



Importance of Cost of Capital



Importance

- *Capital Budgeting Decision*
- *Capital Structure Decision*
- *Evolution of Financial Performance*
- *Other Financial Decisions (Market Value of Share, Earning Capacity etc.,)*



Computation of Cost of Capital

1. Cost of Debt

- Irredeemable debt
- Redeemable debt

2. Cost of Preference Shares

- Irredeemable preference shares
- Redeemable preference shares



Cost of Capital also referred as

3. Cost of Equity Shares

- Dividend Price Approach
- Dividend price + Growth Approach
- Earning Yield Method

4. Cost of Retained Earnings