ngu Defination of Capital structure:

⇒ Capital structure refers to the mix of long-term sources of funds, such as debentures long-term debts, preference share Capital and equity share Capital including reserves and surplus.

⇒ Elements of Capital structure:-

① Increase in value of the firm:-

(2) Utilisation of available funds

(3) Maximisation of return:

(4) Minimisation of cost of Capital

(5) Solvency or liquidity position

(6) Flexibility:-

(7) Undisturbed controlling:

(8) Minimisation of financial risk:-

Explanation:-

→(1) A Sound Capital structure of a Company helps to increase the market price of share and Securities which, in turn, lead to increase in the vale of the firm.

→(2) A good Capital structure enables a business enterprise to ~~utili~~ utilise the available funds fully ...

derigned capital structure ensures the determination of the financial requirements of the firm and raise the funds in such proportions from various sources for their best possible utilisation.

(3) A sound Capital structure enable management to increase in earning per share. this can be done by the mechanism of trading on equity i.e. it refers to increase in earnings per share.

(4) A sound capital structure of any business enterprise maximise share holder's wealth through minimisation of the overall cost of capital.

(5) A sound Capital structure never allow a business enterprise to go for too much raising of debt capital because, at the time of poor earning the solvency is disturbed for Co

(6) A sound capital structure provides a room for expansion or reduction of debt capital so that, according to changing conditions, adjustment of capital can be made.

(7) A good capital structure does not allow the equity shareholder control on business to be diluted.