THANKS TO Sidra Ramiz MSBA VU

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Objective is mostly from previous papers

- ABC Company is considering a project in a diversified industry. Beta of new industry is 1.8 with debt to equity ratio of 40:60. Risk free rate is 10% and market premium is 7%. Debt to equity ratio for new project is 40: 60 if after tax cost of debt is 8.2% what will be its weighted average cost of capital. Assume tax rate is 35%

- Consider following data for Meezan Group of industries for the calculation of given requirements.

Sales price per unit	Rs. 25
Variable cost per unit	Rs. 10
Fixed cost	Rs. 80,000
Initial investment	Rs. 200,000
Out put level	10,000 units

Required:

- Break even units
- Contribution margin over sale ratio(C/S ratio)
- Break even revenue

- Meezan Corporation is going to start a project in new industry. Current beta is 2 whereas beta of new industry is 1.7 with debt to equity ratio of 40:60. Company wishes to maintain debt to equity ratio of 40: 60 for new project. Is there any need to un-gear or re-gear equity beta? Why or why not?
- Fixed cost of a proposed project is Rs. 45,000 per year whereas variable cost is Rs. 202,500. If sales are Rs. 270,000 and profit is Rs. 22,500.

Required:

Calculate degree of operating leverage (DOL) for project and what does it show?

- A company is considering investing in a new machine to improve the production. Estimated useful life of machine is 5 years. Net present value of all future cash in flows at 12% is Rs.425, 000 and at 15% is Rs. (80,000). Calculate IRR for the project.