Capital

Capital is the money or wealth needed to produce goods and services.

In the most basic terms, it is money.

All businesses must have capital in order to purchase assets and maintain their operations.

Need for Capital

A business needs capital to:

1. Promote a business
2. Conduct business smoothly
3. Expand and diversity
4. Meet contingencies
5. Meet statutory commitments
6. Pay dividends and interest
7. Acquire and replace assets
8. Support welfare programmes
9. To wind up

Sources of Finance/Capital

Based upon the time, the financial resources may be classified into:

1. **Long-term finance**: is available for a long period, say 3 years and above.
2. **Medium-term finance**: refers to those sources of finance where repayment is made between one and three years.
3. **Short-term finance**:this is the finance which is available for a period of less than one year.

Sources of Long-term Finance	Sources of Medium-term Finance	Sources of Short-term Finance
1. Issue of Shares a) Equity share capital b) Preference share capital	1. Loans from Banks & Financial Institutions	1. Bank Overdraft
2. Debenture Capital	2. Hire-Purchase	2. Trade Credit
3. Retained Profits	3. Leasing or Renting	3. Short-term loans from Banks & Institutions
4. Loans (Term Loans) from Banks & Financial Institutions.	4. Venture Capital	4. Commercial Paper & Treasury Bills.
5. Government Grants	5. Public Deposits	5. Factoring
-	-	6. Advance from Customers
-	-	7. Internal Funds

Equity Share Capital

Capital raised through issue of equity shares is called Equity Share Capital.

Distinct Characteristics:

1. Equity Capital is an ownership capital
2. It is a risky capital
3. It is a source of permanent capital
4. Equity shareholders have the right of control over the company.

Limitations of Equity Capital:

1. The risk of fluctuating returns due to changes in the level of earnings of the company do not attract many people to subscribe to equity capital.
2. Issue of equity shares leads to an increased number of people having ownership interest and right of control over management.
3. A company finds it difficult to raise additional capital unless it has high profit-earning capacity or growth prospects.

Preference Share Capital

The capital that a company raises through the issuance of preference shares is termed as Preference Share Capital.

Distinct Characteristics:

1. Preference shareholders have the right to claim dividend at a fixed rate which is decided according to the terms of issue of shares.
2. When a dividend is declared, preference shareholders have a prior claim over equity shareholders.
3. They have the preferential right of claiming repayment of capital in the event of winding up of the company.

Types of Preference Shares:

1. Cumulative or Non-Cumulative Preference Shares
2. Participating or Non-participating Preference Shares
3. Convertible or Non-convertible Preference Shares
4. Redeemable or Non-redeemable Preference Shares.

Limitations

1. Dividend paid cannot be charged to the company's income as an expense, hence there is no tax saving.
2. Even though payment of dividend is not legally compulsory, if it is not paid there is an adverse effect on the company's credit.

Debenture Capital

A Debenture is the instrument or certificate issued by a company to acknowledge its debt.

Debenture holders are long-term creditors of the company.

These instruments carry a fixed rate of interest, and generally are repayable after a certain period which is specified at the time of issue.

Merits:

1. Debentures are riskless or less risky.
2. Interest paid can be deducted from income tax purposes.

3. Funds raised through the issue of debentures may be used in business to earn a much higher rate of return than the rate of interest.

4. Funds are available from investors who do not have any control over the management of the company.

4. Companies often find it convenient to raise debenture capital from institutional holders who prefer to invest in debentures rather than in shares.

Limitations:

1. Interest payment is obligation
2. Only limited capital can be arranged through the issue of debentures

Types of Debentures

1. Secured or unsecured Debentures
2. Convertible or Non-convertible Debentures
3. Redeemable or Non-redeemable Debentures

Non-Conventional Sources of Finance

1. Venture Capital
2. Franchising
3. Angel Equity
4. Purchase Order Financing
5. Pre-settlement Lawsuit Financing
6. Peer-to-peer lending
7. Vendor Financing/Trade Credit
8. Personal loans

Public Enterprises

Forms of Public Enterprise:

1. Departmental undertaking
2. Public Corporation
3. Government Company