

Section-2

Ques: what do you understand by capital structure? Also explain the concept of capitalization?

Ans:

Capital structure-

The capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth. Debt comes in the form of bond issues or loans, while equity may come in the form of common stock, preferred stock, or retained earnings.

Capitalization-

Capitalization is an accounting method in which a cost is included in the value of an asset and expensed over the useful life of that asset, rather than being expensed

in the period of cost was originally incurred.

Assume you have a product with the following parameters:

Demand 500.

Holding cost per year = Rs 110 per unit

Order cost per year = Rs 125 per order.

Order cost - what is the EOC

Ans

$$EOQ = \sqrt{\frac{(2SD)}{H}}$$

$$= \sqrt{\frac{2 \times 125 \times 500}{110}}$$

$$EOQ = \sqrt{1136.3}$$

$$EOQ = 33.70$$