



# SNS College of Technology

Coimbatore - 35



23BAT611- Financial Management

Unit - III

**COST OF CAPITAL & CAPITAL STRUCTURE**

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**1<sup>st</sup> Indian Institution to Implement** Design Thinking Curriculum  
Redesigning Common Mind and Business Towards Excellence



# Recall



## Meaning, Definition and Types of Cost of Capital



# Topic



Equity Share  
Capital



Preference Share  
Capital



Debts



Retained  
Earnings



# Cost of Capital





# Cost of Irredeemable Debt



## Problem : 1

Sri Ganesh Industries Ltd issues 5,000 12% debentures of Rs. 100 each at par. The tax rate is 40%. Calculate before tax and after tax cost of debt.



## Solution

**Before Tax Cost of debt -  $K_{db} = \text{Interest} / \text{Net Proceeds}$**

**After Tax Cost of debt -  $K_{da} = \text{Interest} - \text{Tax Saving} / \text{Net Proceeds}$**

**Interest at 12% On 5,00,000 = 60,000**

**Less : Tax Saving at 40% on 60,000 = 24,000**

**Interest – Tax Saving = 36,000**

**Net Proceeds Rs.  $100 * 5,000$  debentures = 5,00,000**



## Solution

**Before Tax Cost of debt -  $K_{db} = \text{Interest} / \text{Net Proceeds}$**

**Before Tax Cost of debt -  $K_{db} = 60,000 / 5,00,000$**

**Before Tax Cost of debt -  $K_{db} = 12\%$  or **0.12****

**After Tax Cost of debt -  $K_{da} = \text{Interest} - \text{Tax Saving} / \text{Net Proceeds}$**

**After Tax Cost of debt -  $K_{da} = 60,000 - 24,000 / 5,00,000$**

**After Tax Cost of debt -  $K_{da} = 36,000 / 5,00,000$**

**After Tax Cost of debt -  $K_{da} = 7.2\%$  or **0.72****



# Summarize



## Cost of Irredeemable Debt







# Reach Us



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