ACF-12

ASSIGNMENT

12. why does EBIT fall as the firm takes more debt?

* EBIT (earnings Before Interest and taxes) should not dif directly fall as a firm takes on more debt. In fact, EBIT is a measure of a firm's operating income and does not include the cost of debt (Interest expenses)

* EBIT represents a firm's operating income before taking into account Interest and taxes.

* when a firm takes on more debt, it raises financial obligations in the form of Interest payments.

* These Interest payments don't directly reduce EBIT, as EBIT is measured before Interest, but there are Indirect effects

* Taking on more debt increases financial risks, but it May also affect operating risk indirectly.

* when a company company company borrows heavily, its management may become more risk-averse in business operations.

* EBIT is measured before Interest, heavy debt can indirectly affect a firm's operating efficiency, risk management, and along-term profitability, leading to a potential decline in EBIT.