion of the material Chapter 6 appendix
3. Presentation and discussion of the material in Chapter 7 through page 292.
4. Review ST-2
5. Demonstration of capital budgeting tools and functions in excel
6. Review assigned homework problems

<b>ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP THREE</b>
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| <ol style="list-style-type: none"><li>1. Complete reading of Chapter 7 including Appendix A and Appendix B</li><li>2. Read Chapter 7 ST-3 and ST-4 for completion in class</li><li>3. Complete homework problem 6-13, B-1</li><li>4. Complete skill builder I</li></ol> |
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## **WORKSHOP THREE**

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### **OBJECTIVES**

After completing this workshop, the student will be able to

- Estimate and determine the timing of the relevant cash flows used in a capital budgeting analysis
- Analyze an expansion project decision
- Analyze a replacement project decision
- Explain the role of risk in capital budgeting
- Incorporate risk analysis in the capital budgeting decision process using various methods
- Explain and discuss capital rationing and its implications for value maximization

### **ACTIVITIES**

1. Presentation and discussion of material in Chapter 7 and Chapter 7 appendices
2. In class exercise demonstrating cash flow estimation
3. Review assigned homework problems
4. Group completing of Chapter 7 ST-3
5. Group completion of Chapter 7 ST-4
6. Collect skill builder I
7. Discuss and demonstrate skill builder II

<p><b>ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP FOUR</b></p> <ol style="list-style-type: none"><li>1. Complete homework problems 7-3, 7-6, 7-14, 7A-1, 7B-1. 7B-2.</li><li>2. Begin preparation of Case 12 and Case 13 for presentation and collection in Workshop 7.</li><li>3. Complete skill builder II.</li><li>4. Read Chapter 8 through page 350.</li><li>5. Review Chapter 8 ST-1 for completion in class.</li></ol>
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## WORKSHOP FOUR

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### OBJECTIVES

After completing this workshop, the student will be able to

- Explain the underlying logic of the weighted average cost of capital
- Compute the component costs of long-term sources of funds
- Compute a weighted cost of capital

1. Collect skill builder II
2. Presentation and discussion of material in Chapter 8 through page 350
3. Complete Chapter 8 ST-1, a-e

### ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 5

1. Complete reading of Chapter 8.
2. Read Chapter 8 ST-2.
3. Complete homework problems 8-1, 8-8 through 8-11.
4. Begin preparation of Case 4 for presentation and collection in Workshop 7.

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## WORKSHOP FIVE

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### OBJECTIVES

After completing this workshop, the student will be able to

- Differentiate between a weighted average cost of capital and a weighted marginal cost of capital
- Develop a weighted marginal cost of capital schedule and use it to compute a marginal cost of capital

### ACTIVITIES

1. Presentation and discussion of material in Chapter 8
2. Review homework problems
3. In class exercise to develop a marginal cost of capital
4. Group completion of Chapter 8, ST-2
5. Distribute “Best Practices”
6. Distribution and discussion of resource materials for “Cost of Capital” project.

### ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 6

1. Complete homework problems 8-7, 8-16, 8-20.
2. Begin preparation of Case 17 for presentation and collection in Workshop 7.
3. Begin work on Cost of Capital Project for turn-in in Workshop 13 and presentation in Workshop 14.
4. Interview a company representative to determine how your company arrives at its cost of capital and how it applies the cost of capital in decision making.
5. Read and be prepared to discuss “Best Practices.”

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## WORKSHOP SIX

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### OBJECTIVES

After completing this workshop, the student will be able to

- Develop an investment opportunity schedule
- Use marginal cost of capital analysis to determine an optimum capital budget
- Discuss and apply the best practices for estimating a weighted average cost of capital

### ACTIVITIES

1. Facilitator led discussion of “Best Practices”
2. Facilitator led discussion of student company research on the cost of capital application in practice
3. Review assigned homework problems

<p>ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 7</p>
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<p>Complete Case 12, 13, 4 and 17 for presentation and/or collection.</p>
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## **WORKSHOP SEVEN**

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### **OBJECTIVES**

After completion of this workshop, the student will

- Enhance oral presentation skills and facilitation skills
- Be able to apply financial theory to real world situations

### **ACTIVITIES**

1. Review homework problems
2. Case Presentation

Case 12 – Indian River Citrus Company (A), Cash Flow Estimation

Case 13 – Indian River Citrus Company (B), Risk Analysis in Capital Budgeting

Case 4 – Silicon Valley Medical Technologies, Cost of Capital

Case 17 – Lawn Depot, Inc., Establishing the Optimum Capital Budget

<p><b>ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP EIGHT</b></p>
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| <ol style="list-style-type: none"><li>1. Read Chapter 9 through page 394.</li><li>2. Read Chapter 9 ST-2.</li></ol> |
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## **WORKSHOP EIGHT**

