1. The present capital structure of Daffodil Group is as follows:-

Common stock	10,00,000
12% Debt Capital	5,00,000
Total Capital	15,00,000

The company is planning to expand the capacity that will require additional capital of Tk.6,00,000. There are four alternative methods of financing:

(i) Issuing 10% Debentures;

(ii) Issuing 11% Preferred Stock;

(iii) Issuing common Stock @ Tk. 100 per share;

(iv) Issuing 50% by 10% debenture and rest 50% by issuing common stock each @ Tk.100 per share. The expected EBIT is Tk.4,00,000 and corporate tax rate is 40%. You are required to calculate EPS under different methods of financing. Which alternative should be selected?

2. ACI consumers Ltd. is a sound and solvent firm, which earned a net operating of Tk.2,00,000 in immediately completed financial year. It has both equity share and debentures in its capital structure, currently value of its bonds is 10,00,000 having a coupon rate of 5%. According to the recently passed finance bill company's equity income will be taxed at 10 percent, while the tax rate on the interest income of the bondholders is 25%. Assuming a tax rate of 40% and cost of equity of 15%.

   i. What is the value of the unleveraged firm?
   ii. What is the value of the leveraged firm?
   iii. What is the gain from leverage in this situation?

3. MRS Co. Ltd. Has the present capital structure as follows:

Sources	**Taka**
Equity share capital (10,000 shares)	10,00,000
10% Debt capital	5,00,000
Total	**15,00,000**

The firm is thinking to raise additional capital of Tk. 5,00,000 for its expansion. It has two alternative financing methods.

a. Issue of 12% debenture.
b. Issue of 13% preference share capital of Tk. 2,00,000 and equity capital of Tk. 3,00,000.

Determine the EPS under each method and choose which alternative financing methods is best. Assume that Tax rate is 30%.

4. Dream Food Products Ltd. is a sound and solvent firm, which earned a net operating of Tk.4,00,000 in immediately completed financial year. It has both equity share and debentures in its capital structure, currently value of its bonds is 2,00,000 having a coupon rate of 10%. According to the recently passed finance bill company's equity income will be taxed at 15 percent, while the tax rate on the interest income of the bondholders is 25%. Assuming a tax rate of 40% and cost of equity of 20%.
    i. What is the value of the unleveraged firm?
    ii. What is the value of the leveraged firm?
    iii. What is the gain from leverage in this situation?

5. Jayson Fibre Ltd. is a sound and solvent firm, which earned a net operating income of Tk. 2,00,000 in immediately completed financial year. It has both equity shares and debentures in its capital structure, currently value of its bonds is Tk. 10,00,000 having a coupon rate of 5%. According to the recently passed 'finance bill' company's equity income will be taxed @ of 10%, while the tax rate on the interest income of the bondholders is 25%. Assuming a corporate tax rate of 40% and cost of equity of 15%.

    i. What is the value of the unleveraged firm?
    ii. What is the value of the leveraged firm?
    iii. What is the gain from leverage in this situation?

6. BD Food Ltd. is in 40% tax bracket. Currently it has 10,000 shares of common stock outstanding. In the current year the company needs Tk.3,00,000 for an expansion program. There are three following alternative methods of financing.

    i. Issuing of common stock Tk.100 per share
    ii. Issuing of 12% debenture.
    iii. 70% by issuing share of common stock for Tk.100 each and remaining 30% by issuing 12% debenture.

Find out the EPS under each of the three methods if EBIT Tk.5,00,000 and choose which alternative financing methods is best.

7. Grameen phone is expected to generate EBIT of Tk. 10, 00,000 every year forever. The expected lending borrowing rate is 12%.Currently it has no debt, and its cost of equity is 20%.Corporate tax rate is 40%.
    a. What is the value of the firm?
    b. What will be the value if the company borrowTk10, 00,000 and uses the proceeds to repurchase the shares?
    c. What will be the WACC of the firm?

d. What will be the value if tax rate on bond holders' income is 20% and tax on equity holders' income is 18%?
e. Consider requirement IV) what will be the value of the firm if financial distress cost is 5% of the present value of debt capital.