Ans 2 Cost of Capital

Different persons perceive different meaning of cost of capital some theorists define ~~it~~ as a measurement of the sacrifice made by an investor in order to generate capital formation. while some theorists define it as the cost of obtaining funds the price which a firm pays for the use of funds obtained or borrowed by it

Meaning of cost of capital - For a Investor

A investor hopes to get a suituable return on his investment in any business firm since he postpones his present consumption, Therefore cost of capital for an investor is the measurement of disutility of funds in present times as compared to the future rate of return.

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Defination of cost of capital.

1. According to Ezra Solomon :- "Cost of capital is the minimum required rate of earning or the cut off rate for capital expenditure"

2. According to Miltron H. Spencer :- "The cost of capital is the minimum rate of return which firm requires as a condition for undertaking an investment.

Scope of Finance Function :-

(i) Mobilization of Funds :- Finance is concered with planning for and mobilizing the required funds from various sources when they are required and at an acceptable cost.

2) Development of Funds :- There are many competing needs for the allocation of funds. In consultation with various department such as production, marketing R & D etc.

3) Control over the uses of Funds :- Finance is concerned with ~~morning~~ monitoring of the use of funds allocated and procured according to plan.

4) Risk-Return Trade off :- While making decision regarding investment and financing the risk return trade off is sought to be achieved.

5.) Dividing Policy Decision - The last major decision area of financial management

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is the decision relating to the dividend policy. The dividend decision should be analysed in relation to the financing decision of a firm. Two alternative are available in dealing with profits of a firm

i) They can be distributed to the shareholders in the forms of dividends or

ii) They can be retained in the business itself.