

Week 6 : Company Accounts – Issue

Sources of finance of limited liability company

Ordinary shareholders

Investment:

Since they are the owners of the company, they are able to vote suitable people to sit on the board of directors to lead and manage the company successfully. The investment made is not refundable once it is paid.

Return on investment:

They receive dividends out of accumulated profits (retained earnings). The *dividends* are not fixed and are determined by the board of directors.

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Preference shareholders

Investment:

Since they are not the owners of the company (do not carry the voting right), their investment is refundable or convertible to ordinary share.

Return on investment:

They can only receive fixed rate of *dividend* out of its nominal value of the preference share.

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Debenture holders

Investment:

They purchase fixed-interest debenture issued by the company. Once investment is made, they will be informed that the company will repay their investment at a future pre-determined date.

Return on investment:

Debenture holders will receive semi-annual fixed *interest* on a certain date in every financial year until the debenture is called back.