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### **OBJECTIVES**

After completing this workshop, the student be able to

- Describe and discuss alternative theories of capital structure
- Differential between business risk and financial risk
- Analyze the sources of business risk and financial risk
- Analyze the risk/return trade-off of alternative capital structures
- Analyze an optimum capital structure
- Assess the impact of alternative capital structure on value maximization

### **ACTIVITIES**

1. Discussion and presentation of material in Chapter 9 through page 394.
2. In class exercise demonstrating risk/return trade-offs of recapitalization in determining an optimal capital structure
3. Review of Chapter 9 ST-2
4. Review homework problems

<b>ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 9</b>
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| <ol style="list-style-type: none"><li>1. Interview a company representative to determine how your company applies value maximization decision making when selecting a capital structure.</li><li>2. Complete reading of Chapter 9.</li><li>3. Complete homework problems 9-1 and 9-6.</li><li>4. Begin preparation of Case 9 for presentation and collection in Workshop 13.</li></ol> |
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## WORKSHOP NINE

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### OBJECTIVES

After completing this workshop, the student will be able

- to analyze operating leverage and discuss its impact on risk and value
- to analyze financial leverage and discuss its impact on risk and value
- Understand and explain capital structure theory
- Assess the impact of capital structure on stock price
- Evaluate the risk return trade-offs associated with capital structure
- Discuss the factors that explain the variations in the use of financial leverage across industries

### ACTIVITIES

1. Presentation and discuss of material in Chapter 9
2. Review homework problems
3. Review skill builder III
4. Facilitator led discussion of student interviews on selection of a capital structure

### ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 9

1. Complete homework problems 9-2, 9-3, 9-4, 9-8.
2. Begin preparation of Case 8 for presentation and collection in Workshop 13.
3. Complete skill builder III.
4. Read Chapter 10.
5. Complete Chapter 10, ST-2.

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## WORKSHOP TEN

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### OBJECTIVES

After completing this workshop, the student will be

- Familiar with both side of the “Dividend Debate”
- Able to define and discuss alternative views on dividend policy
- Able to explain the logic of the residual dividend policy
- Evaluate the factors that influence dividend policy in practice
- Analyze stock splits and stock dividends

### ACTIVITIES

1. Presentation and discussion of material in Chapter 10
2. Review Chapter 10, ST-2
3. Review homework problems
4. Share progress on “Cost of Capital Project”
5. Collect skill builder III

### ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 11

1. Interview a representative of your company who can speak to your company’s dividend policy. If your company is not publicly held or does not pay dividends, evaluate the dividend policy of the company you have chosen for your “Cost of Capital” project.
2. Complete homework problems 10-1, 10-3, 10-4, 10-7, 10-9.
3. Read Chapter 16.
4. Complete Chapter 16 ST-1.
5. Begin preparation of Case 19 for presentation in Workshop 13.

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## WORKSHOP ELEVEN

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### OBJECTIVES

After completing this workshop, the student will be able to

- Perform the required stockholder's equity accounting entries for stock transactions
- Define and discuss the features of common stock financing
- Evaluate and analyze common stock financing as a source of funds
- Describe and discuss the market for common stock
- Describe the investment banking process
- Analyze a decision to "Go-Public"

### ACTIVITIES

1. Review assigned homework problems
2. Facilitator led discussion of dividend policy in practice
3. Presentation and discussion of material in Chapter 16
4. Review Chapter 16 ST-1

<p><b>ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 12</b></p> <ol style="list-style-type: none"><li>1. Complete homework problems 16-2, 16-3, 16-4.</li><li>2. Read Chapter 17.</li><li>3. Complete Chapter 17 ST-2.</li><li>4. Read Chapter 18.</li><li>5. Complete Chapter 18 ST-2.</li></ol>
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## WORKSHOP TWELVE

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### OBJECTIVES

After completing this workshop, the student will

- Define, discuss and evaluate various debt instruments
- Evaluate the advantages and disadvantages of issuing debt instruments
- Assess the factors influencing long-term financing decision
- Analyze a “refund” decision
- Define, discuss and evaluate alternative sources of long-term financing
- Differential between operating and financial leases
- Analyze a “lease or buy” decision

### ACTIVITIES

1. Presentation and discussion of material in Chapters 17 and 18
2. Review assigned homework problems
3. Review Chapter 17 ST-1 and Chapter 18 ST-1
4. Distribute Ben and Jerry’s Case Study

### ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 13

1. Complete homework problems 17-1, 17-2, 17-6.
2. Complete homework problems 18-1, 18-4, 18-5, 18-7.
3. Complete Cases 8, 9, 19 and Ben and Jerry’s for presentation and collection in workshop 13.

