

# THE IMPACT OF CAPITAL STRUCTURE ON FIRM VALUE OF LISTED COMPANIES IN COLOMBO STOCK EXCHANGE



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## ABSTRACT

Corporate finance literature suggests that the capital structure decision has played a pivotal role over the years in driving the establishment and growth of firms. There is also a body of evidence that financial markets take a keen interest in firm value. This study attempt to analyze the capital structure and its impact on firm value during 2013 to 2015 financial years based on all the listed companies in Sri Lanka. The data obtained from the published annual financial report as secondary sources. This study uses debt equity ratio, debt to total assets ratio and equity ratio as the proxy for capital structure and a selected few financial ratios to represent the attributes of firm value (Earning per share, Price Earning Ratio, Market price per Share). Descriptive statistics, correlation analysis, simple regression are used to analyze the data. The result revealed that there is positive relationship between capital structure and firm value of listed companies in Sri Lanka. And some variation were identified in capital structure and also firm value. Furthermore, the finding of the study can be considered as helpful for managers and users to develop financial description quality and practices of capital structure.

**Key Words:** Capital structure, Firm value, Listed Companies

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