HMRC - STSM071020 - Introduction: Sources Of Capital

If a company wishes to raise money to finance its operations, it can do so in one of two ways - by issuing shares in the company or by borrowing money from banks or other investors. The former is commonly referred to as “equity finance” and the latter as “debt finance”. Debt and equity are jointly referred to as ‘securities’.

Investors contribute capital by subscribing for shares in the company. A share gives the holder an entitlement to share in the company’s profits, normally paid in the form of a dividend, and often other rights in respect of the company, for example, the right to vote at shareholder meetings. Shares may be bought and sold, with ownership of the company changing without affecting its business operations.

Companies will also raise finance by borrowing money either from banks or investors. Investors are usually provided with a certificate, known as a ‘bond’, acknowledging receipt of the loan and confirming its terms, namely the rate of interest, when interest will be paid and the date on which the loan capital will be returned to the investor. The investor may hold the bond until the end of the agreed loan term or sell it on to someone else.

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