**Q-1.** Freytag Company currently has assets on its balance sheet that are financed with 60% equity and 40% debt. The company can issue debt at the yield of 8% when the value of the debt doesn't exceed 1 million. If larger amounts of debt are issued by the company, the yield of the debt will be 9%.Calculate the break points for the company.

A. 1 million.

B. 1.67 million.

C. 2.5 million.

**Q-2.** A company's optimal capital budget most likely occurs at the intersection of the:

A. marginal cost of capital and net present value profiles.

B. net present value and internal rate of return profiles.

C. marginal cost of capital and investment opportunity schedule.

**Q-3.** A company intends to issue new common stock with floatation costs of 5.0% per share. The expected dividend next year is $0.32, and the dividend growth rate is expected to be 10% in perpetuity. Assuming the shares are issued at a price of $14.69, the cost (%) of external equity for the firm is closest to:

A. 12.3.

B. 12.5.

C. 12.2.

**Q-4.** Which of the following statements is the most appropriate treatment of flotation costs for capital budgeting purposes? Flotation costs should be:

A. expensed in the current period.

B. incorporated into the estimated cost of capital.

C. deducted as one of the project's initial-period cash flows.

**Q-5.** The following information is available for a firm:

| | |
|---|---|
| Unit | 5 million |
| Total variable cost | 40 million |
| Total fixed cost | 25 million |
| Price | 80 |
| Interest | 35 |

If sales increase by 15%, the net income will:

A. Increase by 18%.

B. Decrease by 18%.

C. Increase by 15%.