Figure 1

BERKSHIRE INSTRUMENTS
Statement of Financial Position
December 31, 2004

Assets		
Current assets:		
Cash		$ 400,000
Marketable securities		200,000
Accounts receivable	$ 2,600,000	
Less: Allowance for bad debts	300,000	2,300,000
Inventory		5,500,000
Total current assets		$ 8,400,000
Fixed Assets:		
Plant and equipment, original cost	30,700,000	
Less: Accumulated depreciation	13,200,000	
Net plant and equipment		17,500,000
Total assets		$25,900,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable		$ 6,200,000
Accrued expenses		1,700,000
Total current liabilities		7,900,000
Long-term financing:		
Bonds payable		$ 6,120,000
Preferred stock		1,080,000
Common stock } Common equity		6,300,000
Retained earnings } Common equity		4,500,000
Total common equity		10,800,000
Total long-term financing		18,000,000
Total liabilities and stockholders' equity		$25,900,000

Figure 2
Cost of prior issues of debt and preferred stock

Security	*Year of Issue*	*Amount*	*Yield*
Bond	1992	$1,120,000	6.1%
Bond	1996	3,000,000	13.8
Bond	2002	2,000,000	8.3
Preferred stock	1997	600,000	12.0
Preferred stock	2000	480,000	7.9

formulas: one: one for the cost of retained earnings and one for the cost of new common stock. His investment banker suggested that he follow the normally accepted approach used in determining the marginal cost of capital. First, determine the cost of capital for as large a capital structure as current retained earnings will support; then, determine the cost of capital based on exclusively using new common stock.