

Ques-2 What is preference and Equity share? Explain its advantage & disadvantage. What do you understand by finance. Explain its various objectives? What is payback period & net present value method (NPV)?

Ans  
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Preference share-

Preference shares are the shares that carry preferential rights on the matters of payment of dividend and replacement of capital.

• Advantages-

- 1) Higher claim on company assets.
- 2) Additional Investor Benefits.

• Disadvantages-

- 1) Company benefits.
- 2) Complete risk free with \$ 100,000 in virtual cash.

## \* Equity share -

Equity shares are the ordinary shares of the company representing the part ownership of the share-holder in the company. The dividend is paid after the payment of all liabilities.

### • Advantages -

- 1) Equity share do not create any obligation to pay a fixed rate of dividend.
- 2) Equity shares can be issued without creating any charge over the asset of company.

### • Disadvantages -

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



## \* Finance -

It is a term for matters regarding the mgmt, creation & study of money & investments. It deals with the questions of how & why an individual, company or govt. acquires the money needed, called capital, in the company context or how they spend and invest that money.

• Objectives of finance - There are various types of objectives of finance, which are: -

- 1) Profit maximization.
- 2) wealth maximization
- 3) Proper mobilisation
- 4) Proper utilisation of finance
- 5) Survival of company
- 6) creating ~~reserves~~ reserves.

### \* Net present value method - (NPV)

Net present value method is calculated in terms of currency while payback method refers to the period of time requires for the return to an investment to repay the total initial investment.

### \* Pay back period method -

It does not properly account for the time value of money, inflation, risk, financing or other important considerations. While NPV method considers time value and it gives of direct measure of the dollar benefit.