

Explain each costs and benefit of debt

1.) Interest Payments

The primary cost associated with debt is the interest that must be paid to lenders. High interest rates can significantly increase the total cost of borrowing.

Credit Risk

Taking on debt increases the risk of default if the borrower cannot make repayments obligation.

Default can lead to legal consequences, damaged credit ratings, and loss of assets in secured loans.

Leverage

Debt allows individuals and businesses to leverage borrowed funds to invest in opportunities that may yield higher returns than the cost of the debt.

Successful leveraging can lead to

significant profit increases.

However, excessive borrowing can lead to financial distress.

Improved cash flow:

Debt can provide immediate cash flow that can be used for operational needs, investment, or to take advantage of opportunities.

This can enhance liquidity and support business expansion.