Definition - What does Capital Structure mean?

Capital structure refers to a company's outstanding debt and equity. It allows a firm to understand what kind of funding the company uses to finance its overall activities and growth. In other words, it shows the proportions of senior debt, subordinated debt and equity (common or preferred) in the funding. The purpose of capital structure is to provide an overview of the level of the company's risk. As a rule of thumb, the higher the proportion of debt financing a company has, the higher its exposure to risk will be.

Capital structure is commonly known as the debt-to-equity ratio.
Divestopedia explains Capital Structure
A company's capital structure points out how its assets are financed. When a company finances its operations by opening up or increasing capital to an investor (preferred shares, common shares, or retained earnings), it avoids debt risk, thus reducing the potential that it will go bankrupt. Moreover, the owner may choose debt funding and maintain control over the company, increasing returns on the operations.

Debt takes the form of a corporate bond issue, long-term loan, or short-term debt. The latter directly impacts the working capital. Having said that, a company that is 70% debt-financed and 30% equity-financed has a debt-to-equity ratio of 70%; this is the leverage. It is very important for a company to manage its debt and equity financing because a favorable ratio will be attractive to potential investors in the business.

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Order CostAlso known as fixed cost. This is the amount you have to spend on setup, process, and so on.
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Holding CostAlso known as carrying cost. This is the cost to hold one unit per product in inventory.
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