Chapter 13: Introduction to Corporate Financing and Corporate Governance

1. a. Number of Shares = Par value of issued stock/par value per share

   = \$60,000/\$1.00 = 60,000 shares

   b. Outstanding shares = Issued shares – Treasury stock

   = 60,000 – 2,000 = 58,000 shares

   c. The firm can issue up to a total of 100,000 shares. Because 60,000 shares have been issued, another 40,000 shares can be issued without approval from share holders.

2. a. The issue of 10,000 shares would increase the par value of common stock by:

   10,000 shares × \$1.00 = \$10,000

   Additional paid-in capital increases by:

   10,000 shares × \$3.00 per share = \$30,000

   The new accounts would be as follows:

Common stock	\$70,000
Additional paid-in capital	40,000
Retained earnings	30,000
Common equity	140,000
Treasury stock	5,000
Net common equity	\$135,000

   b. If the company bought back 1,000 shares, Treasury stock would increase by the amount spent on the stock: \$4,000. The accounts would be:

Common stock	\$60,000
Additional paid-in capital	10,000
Retained earnings	30,000
Common equity	100,000
Treasury stock	9,000
Net common equity	\$91,000

3. a. funded
   b. eurobond
   c. subordinated
   d. sinking fund
   e. call
   f. prime rate
   g. floating rate
   h. private placement, public issue
   i. lease
   j. convertible
   k. warrant

9. Common shares (par value) = 200,000 × \$2.00 = \$400,000

   Additional paid in capital = funds raised – par value = \$2,000,000 – \$400,000 = \$1,600,000

   Because net common equity of the firm is \$2,500,000 and the book value of outstanding stock is \$2,000,000, then retained earnings equals \$500,000.

13. a. A call provision gives the firm a valuable option. The call provision will require the firm to compensate the investor by promising a higher yield to maturity.

    b. A restriction on further borrowing protects bondholders. Bondholders will therefore require a lower yield to maturity.

    c. Collateral protects the bondholder and results in a lower yield to maturity.

    d. The option to convert gives bondholders a valuable option. They will therefore be satisfied with a lower promised yield to maturity.