

WACC or Weighted Average Cost of Capital: Summary “Cheat Sheet”

by MBAbullshit.com

- Money (capital) needed to run a company comes from either borrowing (debt) or the owners' money (equity).
- The COST of capital is either the interest payment on the debt, or the required profit that the owners want in return for their investment (in MBA bullshit language: “expected return”).
- The expected return or COST OF EQUITY is determined by another financial model, the [CAPM](#) or the [CAPITAL ASSET PRICING MODEL](#). Go to MBAbullshit.com or [click here](#) to learn more about it (get my eBook or watch our FREE video).
- When you COMBINE BOTH the interest rate of debt AND the ‘expected return’ of the investors/owners, we get the total cost of capital.
- If the cost of debt (e.g. interest) and cost of equity (expected return) are different, then we have to get an AVERAGE of the two to get our COST OF CAPITAL
- Cost of capital is expressed as a percentage; because it's compared to the total capital (as a percentage of the total capital). Just like bank loan interest is expressed as a percentage of your total loan.
- What if your company has more debt vs. equity, OR vice versa? Then our formula must give more importance or ‘WEIGHT’ to whichever is bigger; and must give LESS weight to whichever is SMALLER. Thus, we have the [WACC](#) or [Weighted Average Cost of Capital concept](#).
- To learn this better, you may want to download my eBook and watch my FREE video at MBAbullshit.com or [click here](#).
- This is the basic WACC or Weighted Average Cost of Capital Formula:

WACC = (Debt Proportion)(Cost of Debt %)(1 - tax rate %) + (Equity Proportion)(Cost of Equity %)

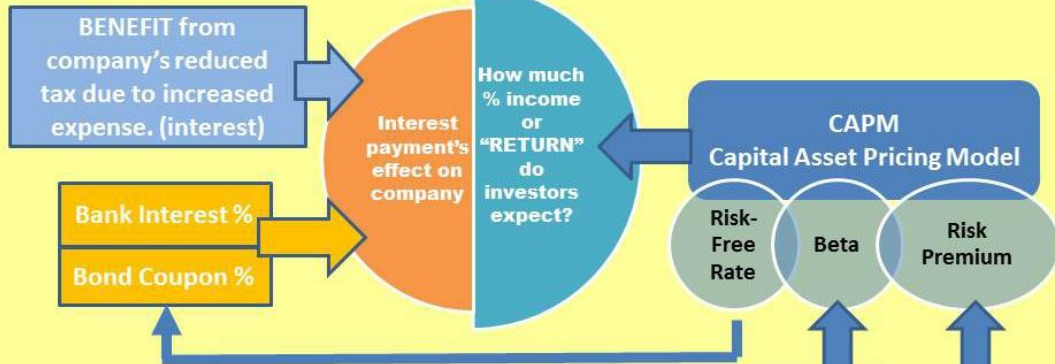
- To understand this formula step-by-step in action, watch my free video at MBAbullshit.com or [click here](#).
- See **infographic** on next page:

Infographic: "Cost of Capital" in 60 Seconds

Capital: Money needed to do business or a project



Weighted Average Cost of Capital (WACC)



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Free summary
"CHEAT-SHEET"
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Also want the calculations?

Step-by-step (free) video tutorial on WACC & CAPM at MBAbullshit.com



How much more risky is it to invest in your company... compared to the general stock market?

How much "extra reward" should a person get for investing in the "riskier" general stock market... instead of a "super-safe" bond or bank deposit?

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