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## WORKSHOP THIRTEEN

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### OBJECTIVES

After completion of this workshop, the student will

- Enhance oral presentation skills and facilitation skills
- Be able to apply financial theory to real world situations

### ACTIVITIES

1. Review assigned homework problems
2. Collect “Cost of Capital” Project
3. Case Presentation

Case 8 – Johnson Window Company, Optimal Operating and Financial Leverage

Case 9 – Kleen Kar, Inc., Capital Structure Policy

Case 19 – Georgia Atlantic Company, Dividend Policy

Class Hand-out – Ben and Jerry’s

<p>ASSIGNMENTS TO BE COMPLETED PRIOR TO WORKSHOP 14</p>
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<p>Prepare presentation of “Cost of Capital” project.</p>
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## **WORKSHOP FOURTEEN**

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### **OBJECTIVES**

After completion of this workshop, the student will

- Enhance oral presentation skills and facilitation skills

### **ACTIVITIES**

1. Complete course evaluations
2. Student project presentations

## APPENDICES

- i. Writing policy
- ii. Project Description
- iii. Skill Builder Descriptions and Data

## Appendix i

### DIVISION OF BUSINESS AND ECONOMICS

#### WRITING POLICY

To support the division's expectation that its students will demonstrate acceptable writing skills as evidenced by error free grammar and acceptable professional style by the junior year, the Division of Business and Economics has established the following "Writing Policy" for its programs.

**Policy:** A minimum twenty-five percent of the grade on ALL written assignments is based on the writing skills evidenced in the writing assignment. Those skills are evaluated using the written report evaluation criteria attached to this policy.

Approved unanimously, January 29, 2003

Effective: Fall 2003
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## Appendix ii

### **WACC and CAPITAL STRUCTURE ANALYSIS**

**Objective:** Estimate and analyze an enterprise's weighted average cost of capital and capital structure.

Using the article entitled "Using Value Line to Estimate the Cost of Capital and Industry Capital Structure" as a guide, your task is to estimate the WACC and capital structure of a publicly held enterprise of your choice. In addition to reviewing the techniques commonly used for estimating the cost of capital discussed in the textbook, the authors apply those techniques to Hershey Foods. The data used by the authors is taken from the ValueLine Investment Survey available in the Walsh University Library.

#### **WACC: Weight Average Cost of Capita Estimate**

##### **Capital Components**

When estimating the component costs, you should follow the examples for computing the costs of debt, preferred stock (if applicable) and common equity (both methods). You may also wish to consider the market cost of debt using the TYM technique discussed in class. Present your results in a table(s) similar to those used in the article.

##### **Weights**

Follow the applied example, generating estimates for both book value and market value weights and current and target weights. Present your results in a table similar to that used in the article.

##### **WACC**

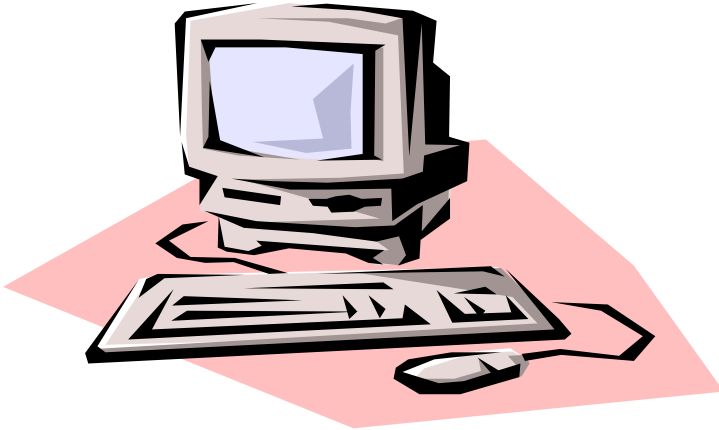
Compute the weighted average cost of capital in a table similar to that presented in the article.

Throughout, discuss and support the assumptions you used in developing your estimates and, ultimately, your weighted average cost of capital. Include discussion of the impact and implications your assumptions may have for using the WACC in decision-making.

##### **Capital Structure Analysis**

Complete a comparative capital structure analysis comparing your target enterprise to the peer group. This will require you to estimate both a WACC for each peer and an average for the peer group. To summarize and present your estimates use tables similar to those in the article.

Conclude your analysis with a discussion of the typical capital structure for the selected industry peer group and the relative capital structure of the selected target. In your discussion, explain factors that might account for differences in the capital structure. For your target, discuss market, competitive and/or strategic advantages that might result from its selection of capital structure.



## Skill Builder Exercises

Select and complete two of the three exercises detailed below. Skill builder exercises are due one week after the class in which the concepts are discussed. The file containing the completed exercise should be sent to the facilitator and a hard copy of the exercise should be turned in during class. Each exercise is worth 20 points.

