Assignment - 12.

Why does EBIT Fall as the firm takes more debt?

Increased interest expenses:
Higher debt levels lead to higher interest payments reducing EBIT.

Higher default risk:
Excessive debt increase default risk reducing investors confidence default potentialy lowering sales/ Revenue.

Reduced operating efficiency:
Debt serving costs divert resource from operation potentialy decreasing efficiencies.

Increased financial distress costs:
Higher debt increases financial distress risk.
moderate debt level can provide tax benefit increasing EBIT.
debt can descipline management to optimize operation.