Explain How To calculate WACC in financial management.

INTRODUCTION.

Weighted Average cost of Capital — This the average after-Tax cost of a Company's various capital sources, including common stock, preffered stock, bonds and long-term debt.

⇒ It can also be defined as the average rate a company expects to pay to finance it's assets.

Formula

$$WACC = \left(\frac{E}{V} \times Re\right) + \left(\frac{D}{V} \times Rd \times (1 - Tc)\right)$$

Where;-

E – Market value of the firms equity

D – Market value of the firms debt.

$V = E + D$

Re – cost of equity

Rd – Cost of debt

Tc – Corporate Tax

HOW TO CALCULATE WACC

– It is calculated by multiplying the cost of each capital source (debt and equity) by it's relevant weight, and then adding the Products together to determine the value

In the formula above, E/V represents the proportion of equity based financing, while D/V represents the proportion of debt-based financing.