Answer 4:- Capital Structure:- means combination of debts and equity. In Capital Structure decision it is determine from which source & How much finance should raised.

Acc to Gerstenberg:- Capital Structure refers to the make up of the capitilization.

Element of Capital structure

Ⓐ **Owner funds :-**

① Share capital → Equity share
→ Preference share

② Reserve and surplus.

Ⓑ **Borrowed ~~cap~~ fund :-**

① Debenture

② long term loans from financial institute.

Net income approach

- This approach is given by Durand davis This capital structure desicion is relevent to the valuation of the firm.

① Risk Preception of investor is

not change by the use of debt.

(2) The cost of debt is less than the cost of equity i.e.

(3) Corporate taxes do not exist.

Accor to Net income approach financial leverage is an impact variable in capital structure decision of a company.

Value of firm (V) = market value of equity (S)

value of firm = market value of equity debt (B)

V = Total market value of the firm
S = Total market value of equity
B = Total market value of debt.

$$S = \frac{\text{Earning available to equity share (NI)}}{\text{Equity Capitalisation Rate (Ke)}}$$