

31) What do you understand by capital structure? Also explain the theories of capital structure in brief?

Ans: The term 'Structure' means the arrangement of the various parts. So capital structure means the arrangement of capital from different sources so that the long term funds needed for the business are raised.

Thus, capital structure refers to the proportions or combinations of equity share capital, preference share capital, debentures, long term loans, retained earnings and other long term sources of funds in the total amount of capital which a firm should raise to run its business.

Say you are a manager at a company. You want to expand but it will require a new plant, hiring new employees and opening new outlets. How will such expansion be financed through debt? equity? How about a mixture of both?

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capital structure is the mix of owner-supplied capital (equity reserves, surplus) and borrowed capital (bonds, loans) that a firm uses to finance business operations. Whether to finance through debt, equity or a combination of both is a matter of several factors.