

North Sea Oil has compiled the following data relative to current costs of its basic sources of external capital, long-term debt, preferred stock, and common stock equity.

Source of Capital	Cost
Long-Term Debt	7%
Preferred Stock	19%
Common Stock and Retained Earnings	20%

Below are the company's target capital structure proportions used in calculating the weighted average cost of capital.

Source of Capital	Target Capital Structure
Long Term Debt	.25
Preferred Stock	.25
Common Stock and Retained Earnings	.50

North Sea Oil has the opportunity to invest in the following projects:

	Project A	Project B
Initial Investment	\$130,000	\$85,000
Year	Cash Inflows	Cash Inflows
1	\$25,000	\$40,000
2	\$35,000	\$35,000
3	\$45,000	\$30,000
4	\$50,000	\$10,000
5	\$55,000	\$5,000

Using WACC to calculate the NPV and evaluate the IRR, which project should be implemented? (You may also wish to include Payback to further support your answer).

Assuming the project(s) is implemented using equity financing, the capital structure changes to:

Source of Capital	New Capital Structure after project implementation
Long Term Debt	.20
Preferred Stock	.20
Common Stock and Retained Earnings	.60

Calculate the New WACC and briefly discuss in your report if this new WACC and capital structure might signal the market and investors.