



SNS College of Technology

Coimbatore - 35



23BAT611- Financial Management

Unit - III

COST OF CAPITAL & CAPITAL STRUCTURE



Presented by

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Design Thinker

1st Indian Institution to Implement Design Thinking Curriculum
Redesigning Common Mind and Business Towards Excellence



Recall



Discussed Problem related to Leverage



Topic





WACC



WACC





WACC



Problem : 1

The following projections have been give in respect of companies X and Y.

Particulars	Book Value (Rs.)	Markets Value (Rs)
Equity Share capital	45,000	90,000
Retained Earnings	15,000	-
Preference Share Capital	10,000	10,000
Debentures	30,000	30,000



WACC



**Equity Share Capital 14%, Retained Earnings 13%, Preference Share Capital 10%,
Debentures 5%**



WACC – Book Value Weight

Source (1)	Amount (2)	After Tax Cost	Total after tax Rs. Cost
Equity share capital	45,000	14%	6,300
Retained Earnings	15,000	13%	1,950
Preference Share Capital	10,000	10%	1,000
Debentures	30,000	5%	1,500
	1,00,000		10,750



WACC



Weighted Average Cost of Capital = $10,750 / 1,00,000 * 100$

Weighted Average Cost of Capital = 10.75%



WACC – Market Value Weight

Source (1)	Amount (2)	After Tax Cost	Total after tax Rs. Cost
Equity share capital	90,000	14%	12,600
Retained Earnings	-	-	-
Preference Share Capital	10,000	10%	1,000
Debentures	30,000	5%	1,500
	1,00,000		15,100



WACC



Weighted Average Cost of Capital = $15,100 / 1,30,000 * 100$

Weighted Average Cost of Capital = 11.61%



Summarize



WACC



Reach Us



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