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SECTION-2

2:- CAPITAL STRUCTURE :-

Capital structure :- The particular combination of debt and equity used by a company to finance its overall operations and growth. Debt comes in the form of common stock, preferred stock or retained earnings. It allows a firm to understand what kind of funding the company uses to finance its overall activities & growth. It shows the proportions of Senior debt Subordinated debt and equity in the funding, as per the aspects. Thus, capital structure refers to a company's outstanding debts & equity as a whole

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- Theories of Capital Structure

★ NET Income Approach:- This approach was suggested by durand & he was in favor of financial levrage decision. a change in financial leverage would lead to a change in the cost of capital.

- NET operating income approach:-

The is provided by Durand. This approach says that the weighted average cost of capital remains constant as a whole.

- TRADITIONAL APPROACH:- The cost of capital is a function of capital structure.

- MODIGLIANI & MILLER APPROACH:-

The capital structure is irrelevant.