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Naseraldeeen Jamil Najjar
American University of Madaba
Jordan

The term ‘structure’ means the arrangement of the varied parts. So capital structure means the arrangement of capital from different sources so that the long-term funds needed for the business are raised. Thus, capital structure refers to the proportions or combinations of equity share capital, preference share capital, debentures, long-term loans, retained earnings and other long-term sources of funds in the total amount of capital which a firm should raise to run its business. The term capital structure shouldn't be confused with Financial structure and Assets structure. While financial structure consists of short-term debt, long-term debt and share holders’ fund i.e., the whole left side of the company’s record . But capital structure consists of long-term debt and shareholders’ fund. So, it may be concluded that the capital structure of a firm is a part of its financial structure. Some experts of monetary management include short-term debt within the composition of capital structure. In that case, there is no difference between the two terms—capital structure and financial structure. So, capital structure is different from financial structure. It is a part of financial structure. Capital structure refers to the proportion of long-term debt and equity within the total capital of a corporation . On the opposite hand, financial structure refers to internet worth or owners’ equity and every one liabilities (long-term also as short-term). The term capitalisation means the entire amount of long-term funds at the disposal of the corporate , whether raised from equity shares, preferred stock , retained earnings or institutional loans. A good capital structure enables a business enterprise to utilise the available funds fully. A properly designed capital structure ensures the determination of the financial requirements of the firm and lift the funds in such proportions from various sources for his or her absolute best utilisation. A sound capital structure protects the commercial enterprise from over-capitalisation and under-capitalisation. A sound capital structure of any commercial enterprise maximises shareholders’ wealth through minimisation of the general cost of capital. This can even be done by incorporating long-term debt capital within the capital structure because the cost of debt capital is less than the value of equity or preference share capital since the interest on debt is tax deductible. A sound capital structure never allows a commercial enterprise to travel for an excessive amount of raising of debt capital because, at the time of poor earning, the solvency is disturbed for compulsory payment of interest to .the debt-supplier. If debt component increases in the capital structure of a company, the financial risk (i.e., payment of fixed interest charges and repayment of principal amount of debt in time) will also increase. A sound capital structure protects a commercial enterprise from such financial risk through a judicious mixture of debt and equity within the capital structure. Risk of money insolvency arises thanks to failure to pay fixed interest liabilities. Generally, the upper proportion of debt in capital structure compels the corporate to pay higher rate of interest on debt regardless of the very fact that the fund is out there or not. The non-payment of interest charges and principal amount in time involve liquidation of the corporate .The sudden withdrawal of debt funds from the corporate can cause cash insolvency. This risk factor has a crucial bearing in determining the capital structure of a corporation and it are often avoided if the project is financed by issues equity share capital. The higher the debt content within the capital structure of a corporation , the upper are going to be the danger of variation within the expected earnings available to equity shareholders. If return on investment on total capital employed (i.e., shareholders' fund plus long-term debt) exceeds the rate of interest , the shareholders get a better return. The use of fixed interest bearing securities alongside owner's equity as sources of finance is understood as trading on equity. It is an appointment by which the corporate aims at increasing the return on equity shares by the utilization of fixed interest bearing securities (i.e., debenture, preferred stock etc.).If the existing capital structure of the corporate consists mainly of the equity shares, the return on equity shares are often increased by using borrowed capital. This is so because the interest paid on debentures may be a deductible expenditure for tax assessment and therefore the after-tax cost of debenture becomes very low. Any excess earnings over cost of debt are going to be added up to the equity shareholders. If the speed of return on total capital employed exceeds the speed of interest on debt capital or rate of dividend on preference share capital, the corporate is claimed to be trading on equity. Capital structure is influenced by Government policies, rules and regulations of SEBI and lending policies of monetary institutions which change the financial pattern of the corporate totally. Monetary and monetary policies of the govt also will affect the capital structure decisions.