(V) Bank do not interfere in the internal affairs of the borrowing concern, hence the management retains the control of the company.

(VI) Loans can be paid-back in easy Installments.

(VII) In case of small-scale industries and industries in villages and backward areas, the interest charged is low.

Disadvantages of Long term Borrowing from Banks:

(I) Banks require personal guarantee or pledge of assets and business cannot raise further loans on these assets.

(II) In case the short term loans are extended again and again, there is always uncertainty about this.

(III) Too many formalities are to be fulfilled for getting term loans from banks. These formalities make the borrowings from banks time consuming and inconvenient.

## Long Term Financial Institutions;

The Government of India had set up several special institutions in the country to provide long term and medium term finance to business enter-prises. These institutions or development banks have become a major source of finance for floatation of new concerns as well as for the modernizat-ion and expansion of the existing concerns.

IFCI, IDBI, ICICI, SIDBI etc are well known develop-ment bank in the country. In addition, the LIC, GIC, UTI etc also help in providing finance to Industries.

## Advantages of Long term Borrowings from banks;

(I) It is a flexible source of finance as loans can be repaid when the need is met.

(II) Finance is available for a definite period, hence it is not a permanent burden.

(III) Bank keep the financial operations of their clients secret.

(IV) Less time and cost is involved as compared to issue of shares, debentures etc.

## Types of Debentures;

(I) Redeemable Debentures
(II) Irredeemable Debentures
(III) Convertible Debentures
(IV) Non-convertible Debentures
(V) Bearer Debentures.
(VI) Registered Debentures

## Advantages of Debentures;

(I) Raising funds without allowing control over the company.

(II) Reliable source of long term finance.

(III) Tax benefits

(IV) Investor's safety.

## Disadvantages of Debentures;

(i) Fixed cost

(II) Charges

(III) Trade on equity

(IV) Burdensome in times of depression.

PAGE NO.
DATE: / /

## Distinction between Equity Shares and Debentures

| Point of Distinction | Equity Shares | Debentures |
|---|---|---|
| Nature of Security | Ownership securities | Creditorship Security. |
| Form of Return | Dividend | Interest |
| Rate of Return | Not fixed | Fixed rate |
| Refund to principal amount | Maybe refunded at the time of liquid -ation | Refunded at the end of maturi -ty period. |
| Voting Right | Have voting rights | No voting rights |
| Claim on assets and income | Equity shareholder does not have claim on assets and income | Debenture holders have claim on assets and income. |

PAGE NO.
DATE: / /

## Retained earning / Ploughing back of profits

Like an individual, companies also set aside a part of their profits to meet future requirements of capital. Companies keep these savings in various accounts such as general reserve, debenture redemption reserve and dividend Equalisation reserve etc.

As per Indian companies Act., companies are required to transfer a part of their profit in reserves. The amount so kept in reserves maybe used to buy fixed assets. This is called internal financing.

### Advantages of Retained Earnings;

(I) Cheap source of Capital
(II) Financial stability
(III) Benefits to the shareholders.

### Disadvantages of Retained Earnings:

(I) Huge Profit
(II) Dissatisfaction among shareholders.
(III) Fear of monopoly
(IV) Mis-management of funds.

(I)
(II)
(III)
(IV)

## Debentures Or Bonds or creditorship securities:

These are also issued to the general public. The holders of debentures are the creditors of the company. Whenever a company wants to borrow a large amount of fund for a long but fixed period, it can borrow~~ed~~ ~~through~~ ~~debentures~~ ~~is~~ ~~divided~~ from the general public by issuing loan certificates called Debentures.

### Characteristics of Debenture:

(i) Debenture holders are the creditors of the company. They are entitled to periodic payment of interest at a fixed rate.

(ii) Debenture are repayable after a fixed period of time, say five years or seven years as per agreed terms.

(iii) Debenture holders do not carry voting rights.

(iv) Ordinarily, debentures are secured. In case the company fails to pay interest on debentures or repay the principal amount, the debentureholders can recover it from the sale of the assets of the company.

PAGE NO.
DATE: / /

(b) Disadvantages of preference shares rom the Investor's point of view:

(I) Preference shares do not carry voting rights in the normal course. When the company's earnings rise rapidly, holders of such shares do not get a share in the prosperity of the company except in case of participating preference shares.

(II) Holders of redeemable preference shares have to face yet another unpleasent prospect. The company raises capital from them when it is badly in need of funds. But once its purpose is served, it bids good-bye to them by paying back their money.

(III) Payments of dividend on preference share is not guaranteed. Rate of dividend is generally modest. Price fluctuations of preference shares is greater than that of debentures. These shares are less easily saleable on stock exchanges than equity shares.

