SOURCES OF CAPITAL

Meaning of Capital: Capital is the amount invested in as enterprise – proprietorship, partnership or corporation – by its owners. It is the assets or stock of assets employed for earning income is treated as business capital.

Sources of Capital: The term 'capital' and 'sources of capital' can not be identical. Capital which is shown in the liability side of the Balance Sheet represents the capital which is invested by the owners, i.e., it is the owner's capital. In case of sole-proprietorship or partnership concerns the requirement of capital is not very high and it can be financed by the owner / owners only. But in case of Joint Stock Companies, the capital requirement is huge and thus, it is not possible for the owners to finance the whole requirement of capital alone. Hence, capital of corporate bodies may be raised from different alternative sources. The following chart shows the different alternative sources wherefrom finance can be made available from Joint Stock Companies.

Sources of Capital

- **External Sources**
  - **Owned Capital**
    - **Equity Shares**
      - (1) Ordinary or Common Shares
      - (2) Right Shares
      - (3) Bonus Shares
      - (4) Sweat Equity Shares
    - **Preference Shares**
      - On the basis of Dividend
        - Cumulative
        - Non Cumulative
      - On the basis of Redeemability
        - Redeemable
        - Irredeemable
      - On the basis of Participation
        - Participating
        - Non Participating
      - On the Basis of Convertibility
        - Convertible
        - Non-Convertible
  - **Borrowed / Debt Capital**
    - **Debentures**
      - (1) Redeemable
      - (2) Irredeemable
      - (3) Convertible
      - (4) Bearer
      - (5) Naked/ Unsecured
      - (6) Registered
      - (7) Mortgage
      - (8) Collateral
    - **Financial Institutions**
      - National
        - (1) IFCI
        - (2) SFCs
        - (3) IDBI
        - (4) NIDC
        - (5) ICICI
        - (6) LIC
        - (7) UTI
        - (8) IRBI
        - (9) SIDCs
        - (10) SIDBI etc.
      - International
        - (1) World Bank
        - (2) International Finance Corporation
        - (3) Asian Development Bank, etc.
    - **Other Medium / Short-Term Sources**
      - (1) Lease Financing
      - (2) Hire Purchase
      - (3) Loan from Banks
      - (4) Cash Credit
      - (5) Overdraft from Banks
      - (6) Bill of Exchange
      - (7) Public Deposits
      - (8) Inter-Corporate Deposits
      - (9) Issue of Commercial Papers
      - (10) Factoring
- **Internal Sources**
  - (1) Retained Profits
  - (2) Provision for Depreciation
  - (3) Provision for Taxation
  - (4) Proposed Dividend