

# STUDY GUIDELINES

## FIN3701 - STUDY UNIT 4

### 1 GENERAL

This study unit is covered in chapter 11 of the prescribed textbook. The study unit covers mainly the introduction to study units 5, 6 and 7 (Topic 2: Financing decisions).

### 2 FORMAT OF ASSESSMENT

The content of this study unit will be assessed by means of multiple choice questions. There are no graphs for this study unit.

### 3 IMPORTANT AREAS IN THE STUDY UNIT

Pay attention to the following:

- The most important formulae:
  - The cost of ordinary share formula (textbook page 460, equation 11.5 and 11.6).
  - The cost of new ordinary share formula (textbook page 462, equation 11.8).
  - The cost of retained earnings formula (textbook page 462, equation 11.7).
  - The cost of preference share formula (textbook page 458, equation 11.3).
  - The cost of long-term debt formula (textbook page 457, equation 11.2).

### 4 Study Guide Errata

Areas to correct:

#### Page 42: Cost of debt equation

Students do not need to memorise the equation given on page 42, calculator use is recommended.

Before tax cost of debt ( $r_d$ ):

1000 FV

940 ± PV

20 N

80 PMT (Coupon = 1000 x 8%)

I/YR (DISPLAY: 8.64%)

After tax cost of debt ( $r_i$ ):  
 $8.64(1 - 0.40) = 5.18\%$

## **5 Textbook Errata**

Areas to correct:

### **Page 457: Cost of debt equation**

Students do not need to memorise equation 11.11, calculator use is recommended.