

## 1.1 Example of calculation of the cost of capital

Input values:

- foreign interest-bearing capital (CK): CK = CZK 270,000,
- total interest bearing capital (K): K = 320,000,
- average interest rate paid using foreign interest-bearing capital ( $i_{CK}$ ):  $i_{CK} = 12\%$ ,
- minimum required rate of return on investment (variable:  $i_{VK}$ ):  $i_{VK} = 5\%$ ,
- equity capital (VK): VK = CZK 390,000,
- income tax rate (d) = 19%.

We determine the cost of capital by the following calculation:

$$WACC = \frac{270.000}{320.000} * 0,12 * (1 - 0,19) + 0,05 * \frac{390.000}{320.000} = 0,082 + 0,061 = 0,1429$$
$$= 14,29\%$$

The determined "weighted average cost of equity capital" is 14.38%. Therefore, the investment must have a minimum return of 14.29% per year.

In the case of this indicator, we can say that compared to the previous one, its determination is easy and with only a small degree of risk. The variables that need to be fulfilled can usually be easily determined. The problem that is associated with the indicator is the need to identify correctly the individual types of capital that can be considered as the capital of business IT.