### **LEARNING OBJECTIVES**

After completing these exercises, the student will be able

- Perform basic to intermediate spreadsheet computations
- Program formulas and financial statement data
- Format numerical and text information
- Insert headers and footers as needed
- Setup professional pages
- Use sheets to segment information and display graphs and other information
- Use the Excel program to perform financial functions and create graphs

### Skill Builder 1 – Capital Budgeting Techniques

Use Excel functions to compute the NPV, IRR and MIRR of the investment decision associated with the after-tax cash flows given below assuming a 6 percent discount rate. Prepare a schedule to compute the Payback, Discounted Payback, NPV, IRR, MIRR and PI. Present all information in a professional, reader friendly format with appropriate titles, headings and other formatting.

#### Data

Period	CF <sub>0</sub>	CF <sub>1</sub>	CF <sub>2</sub>	CF <sub>3</sub>	CF <sub>4</sub>
Cash flow	(\$297,500)	\$58,000	\$71,200	\$56,900	\$49,200

CF <sub>5</sub>	CF <sub>6</sub>	CF <sub>7</sub>	CF <sub>8</sub>	CF <sub>9</sub>	CF <sub>10</sub>
\$48,100	\$42,600	\$36,000	\$36,000	\$36,000	\$66,000

Discount rate = 6%

Using the data above, create an Excel spreadsheet and use Excel tools to compute:

1. Payback Period
2. Discounted Payback Period
3. Net Present Value
4. Internal Rate of Return
5. Modified Internal Rate of Return
6. Profitability Index

## Skill Builder 2 – Cash Flow Analysis

Using the Simmons Manufacturing, Inc. data below, create an excel spreadsheet to analyze the expected cash flows relevant to the replacement decision. The spreadsheet should be presented in a professional, reader friendly format using appropriate titles, headings and formulas, all with appropriate formatting. The spreadsheet should include schedules for relevant depreciation, the expected initial cash outlay, terminal cash flow, annual operating cash flows and the expected incremental after tax cash flow associated with the expansion project.

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### Data

#### **SIMMONS MANUFACTURING, Inc. CASH FLOW ANALYSIS**

Simmons Manufacturing, Inc., is considering replacing an existing hoist with a new more efficient piece of equipment. The existing hoist is 3 years old, cost \$32,000, and is being depreciated using MACRS 5-year class rates. It has a remaining useful life of 5 years (total was 8). The replacement hoist costs \$40,000 plus \$8,000 to install, has an expected useful life of 5 years to Simmons and will be depreciated under the 5-years MACRS class rates.

The replacement hoist will also require \$4,000 in additional working capital (NWC). The project cash flows before depreciation and taxes for the existing and replacement hoists are given below. The existing hoist could be sold today for \$18,000. The replacement hoist is expected to have a \$20,000 market value (before taxes) at the end of its 5 year life. The firm is in the 40 percent tax bracket for both ordinary income and capital gains.

<b>SIMMONS MANUFACTURING, INC.</b>		
	<b>Profit before Depreciation and Taxes</b>	
<b>Year</b>	<b>Existing Hoist</b>	<b>Replacement Hoist</b>
1	\$14,000	\$21,000
2	\$14,000	\$21,000
3	\$14,000	\$21,000
4	\$14,000	\$21,000
5	\$14,000	\$21,000

### Skill Builder 3 – Capital Structure

Use the data provided to prepare a spreadsheet and graphical analysis demonstrating the relationship between debt and value ( $P_0$ ), earnings per share (EPS) and the weighted cost of capital. Present the data and graphs in a reader friendly, professional format. The graphs should be included on the same sheet as the data.

<b>Assumptions</b>
Total Assets = \$200,000
$k_{RF} = 5\%$
$k_M = 12\%$
EPS = DPS
$G = 0$
$T = 40\%$

Probability Distribution of Sales			
	.20	.60	.20
Sales	\$100	\$200	\$300
FC	40	40	40
VC (.60S)	60	120	180
EBIT	\$ -	\$40	\$80

	Amt. Borrowed	D/E	TD /TA	$k_D$	$N_0$	CV	$K_D^*$ (1-T)	EPS	$\beta$	$k_S$	$P_0$	$K_A$
1	\$ -				10,000	0.63		\$2.40	1.35	14.50%	\$16.55	15%
2	\$ 40,000	20/80	20%	8%	8,000	0.69			1.50			
3	\$ 60,000	30/70		9%	7,000	0.73			1.60			
4	\$ 80,000			10%					1.70			
5	\$100,000			13%					1.80			
6	\$120,000			15%					2.00			
7	\$140,000			18%					2.10			
8	\$160,000			20%					2.20			
9	\$180,000			23%					2.30			