UNIVERSITY OF THE PEOPLE

BUS 4404-01 PRINCIPLES OF FINANCE 2 - AY2024-T3

WRITTEN ASSIGNMENT UNIT 6

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To calculate WACC before new bonds:

Total capital before new bonds = 15+10+75=100

Debt weightage = 15/100 = 15%

Equity weightage = 75/100 = 75%

Preferred stock = (3.80/50) *100 = 7.6%

WACC = [6.5% (1-30%) * 15/100] + [7.6%*(10/100)] + [12%*(75/100)]

WACC = .6825% + .76% + 9%

WACC = 10.44%

To calculate WACC after new bonds:

Cost of new debt after tax = 7.5% * (1 - 0.3) = 5.25%

Weight of total debt = ($15M + $10M) / ($15M + $10M + $10M + $75M) = 22.7%

Weight of preferred stock = $10M / ($25M + $10M + $75M) = 8.5%

Weight of equity = $75M / ($25M + $10M + $75M) = 67.0%

WACC after = (5.25% * 22.7%) + (7.6% * 8.5%) + (12% * 67.0%)

WACC = 9.9%

So, the weighted average cost of capital:

Before new bonds = 10.44 %

After new bonds = 9.9%