

The following statement of financial position information relates to Tufa Co, a company listed on a large stock market which pays corporation tax at a rate of 30%.

	<b>\$m</b>	<b>\$m</b>
Equity and liabilities		
Share capital	17	
Retained earnings	15	
Total equity		32
Non-current liabilities		
Long-term borrowings	13	
Current liabilities	21	
Total liabilities		34
Total equity and liabilities		66

The share capital of Tufa Co consists of \$12m of ordinary shares and \$5m of irredeemable preference shares.

The ordinary shares of Tufa Co have a nominal value of \$0.50 per share, an ex dividend market price of \$7.07 per share and a cum dividend market price of \$7.52 per share. The dividend for 20X7 will be paid in the near future.

Dividends paid in recent years have been as follows:

<b>Year</b>	<b>20X6</b>	<b>20X5</b>	<b>20X4</b>	<b>20X3</b>
Dividend (\$/share)	0.43	0.41	0.39	0.37

The 5% preference shares of Tufa Co have a nominal value of \$0.50 per share and an ex dividend market price of \$0.31 per share.

The long-term borrowings of Tufa Co consist of \$10m of loan notes and a \$3m bank loan. The bank loan has a variable interest rate.

The 7% loan notes have a nominal value of \$100 per loan note and a market price of \$102.34 per loan note. Annual interest has just been paid and the loan notes are redeemable in four years' time at a 5% premium to nominal value.

**Required:**

**(b) Discuss the circumstances under which it is appropriate to use the current WACC of Tufa Co in appraising an investment project. (3 marks)**