



European Institute of Innovation, Entrepreneurship, and Technology

M07 – Financial Management

Assignment Topic: Capital Structure, Investment Decisions, and Business Value

Student Name: Ramanpreet Kaur

Student ID: DE240254

Abstract

Financial management plays an important role in organizational growth, investment planning, and value creation. This report examines capital structure, investment decisions, cost of capital, risk assessment, and financial strategies that influence business value. The study analyzes how organizations use debt and equity financing, investment appraisal techniques, and risk management to maximize shareholder wealth and achieve long-term sustainability.

Introduction

Financial management involves planning, organizing, controlling, and monitoring financial resources to achieve organizational objectives. Modern organizations rely on effective financial decision-making for investment planning, capital structure management, and long-term growth. Investment decisions and financing choices significantly influence profitability, competitiveness, and shareholder value.

Literature Review

Researchers and financial scholars have emphasized the importance of capital structure and investment decisions in corporate financial management. Capital structure theory explains the relationship between debt, equity, risk, and return. Financial management techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period are widely used to evaluate investment opportunities and business value.

Methodology

This assignment is based on qualitative research using secondary data from finance textbooks, journals, corporate reports, and case studies. Analytical methods were used to evaluate financial decision-making strategies and their impact on organizational performance and shareholder value.

Capital Structure and Financing Decisions

Capital structure refers to the combination of debt and equity used by organizations to finance business operations and investments. Debt financing provides tax advantages but increases financial risk, while equity financing reduces repayment obligations but may dilute ownership. Organizations must balance debt and equity to minimize cost of capital and maximize business value.

Investment Appraisal Techniques

Investment appraisal techniques help organizations evaluate investment opportunities and capital projects. Net Present Value (NPV) measures the profitability of investments based on discounted cash flows. Internal Rate of Return (IRR) identifies the expected return on investment. Payback Period calculates the time required to recover initial investment costs. These techniques support strategic

financial decision-making.

Risk and Return Analysis

Financial decisions involve different types of risks including market risk, liquidity risk, credit risk, and operational risk. Higher returns are generally associated with higher financial risks. Organizations use financial forecasting, diversification, and risk assessment methods to reduce uncertainty and protect investments.

Cost of Capital

Cost of capital represents the cost of obtaining funds through debt or equity financing. Organizations use Weighted Average Cost of Capital (WACC) to evaluate investment projects and financing decisions. Lower cost of capital improves profitability and increases shareholder value.

Business Value and Shareholder Wealth

Financial management aims to maximize shareholder wealth and organizational value. Effective financial planning, investment decisions, and capital structure management improve profitability, market value, and long-term sustainability. Companies such as Apple and Tesla use strategic financial management to support innovation and business expansion.

Financial Sustainability and Ethics

Ethical financial practices are essential for maintaining investor trust and corporate reputation. Organizations must avoid financial misreporting, insider trading, excessive leverage, and lack of transparency. Responsible financial management supports long-term business sustainability and stakeholder confidence.

Discussion

The findings show that capital structure and investment decisions significantly influence business value and financial performance. Organizations that effectively manage debt, equity, risk, and investment planning achieve stronger financial stability and competitive advantage.

Conclusion

Financial management plays a critical role in organizational success and shareholder value creation. Effective capital structure management, investment appraisal, risk assessment, and ethical financial practices improve profitability and long-term sustainability. Organizations that adopt strategic financial management are more likely to achieve growth, stability, and competitive advantage.

References

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