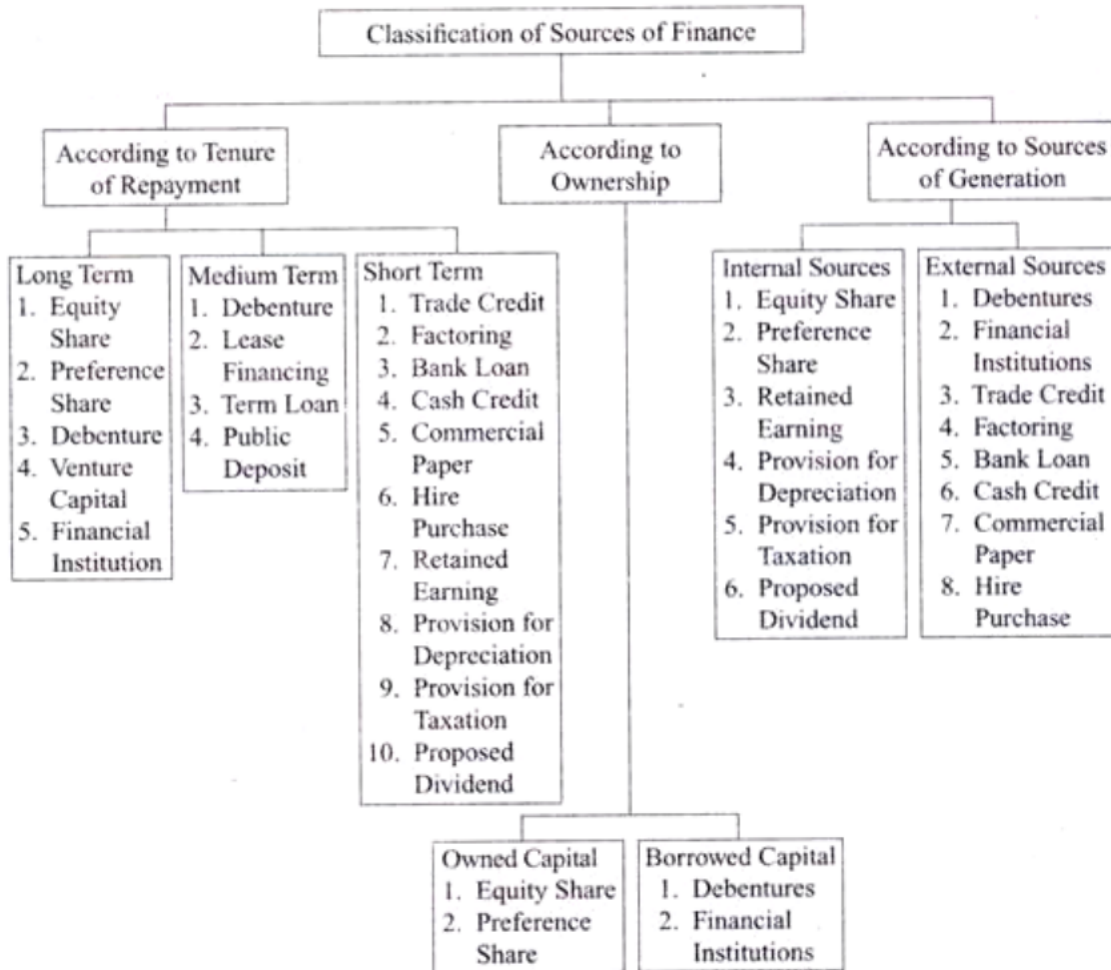


# Sources of Finance

## SEM – VI ( Teacher:- S.Bhattacharyya)



S. No	Basis of distinction	Preference share	Equity Share
1.	Voting rights	The holder of these shares do not enjoy any voting right except at their class meeting	Generally equity share holders enjoy voting rights.
2.	Payment of dividend	The holders of these shares have the preference right as to the payment of dividend	Equity share holders get the dividend, after the payment to preference share holders.
3.	Repayment of capital	The holders of these shares have the preference right as to the repayment of preference share capital	Repayment of equity share capital is made after making repayment to preference share holder.
4.	Rate of dividend	The rate of dividend is fixed	The rate of dividend may vary year to year
5.	Convertibility	Preference shares can be converted into equity shares	The equity shares are non convertible
6.	Redemption	The preference are redeemable during the life time of the company	The equity shares are not redeemable during the life time of the company

### **Advantages of Equity Shares:**

- Equity shares do not create any obligation to pay a fixed rate of dividend.
- Equity shares can be issued without creating any charge over the assets of the company.
- It is a permanent source of capital and the company has to repay it except under liquidation.
- Equity shareholders are the real owners of the company who have the voting rights.
- In case of profits, equity shareholders are the real gainers by way of increased dividends and appreciation in the value of shares.

### **Disadvantages of Equity Shares:**

- If only equity shares are issued, the company cannot take the advantage of trading on equity.
- As equity capital cannot be redeemed, there is a danger of over capitalisation.

## **Advantages of Preference Shares:**

- Appeal to Cautious Investors
- No Obligation for Dividends
- No Interference
- Trading on Equity
- Flexibility
- Variety
- No Charge on Assets

## **Disadvantages of Preference Shares:**

- Fixed Obligation
- Limited Appeal
- Low Return
- No Voting Rights