

Equity shares essay

Finance



1. 2 , 4. A share or stock is also known as an equity share as well. The equity share basically represents ownership in the company. When a company needs capital or money to operate, it generates the required funds by selling ownership in the company. This means that the company issues equity shares for a price and these shares represent ownership in the company for the one who purchases the shares. These shares are an ownership in the company and give the owner the right to have a share in the profits of the firm. Equity shares are the part of share capital.

Particularly, equity shares r dose share which r traded in da stock markets. Dese shares carry voting rights. company gave u dividend as u hav invested ur money in their company. but it is not necessary that each year u ill get dividend.

It only disrtibuted only wen company is in profits. these shares r fully transferable Equity Share Holders get Equity Shares of the Company while Preference Share Holders get Preference Shares. EQUITY SHARES are shares whose profit sharing depends on the PROFIT MAKING of the Company. If the company makes huge profits, there dividend sharing will be high else it will be low.

Whereas for Preference Share Holders, Dividend is a fixed income to them. They get dividend at a fixed rate, irrespective of the Profit Making of the Company. Dividends to Equity Share holders is optional and at company's discretion. For preference share holder, it is a right to get cumulative or non cumulative dividends from the company. Equity Shareholders are called RESIDUAL OWNERS of the company.

After all the obligations of the company are over, the Equity Share Holders get their share. Preference Share Holders get paid their dividends ahead of Equity Shareholders. Features of equity shares are 1. they don't have no preferential right in respect of payment of dividend or in the repayment of capital at the time of winding of the company.

2. equity shares are risk bearing shares because they are the actual owners of the company when ever company run into losses they have to bear the losses. 3. equity share holders enjoys voting right whenever there is a meeting they will enjoy their voting power, enjoys voting power in electing board of directors. 4. equity capital is the permanent capital for the company

The company need not to return capital . Company has to repay the capital only at the time of winding up. 5. equity shares are easily transfer from one person to another at the stock exchange according to the procedure laid down in the article of association of the company.

6. company gives the bonus shares to the equity shareholders at a free cost on account of reserves . undistributed profits and accumulated profit 7. equity shareholder are give first priority when ever company want to raised fresh capital When you decide to start a small business, one of your first questions is likely to be how to raise money to finance your business operations.

No matter how you plan to obtain financing for your business, you need to spend some time developing a business plan. Only then should you go forward with financing plans for even a simple small business. Equity

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Financing You may have some cash you want to put into the business yourself, so that will be your initial base. Maybe you also have family or friends who are interested in your business idea and they would like to invest in your business.

That may sound good on the surface to you, but even if this is the best arrangement for you, there are factors you must consider before you jump in. If you decide to accept investments from family and friends, you will be using a form of financing called equity financing. One thing that you want to be clear about is whether your family and friends want to invest in your business or loan you some money for your business. That is a crucial distinction! If they want to invest, then they are offering you equity financing. If they want to loan you money for your business, then that is quite different and is actually considered debt financing.

Advantages of Equity Financing: You can use your cash and that of your investors when you start up your business for all the start-up costs, instead of making large loan payments to banks or other organizations or individuals. You can get underway without the burden of debt on your back.

- If you have prepared a prospectus for your investors and explained to them that their money is at risk in your brand new start-up business, they will understand that if your business fails, they will not get their money back. •

Depending on who your investors are, they may offer valuable business assistance that you may not have. This can be important, especially in the early days of a new firm. You may want to consider angel investors or venture capital funding.

Choose your investors wisely! Disadvantages of Equity Financing: •

Remember that your investors will actually own a piece of your business; how large that piece is depends on how much money they invest. You probably will not want to give up control of your business, so you have to be aware of that when you agree to take on investors. Investors do expect a share of the profits where, if you obtain debt financing, banks or individuals only expect their loans repaid.

If you do not make a profit during the first years of your business, then investors don't expect to be paid and you don't have the monkey on your back of paying back loans. • Since your investors own a piece of your business, you are expected to act in their best interests as well as your own, or you could open yourself up to a lawsuit. In some cases, if you make your firm's securities available to just a few investors, you may not have to get into a lot of paperwork, but if you open yourself up to wide public trading, the paperwork may overwhelm you. You will need to check with the Securities and Exchange Commission to see the requirements before you make decisions on how widely you want to open up your business for investment. Debt Financing If you decide that you do not want to take on investors and want total control of the business yourself, you may want to pursue debt financing in order to start up your business. You will probably try to tap your own sources of funds first by using personal loans, home equity loans, and even credit cards.

Perhaps family or friends would be willing to loan you the necessary funds at lower interest rates and better repayment terms. Applying for a business loan is another option. Advantages of Debt Financing • Debt financing allows <https://assignbuster.com/equity-shares-essay/>

you to have control of your own destiny regarding your business. You do not have investors or partners to answer to and you can make all the decisions. You own all the profit you make.

- If you finance your business using debt, the interest you repay on your loan is tax-deductible. This means that it shields part of your business income from taxes and lowers your tax liability every year. Your interest is usually based on the prime interest rate.
- The lender(s) from whom you borrow money do not share in your profits. All you have to do is make your loan payments in a timely manner.

- You can apply for a Small Business Administration loan that has more favorable terms for small businesses than traditional commercial bank loans.

Disadvantages of Debt Financing

- The disadvantages of borrowing money for a small business may be great. You may have large loan payments at precisely the time you need funds for start-up costs. If you don't make loan payments on time to credit cards or commercial banks, you can ruin your credit rating and make borrowing in the future difficult or impossible. If you don't make your loan payments on time to family and friends, you can strain those relationships.
- For a new business, commercial banks may require you to pledge your personal assets before they will give you a loan. If your business goes under, you will lose your personal assets.
- Any time you use debt financing, you are running the risk of bankruptcy.

The more debt financing you use, the higher the risk of bankruptcy. Some will tell you that if you incorporate your business, your personal assets are safe. Don't be so sure of this. Even if you incorporate, most financial

institutions will still require a new business to pledge business or personal assets as collateral for your business loans. You can still lose your personal assets.

Which is best; debt or equity financing? It depends on the situation. Your financial capital, potential investors, credit standing, business plan, tax situation, the tax situation of your investors, and the type of business you plan to start all have an impact on that decision.