#1-175A

EASY INTERMEDIATE HARD

CFA® SAMPLE QUESTION – LEVEL I

Corporate Finance

Q: A company has $5 million in debt outstanding with a coupon rate of 12%.
Currently the Yield to Maturity (YTM) on these bonds is 14%.
If the firm's tax rate is 40%. What is the company's after tax-cost of debt?

CORRECT ANSWER:

Ⓒ **8.4%**

kd (1-t) = (0.14) (1-0.4) = 8.4%

For the cost of debt of debt instrument, remember you need to use the YTM (yield to maturity) for calculation.
And also remember to consider the Tax-shield effect (i.e. 1-t)

CFA Society Hong Kong
Candidate Services

Mr. Zap Cheng, CFA
Candidate Services Committee

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