PAGE NO.
DATE: / /

(b) Advantages of preference shares from the investor's point of view:

(ii) Stable rate of preference dividend.
Prior claim on assets
(iii) Less risk when compared to equity shareholders.

Disadvantages of Preference Shares:

(a) Disadvantages of preference shares from the company point of view:

(i) The cost of raising finance through preference shares is greater than that of debentures. preference dividend is not deductible for tax purpose.

(ii) Dividend on preference shares has to be paid at a fixed rate before any dividend is paid on equity shares. When a company incurs loss the burden of dividend is high in case of cumulative preference shares.

(iii) Redemption of preference shares involves several legal restrictions.

## Types of Preference Shares:-

(i) Cumulative and non-cumulative preference shares
(ii) Participating and non-participating preference shares.
(iii) Convertible and non-convertible preference shares.
(iv) Redeemable and irredeemable preference shares.

## Advantages of Preference Shares:

(a) Advantages of perference shares from the company's point of view:

(i) There is no legal obligation to pay preference dividend.
(ii) There is no share in control of the company through participation in voting.
(iii) They provide flexibility in capital structure by issue of Redeemable preference shares.
(iv) It enhances credit worthiness, because preference share capital is generally treated as a part of net worth.
(v) Mortgageable assets are conserved, due to the issue of preference share capital without pleding assets.

PAGE NO.
DATE: / /

Disadvantages of Equity Shares:

a. Disadvantages of Equity shares from the shareholder's point of view:

(I) Uncertainity about payment of dividend.
(II) Speculative
(III) Danger of over-capitalisation.
(IV) Ownership in name only
(V) Higher risk.

Disadvantages of Equity shares from the Management point of view:

(I) No trading on equity
(II) Conflict of interests

Preference Shares

Preference share is defined by the new Act as that part of the share capital of the company which fulfills both the following requirements, namely, that it carries preferential right in respect of dividends. The dividend on these shares is fixed. However, prosperous the company perference shareholders only receive the agreed dividend, say of 5% or 6%, or whatever it may be

DATE: / /

# Equity Shares

Equity shares are shares which do not enjoy any preferential right in the matter of payment of dividend or repayment of capital. The equity shareholder gets dividend only after the payment of dividends to the preference shares. Equity sharholder have the right to take part in the management of company. However, equity shares also carry more risk.

## Advantages of Equity shares:

a. Advantages of equity shares the shareholders point of view:

(I) High rate of dividend.
(II) Increase in share prices
(III) Liability
(IV) Vating rights.

b. Advantages equity shares from the Management point of view:

(I) Low cost of capital
(II) Perpetual capital
(III) Less risk
(IV) Creator confidence.

(I) Ownership securities
(II) Debentures or Bonds or Creditorship securities.
(III) Retained earning or floushing back of profits.
(IV) Loans from financial instruiment.

## Ownership Securities

In this context, 'owners' refers to those people/ Institutions who are shareholders. Sole traders and partnerships do not have shareholders - the individual or the partners are the owners of the business but do not hold shares.

According to Farewel J, a share is "the interest of shareholder in the company, measured by a sum of money, for the purpose of liability in the first place, and of interest in the second, but also consisting a series of mutual convenants entered into by all the shareholders interest"

Section 2(46) of the companies Act, 1956 defines it as "a share in the share capital of the company, and includes stock except where a distinction between stock and shares is expressed or implied

### Kinds of Shares

(I) Equity shares
(II) Preference shares.

PAGE NO.
DATE: / /

(II) To finance the permanent part of working capital: Business is a continuing activity. It must have a certain amount of working capital which ~~whor~~ would be needed again and again. This part of working capital is of a fixed or permanent nature.

(III) To finance growth and expansion of business: Expansion of business requires investment of a huge amount of capital permanently or for a long period.

Factors Determining Long-term financial Requirements;

The amount required to meet the long term capital needs of a company upon many factors which as follows:

(I) Nature of business.
(II) Nature of goods produced.
(III) Technology used.

Sources of Long term Finance;

The main sources of long term finance are as follow:

PAGE NO.
DATE: / /

# Long Term Sources of Finance.

A business requires fund to purchase fixed assets like land and building, plant and machinery, furniture etc. These assets maybe regarded as the foundation of a business. The capital required for these assets is called fixed capital. To finance it, we require long term capital. The amount of long term capital depends upon the scale of business and nature of business.

Capital expenditure: Used for buying fixed assets where large sums of money are involved but they are not purchased often e.g. new premises.

Working capital: Day to day money required for running the business. There are two main source of finance.

(I) Long term Source of finance.
(II) Short term Source of finance.

## Purpose of Long Term Finance:

Long term finance is required for the following purposes:

(I) To finance fixed assets: Business requires fixed assets like machines, Building, furniture etc.