

Example: Currently, Abyssinia Industrial Group is planning to sell 15-year, Br. 1,000 par-value bonds that carry a 12% annual coupon interest rate. As a result of lower current interest rates, Abyssinia bonds can be sold for Br. 1,010 each. Flotation costs of Br. 30 per bond will be incurred in the process of issuing the bonds. The firm's marginal tax rate is 40%.

Required: Calculate the after tax cost of Abyssinia's new bond issue:

Example: Sefa Computer Systems Company has just issued preferred stock. The stock has 12% annual dividend and Br. 100 par value and was sold at 102% of the par value. In addition, flotation costs of Br. 2.50 per share must be paid. Calculate the cost of the preferred stock.

Example: An issue of common stock is sold to investors for Br. 20 per share. The issuing corporation incurs a selling expense of Br. 1 per share. The current dividend is Br. 1.50 per share and it is expected to grow at 6% annual rate. Compute the specific cost of this common stock issue.

Example: Zeila Auto Spare Parts Manufacturing company expects to pay a common stock dividend of Br. 2.50 per share during the next 12 months. The firm's current common stock price is Br. 50 per share and the expected dividend growth rate is 7%. A flotation cost of Br. 3 is involved to sale a share of common stock.

Required: Compute the cost of retained earnings

example.

Muna Tools Manufacturing Company's financial manager wants to compute the firm's weighted average cost of capital. The book and market values of the amounts as well as specific after-tax costs are shown in the following table for each source of capital.

Source of capital	Book value	Market value	Specific cost
Debt	Br. 1,050,000	Br. 1,000,000	5.3%
Preferred stock	84,000	125,000	12.0
Common equity	966,000	1,375,000	16.0
Total	<u>Br. 2,100,000</u>	<u>Br. 2,500,000</u>	

Required: Calculate the firm's weighted average cost of capital using:

- 1) book value weights
- 2) market value weights