

1. Explain the difference between income approach and cost of capital approach.

Operating income approach:-

\Rightarrow The approach focuses on the how capital structure.

\Rightarrow In each the operating income approach looking the leverage.

\Rightarrow It evaluates the debt ratio at which operating income is maximized. It looks for point where company generated the higher income before interest and tax [EBIT].

\Rightarrow The approach those from financial director to after income

Cost of Capital approach: -

\Rightarrow Cost of Capital which includes the cost of debt and the cost of capital.

\Rightarrow Find the debt-equity ratio which minimizes overall weight average cost of capital (WACC).

\Rightarrow Company that maximizes the total firm value.

\Rightarrow Cost of Structure affects the Company.

\Rightarrow Indirectly maximizes the

the lower cost.