DEBT VS EQUITY

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Debt		Equity
Represents funds borrowed by a company that must be repaid over time, typically with interest.	Definition	Refers to ownership in a company, represented by shares or stocks, providing investors with a claim on the company's assets and earnings.
Obtained through loans, bonds, or lines of credit from lenders who expect repayment.	Source of Funds	Raised by issuing shares of stock to investors, who become partial owners of the company.
Requires regular repayment of principal and interest according to a predetermined schedule.	Repayment Obligation	Does not require repayment, but shareholders expect returns in the form of dividends or capital appreciation.
Carries fixed obligations and interest payments, increasing financial risk if not managed properly.	Risk	Shares risk with investors, as shareholders may lose their investment if the company performs poorly.
Does not dilute ownership or control of the company, but lenders may impose restrictions on operations.	Control	Dilutes ownership as more shares are issued, potentially reducing control of existing shareholders.
Involves paying interest on borrowed funds, which can be tax-deductible, making it cheaper than equity financing.	Cost	Does not involve interest payments but may require sharing profits with shareholders through dividends or stock appreciation.
Provides fixed repayment terms, allowing for predictable cash flow management.	Flexibility	Offers more flexibility in terms of returns to investors and does not impose immediate repayment obligations.
Increases leverage ratios, potentially amplifying returns but also magnifying risks, especially during economic downturns.	Leverage	Provides a buffer against financial distress since shareholders are not entitled to fixed payments and can absorb losses.
Appears as liabilities on the balance sheet, affecting debt-to-equity ratios and interest expenses on the income statement.	Impact on Financial Statements	Reflects as shareholders' equity on the balance sheet, impacting earnings per share and dividends.
Suitable for financing specific projects or assets with predictable cash flows.	Decision Factors	Ideal for raising capital without incurring debt, maintaining flexibility, and sharing risks with investors.