



[Glossary]

Theories of Capital Structure- Part-I

Subject:	Business Economics
Course:	B.A., 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 303 Business Finance
Unit No. & Title:	Unit – 3 Cost of Capital and Financing Decision
Lecture No. & Title:	Lecture – 2 Theories of Capital Structure- Part-I

Glossary

Business Risk

Risks of sales and profit arising in business due to market factors, economic factors, social factors and internal management

Capital Structure

Mixture of equity and debt to finance long term assets and projects

Cost of Debt

Cost incurred for borrowing funds through debentures, loan, bonds etc. of funds. It includes flotation cost and interest.

Cost of Equity

Cost incurred for raising funds by issuing equity shares

Debt

Long term borrowings like debentures, loan, bonds, public deposits etc.

Equity

Equity includes equity shares, preference shares and retained earnings

Financial Leverage

Use of debt in a capital structure

Financial Risk

Risk associated with debt in terms of compulsory burden of payment of interest and principal amount irrespective of sufficient profit

Financial Structure

Combination of equity, debt and short term liabilities

Operating leverage

Use of fixed expenses like rent, salary, insurance premium etc. in business by changing level of output and thereby reducing cost per unit