

Homework help essay sample

[Finance](#)



**ASSIGN
BUSTER**

Weekly tasks or assignments (Individual or Group Projects) will be due by Monday and late submissions will be assigned a late penalty in accordance with the late penalty policy found in the syllabus. NOTE: All submission posting times are based on midnight Central Time.

Respond to the following scenario with your thoughts, ideas, and comments. Be substantive and clear, and use research to reinforce your ideas.

Mary Francis has just returned to her office after attending preliminary discussions with investment bankers. Her last meeting regarding the intended capital structure of Apix went well, and she calls you into her office to discuss the next steps.

“ We will need to determine the required return for our intended project so that we have a decision criteria defined for the project,” she says.

“ Do you have the information I need to describe capital structure and to calculate the weighted average cost of capital (WACC)?” you ask.

“ I do,” she smiles. “ We can determine the target WACC for Apix Printing Inc., given these assumptions,” she says as she hands you a piece of paper that says the following: •Weights of 40% debt and 60% common equity (no preferred equity)

- A 35% tax rate
- Cost of debt is 8%
- Beta of the company is 1.5
- Risk-free rate is 2%
- Return on the market is 11%

“ Great,” you say. “ Thanks.”

“ Be sure to indicate how these costs of capital might be used to determine the feasibility of the capital project,” Mary says. “ I want your recommendation about which is more appropriate to apply to project evaluation, too. Let me know what you think.”

“ One more thing,” she says as she stands up to signal the end of the meeting. “ You did a good job with the explanations that you provided Luke the other day. Would you have time to define marginal cost of capital for me so I can include it in my discussions with investors? You seem to have a knack for making things accessible to nonfinancial folks.”

“ No problem,” you say. “ I’m glad my explanations are so useful!”

For this assignment, complete the following:

- Describe capital structure.
- Determine the WACC given the above assumptions.
- Indicate how these might be useful to determine the feasibility of the capital project.
- Recommend which is more appropriate to apply to project evaluation.
- Define marginal cost of capital.