

Section - 1

Ques 1

Ans 1

In financial management capital structure theory refers to a systematic approach of financing business activities through a combination of equities and liabilities.

Q What are the theories of capital structure.

The Capital structure theories explore the relationship between your company

use of debt and equity financing and the value of the firm.

we will discuss these theories one by one.

The Capital structure theories use the following assumptions of simplicity:

He used only two sources of funds debts.

What do you mean by Capital Structure? Explain the various theories of Capital Structure?

Capital Structure and theories. Capital Structure means a combination of all long term sources of finance. Based on the proportion of finance, WACC and nature of a firm are affected.

There are four capital structure theories for this, viz net income, net operating income, tradeoff and MPM approach.

What are the four types of capital?

The four major types of capital include debt, equity, trading and working capital.