

Module 12 – Financial Statement Analysis & Valuation, 4th Edition by Easton, McAnally, Sommers & Zhang

Solutions to Practice Quiz

LO: 1

1. Answer: c

$$\text{Present Value Ordinary Annuity} = \$11,000 \times 6.20979 = \$68,308$$

LO: 2

2. Answer: a

$$\text{Cost of equity capital} = 0.053 + (1.33 \times 0.073) = 0.1501$$

LO: 3

3. Answer: a

$$\begin{aligned}\text{Cost of debt capital} &= \text{interest rate} \times (1 - \text{marginal tax rate}) \\ &= 0.10 \times (1 - 0.35) = 0.065\end{aligned}$$

LO: 4

4. Answer: b

$$\begin{aligned}\text{Weight on debt capital} &= \text{debt} / (\text{debt} + \text{market value of equity}) \\ &= \$4,239 / (\$4,239 + \$16,284) = 0.2065\end{aligned}$$

LO: 4

5. Answer: b

$$\begin{aligned}\text{Weight on equity capital} &= \text{market value of equity} / (\text{debt} + \text{market value of equity}) \\ &= \$16,284 / (\$4,239 + \$16,284) = 0.7935\end{aligned}$$

LO: 4

6. Answer: d

$$\text{WACC} = [0.2065 \times 0.100 \times (1 - 0.35)] + [0.7935 \times 0.1501] = 0.1325$$

LO: 5

7. Answer: b

Period	1	2	3	Terminal
Dividend	\$1.00	\$1.10	\$1.20	\$1.30
				\$16.25
PV factor	0.92593	0.85734	0.79383	0.79383
\$15.72	\$0.93	\$0.94	\$0.95	\$12.90

LO: 5

8. Answer: c

Use the following formula to solve for the growth rate: $\$53.50 = \$1.55 / (0.06 - g)$
 $g = 0.031$

LO: 2

9. Answer: c

Cost of equity capital = $0.04 + (0.85 \times 0.08) = 0.108 = 10.80\%$