Q.2 Ans

Preference shares is said to be that share which promise the holder a fixed dividend, whose payment takes priority over that of ordinary shares dividends. Capital raised by the issue of preference shares is called preference share capital. The preference shareholders are in superior positions over equity shareholders in two ways; first receiving a fixed rate of dividend, out of the profits of the company before any dividend is declared for equity shareholders and second, receiving their capital after the claims of the company's creditors have been settled, at the time of liquidation.

Whereas, Equity shares a form of fractional or part ownership in which the shareholders, as a fractional owner,

takes the maximum business risk. The holders of Equity share are members of the company and have voting rights. Equity shares are the vital source for raising long-term capital. Equity shares are also known as ordinary shares.

There are also few advantages and disadvantages to the equity shares as well the preference shares. Lets talks first about the preference share advantages. The preference share does not affect the control of equity shareholders over the management as they dont have voting rights. They have reasonably steady income in the form of fixed rate of return and safety of the investement. Also they are suitable for those investors who want fixed rate of return with low risk. And disadvantages are the rate of dividend on preference shares is generally higher

than the rate of interest on debentures. Also preference shares are not preferred by those investors who are willing to take risk and are interested in higher returns.

Whereas, equity share advantages are it provides credit worthiness to the company and confidence to prospective load providers. There is no burden on the company, as payments of dividends to the equity shareholders is not compulsory. Also raises funds without creating any charge on the assets of the company. But the disadvantage are Investors who prefer steady income may not prefer shares. The cost of shares is higher that the cost of raising funds through other sources.

* Finance is a term describing the study and system of money, investments and other financial instruments. Some people prefer to divide finance into different categories that are public finance, corporate and private finance.

Finance is a field that is concerned with the allocation of assets and liabilities over space and time, often under conditions of risk and uncertainity.

Some important objectives of Finance are:-

a) Investement decisions - where it involves the evaluation of risks, measurement of cost of capital and estimation of expected benefits from a project.

b) Financing decision - It involves decision with respect to composition or mix assets, financing decision is concerned with the financial structure of the firm.

c) Working capital decision - As it is related to the investment in current assets and current liabilities.

The Payback Period in capital budgeting refers to the time required to recoup the funds expended in an

investment, or to reach the break even-point.

Whereas, NPV also stands for Net Present Value it is a type of widely used methods for evaluating capital investment proposals. In this technique the cash inflows are compared to the original investment. That is expected at different periods of time is discounted at a particular rate.