## ASSIGNMENT

- 1. What is cost of capital?
- 2. Explain different approach of cost of equity
- 3. What is cost of debt? Explain cost of redeemable debt
- 4. What is weighted average cost of capital?
- 5. Does retained has any cost? Explain
- A limited has issued 12% debentures of Rs. 100 each with 10 years maturity at a discount of 5%. It tax rate is 40%, compute the after tax cost of debentures. (Ans. 7.69%)
- 7. ABC ltd issued 12% irredeemable debentures of Rs.100 each for Rs. 1,00,000. The tax rate is 50%. Compute the cost of debentures for each of the following situations:
- (i) When debentures are issued at par.
- (ii) When debentures are issued at 5% premium.
- (iii) When issued at discount of 5%. (Ans. 1. 6%, 2.5.71%, 6.32%)
- Market price of the equity shares is Rs. 60 of a company. It pays a dividend Rs. 8 per share. The growth rate of dividend is 6%. Compute the cost of equity capital. (Ans. 19.33%)
- 9. The annual earnings of Kiran ltd. is Rs. 10,00,000. Shareholders expect rate of return at 12%. If the company's earnings are distributed among shareholders, they would earn 10% return by investing in other company. The rate of brokerage in new investment is 2%. If the company wants to retain its

earnings, what would be the cost of capital? Assume the rate of tax for shareholders is 45% (Ans. 6.47%)

10.A company's capital structure includes following components of capital with respective specific cost of each type:

Type of CapitalBook ValueMarketValueSpecific Cost

Rs.	Rs.	
Debentures	2,00,000 1,90,000	7%
Preference Share Capital	1,00,000 60,000	10%
Equity Share Capital	3,00,000	15%
Retained Earning	1,00,000 5,40,000	11%
Determine the weighted	average cost of capital	using (a)
Book value Weights (b)	Market value weights.	(Ans. (a)
11.54% (b) 12.01%)		