Financial Statement Analysis & Valuation, 5^{th} Edition
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Practice Quiz

Module 12 – Cost of Capital and Valuation Basics

1. Determine the present value of an 8 year annuity that pays $11,000 at the end of each year discounted at a rate of 6%.

   a. $88,000
   b. $66,000
   c. $68,308
   d. $69,015

Use the following information to complete Questions 2 - 6.

The following data pertains to Radek Corp., a manufacturer of office supplies (dollar amounts in thousands).

Total assets	$8,731
Interest-bearing debt	$4,239
Average borrowing rate for debt	10.0%
Common equity:	
Book value	$3,130
Market value	$16,284
Marginal income tax rate	35%
Market equity beta	1.33

2. Using the information in the table and assuming that the risk-free rate is 5.3% and the market risk premium is 7.3%, calculate Radek's cost of equity capital, using the capital asset pricing model.

   a. 15.01%
   b. 14.35%
   c. 9.71%
   d. 7.05%

3. Using the information in the table, calculate Radek's cost of debt capital.

   a. 6.50%
   b. 13.30%
   c. 10.00%
   d. 3.50%

4. Determine the weight on debt capital that should be used to calculate Radek's weighted-average cost of capital.

    a. 26.03%
    b. 20.65%
    c. 57.52%
    d. 52.54%

5. Determine the weight on equity capital that should be used to calculate Radek's weighted-average cost of capital.

    a. 73.97%
    b. 79.35%
    c. 42.48%
    d. 47.46%

6. Using the above information, calculate Radek's weighted-average cost of capital.

    a. 11.50%
    b. 11.89%
    c. 12.48%
    d. 13.25%

7. George forecasts a $1.00 dividend for 2017, $1.10 dividend for 2018 and a $1.20 dividend for 2019 for Mikayla Corporation. For all years after 2019, George forecasts that Mikayla Corporation will pay a $1.30 dividend.

    Using the dividend discount valuation model, determine the intrinsic value of Mikayla Corporation, assuming the company's cost of equity capital is 8%.

    a. $16.25
    b. $15.72
    c. $18.33
    d. $14.57

8. Wesley Corporation currently pays a $1.55 dividend and its current stock price is $53.50. Assuming the company's cost of equity capital is 6% use the dividend discount valuation model to estimate the company's growth rate.

    a. 1.7%
    b. 2.4%
    c. 3.1%
    d. 6.0%

9. Assume that a company has a beta of 0.85 and the risk-free rate is 4%. If the market risk premium is 8% calculate cost of equity capital, using the capital asset pricing model.

    a. 8.00%
    b. 6.80%
    c. 10.80%
    d. 12.88%