Section 3

Ans= 1

Wealth Maximisation

The wealth or 'net present worth' is the difference between gross present worth and the amount of capital investment required to achieve the benefits. Gross present worth represents the present value of expected cash benefits.

Net present worth, gross present worth and the initial investment are different from each other. If the gross present worth is more than the initial investment, the value of firm will increase and vice versa.

In other words, the greater the amount of the net present value, the greater will be the value of the firm and more it will be in the interests of share holders. When the value of firm increases the market price of equity shares also increases. therefore, increase in the market price of share is considered a sign of increase in the value of the firm. Thus, the maximisation of net present worth means the maximisation of the market price of shares.

In simple, wealth maximisation means maximizing the present value of a course of action (i.e. NPV = GPV of benefits - investment) Any financial action which results in positive NPV, creates and adds to the existing wealth of organisation and the course of action which has a negative NPV, reduces the existing wealth and hence be given up. All positive actions can be adopted as they add to the existing wealth and help in wealth maximization

On the other hand, the financial decision which brings fall in the value of equity share is considered poor decision. So, the financial decision which results in increase in value of share is considered very efficient decision.

Capitalisation

Capitalisation is an important constituent of financial plan. In common parlance, the phrase capitalisation refers to total amount of the capital employed in a business. However financial scholars are not unanimous in so fars as the concept of capitalisation is concerned. while some of them have viewed it in a narrow sense other interpret it in broader term.

Capital Structure

Capital structure means combination of debts and equity. In capital structure decision, it is determined from which sources and how much finance should raised. Thus, under the capital structure we determine the proportion in which capital should be raised from different securities. In this way, capital structure decision are related with mutual proportion of the long term sources of capital.