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by F F

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Tax benefit of debt financing

In all, the tax system entity should pay tax on return got throughout the years.

Consequently, debt financing is better to save tax since the debt fund entity could pay a fixed amount of interest as returns. The interest could be allowable or deductible as expense, which lowers the profit and Entity Entity and tax liability could be reduced (Roberts and Eesley 2011).

3 Calculate the AT-WACC with a 60% debt and 40% equity financing structure.

2 AT-WACC = weight of debt x after tax cost of debt + weight of equity X cost of equity

capital to be invested = \$100,000

debt financing = 60%

equity financing = 40%

cost of debt = 9% (before tax)

cost of equity = 16%

Expected ROI = 9%

a) AT-WACC = 9% (1 - tax rate)

$$= 9\% (1 - 0.35)$$

$$= 9\% \times 0.65$$

$$= 5.85\%$$

1
AT-WACC = $0.6 \times 5.85 + 0.4 \times 16$

$$3.51 + 6.4$$

$$\text{AT-WACC} = 9.91\%$$

1
Apply the calculated AT-WACC to explain why this is a viable investment for you as an Angel investor.

Investment Amount= \$100,000

Cost of invested revenue = \$100,000 x 9.91%
 = \$ 9910

This is not a worthwhile investment since AT-WACC is more extensive than expected ROI, 9.91% is greater than 9%. Cost of obtaining money exceeds the benefits, hence not a dependable investment prospect.

1
Explain a financial restructuring AT-WACC (given changes to proportions of % Debt vs. % Equity financing) that would create a positive ROI

If the % proportion of debt increases and % proportion of equity reduces then, Entity's Entity's cost of capital AT-(WACC) could decline and the chances to earn more and save more; therefore, this situation could result in positive ROI as the savings have increased.

1
Explain why you, as the Angel investor, would require more or less debt vs. equity financing. Be sure to note the role of the Unified Commercial Code-1 (UCC_1) document in this transaction and the order of claim on assets in times of bankruptcy.

As an Angel investor, the best thing is to increase the debt ratio and reduce the equity ratio since the cost of equity, which is 16% is considered to be high compared to the cost of debt, is 9%. Proportion

Of the debt could be increased and could result in AT-WACC to be less compared to return (Roberts and Lall 2018).

References

Roberts, E. B., & Eesley, C. E. (2011). Entrepreneurial Impact: The Role of MIT--an Updated Report. Now Publishers Inc.

Roberts, P. W., & Lall, S. A. (2018). Observing acceleration: Uncovering the effects of accelerators on impact-oriented entrepreneurs. Springer.

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