

BUS 401 BUS401 Week 3 Assignment Weighted Average Cost

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Weighted Average Cost Review the financial information in the Chapter 9 Mini Case on pages 260 and 261 of your text. Answer the following questions in an Excel document. Solve using Excel formulas (preferred) or clearly write out the steps you took to calculate your answers. Round any dollar amounts to the nearest dollar (\$1,500,074) and any percentages to two decimals (9.56%). Market prices are \$1,035 for bonds, \$19 for preferred stock, and \$35 for common stock. There will be sufficient internal common equity funding (i.e., retained earnings) available such that the firm does not plan to issue new common stock. Calculate the firm's weighted average cost of capital. In part a we assumed that Nealon would have sufficient retained earnings such that it would not need to sell additional common stock to finance its new investments. Consider the situation now, when Nealon's retained earnings anticipated for the coming year are expected to fall short of the equity requirement of 47 percent of new capital raised. Consequently, the firm foresees the possibility that new common shares will have to be issued. To facilitate the sale of shares, Nealon's investment banker has advised management that they should expect a price discount of approximately 7 percent, or \$2.45 per share. Under these terms, the new shares should provide net proceeds of about \$32.55. What is Nealon's cost of equity capital when new shares are sold, and what is the weighted average cost of the added funds involved in the issuance of new shares? Carefully review the Grading Rubric for the criteria that will be used to evaluate your assignment.