

Cost of Capital Calculation Document

1. Company Information

Company Name	ABC Industries Ltd.
Prepared By	Finance Department
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Purpose	Evaluation of Weighted Average Cost of Capital (WACC) for investment decision

2. Capital Structure

Source of Capital	Market Value	Weight (%)
Equity	\$6,000,000	60%
Debt	\$4,000,000	40%

3. Calculation of Cost Components

Component	Required Return	Weight (%)	Weighted Cost
Cost of Equity (Re)	12%	60%	7.2%
Cost of Debt (Rd)	8%	40%	3.2%
Weighted Average Cost of Capital (WACC)			10.4%

4. Calculation Summary

- Determine Market Value of Equity and Debt.
- Calculate individual costs (Re, Rd), adjusting for tax where appropriate.
- Compute respective weights based on market value.
- Multiply each component's cost by its weight.
- Sum weighted costs to get overall WACC.

5. Important Notes

- WACC is used as a hurdle rate for investment decisions and project evaluation.
- Market values, not book values, are preferred for weights in calculation.
- Tax benefits should be considered when calculating the after-tax cost of debt.
- Accurate estimation of cost of equity is critical and may use models like CAPM.
- WACC may change over time due to fluctuations in market conditions and capital structure.