

Raising Capital and Payout Policy Practice Problems

From the book: Self Test Problem 15.1. Question and Problems: Chapter 15: 4-7 Chapter 17: 3-7, and 12a-b (Same for both editions)

1. Mocs Railways has decided to sell 4,000 shares of stock through a Dutch auction. The bids are as follows:

Bidder	Quantity	Price
A	300	32
B	450	30
C	525	29
D	560	28
E	485	27
F	980	26
G	900	25
H	1200	24

How much will Mocs Railway receive from selling 4,000 shares. (Ignore all transaction and flotation costs.)

2. The Maple Brewing Co. has just gone public. Under a firm commitment agreement, Maple Brewing received \$21.50 for each of the 6 million shares sold. The initial offering price was \$23.65 per share, and the stock rose to \$31.42 per share in the first few minutes of trading. Maple Brewing paid \$1,260,000 in direct legal and other costs, and \$390,000 in indirect costs. The flotation costs were what percentage of the funds raised?
3. Alps Bike Co has 780,000 shares outstanding trading at \$128 per share. What happens to the price and the shares outstanding if they do a:
 - (a) 2 for 1 stock split
 - (b) 3 for 2 stock split
 - (c) 15% stock dividend
 - (d) 4 for 5 reverse stock split
4. The Cyclone Clothing Co. has a market value of equity of \$324,000 and has announced a share repurchase worth \$11,200. There are currently 12,000 share outstanding and the company has a net income of \$24,000. After the repurchase, how many shares are outstanding and what is the stock price? What if they used that money to pay a dividend instead? What happens to EPS? P/E ratio?

Answers to Textbook

11th Edition

Chapter 15 4) 8,000; 2,500; winner's curse. 5) 4,244,482

6) 4,295,416 7) 26.45%

Chapter 17: 3) a)320,000; \$.125 per share b) 16,000; \$2.50 per share

4) a) \$43.80; 816,667 b) \$63.48; 563,500 c) \$51.23; 698,250 d) \$127.75; 280,000

5) Price today: \$32.33 Ex-dividend price: \$31.03; The equity and cash accounts will both decline by \$15,600.

6) reduce cash and shareholders' equity by \$15,600; Shares outstanding: 11,517.40; Price: \$32.33

7) \$33.05 12) a) Dividend: Price \$50.75 Dividend: \$7.25 Wealth: \$58 Repurchase: Price: \$58 Wealth: \$58

b) Dividend: EPS \$1.65 P/E 30.76; Repurchase: EPS \$1.89 P/E 30.76

12th Edition

Chapter 15: 4) 5,000; 500; winner's curse. 5) 3,072,197

6) 3,133,641 7) 33.21%

Chapter 17 3) a)200,000; \$.125 per share b) 10,000 ; \$2.50 per share

4) a) \$40.80; 883,333 b) \$59.13; 609,500 c) \$47.72; 755,250 d) \$119.00; 302,857

5) Price today: \$31.34 Ex-dividend price: \$30.04; The equity and cash accounts will both decline by \$18,200.

6) reduce cash and shareholders' equity by \$18,200; Shares outstanding: 13,419.19; Price: \$31.34

7) \$33.87 12) a) Dividend: Price \$55.25 Dividend: \$8.75 Wealth: \$64 Repurchase: Price: \$64 Wealth: \$64

b) Dividend: EPS \$1.89 P/E 29.23; Repurchase: EPS \$2.19 P/E 29.23

Answer to above problems

1) 100,000 2) 48.03%

3) a) 1,560,000;\$64 b) 1,170,000; \$85.33 c) 897,000; \$111.3 d) 624,000; \$160

4) Repurchase: Shares 11,585.19; Price 27; EPS 2.07 P/E 13.03.

If Dividend Shares 12,000; Price 26.07; EPS 2; P/E 13.03