The assignment criteria are to choose a non-technical audience, use parenthetical, sentence, and expanded definition types, as well as four expansion strategies with one being a visual representation. Our objective is to differentiate the levels of definitions and select the appropriate level of detail for our selected situation and audience.

WACC (Weighted Average Cost of Capital)

Parenthetical definition

A corporation uses the WACC (weighted average cost of capital; a cost of capital calculation), to identify and weight cost proportions appropriately.

Sentence definition

The WACC is a cost of capital calculation, where each type of cost is weighted proportionately to each other. This metric is characterized by including a corporations’ debt and equity income, as well as illustrating the relationship between risk and valuation of the income stream.

Expanded definition

The WACC works by multiplying the cost of each capital component by its proportional weight and then takes the sum. The parts of the WACC formula include; cost of equity, cost of debt, firm equity market value, firm debt market value, firms financing total market value, equity financing percentage, debt financing percentage, and corporate tax rate.

WACC is similar to measures that an investor may use to gain the most useful understanding of a corporations’ profit. The WACC differs the most from measures that form a profit snapshot of a corporation because the WACC requires the use of many other metrics and data sources to become useful. WACC is not a measure that replaces critical judgment in cost analysis, where business decisions rely solely upon only a handful of data sources and metrics.

It is best to imagine the WACC as a pool of money that only has two sources, debt and equity.



<https://www.google.ca/search?q=WACC&source=lnms&tbm=isch&sa=X&ved=0ahUKEwi0qcGI_O_RAhUC5mMKHZREBSoQ_AUICCgB&biw=1745&bih=864#imgrc=Cftc4QGG-DetqM>:

The most common applications of the WACC are in investment value assessment by securities analysts, used as a hurdle rate to gauge ROIC performance, as well as economic value added calculations.

2017, Investopedia, LLC. “Weighted Average Cost Of Capital – WACC.” (2017)

Retrieved January 31, 2017. <http://www.investopedia.com/terms/w/wacc.asp>

Works Cited List

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<https://www.google.ca/search?q=WACC&source=lnms&tbm=isch&sa=X&ved=0ahUKEwi0qcGI_O_RAhUC5mMKHZREBSoQ_AUICCgB&biw=1745&bih=864#imgrc=Cftc4QGG-DetqM>: