

## **Al-Saudia Virtual Academy Pakistan Online Tuition**

### **Sources of raising Fixed Capital.**

There are two sources of raising fixed capital by a company.

- (1) Owned capital.
- (2) Borrowed capital.

In order to finance fixed capital, a company depends on long term types of finance. It makes use of both the sources owned as well as borrowed. Owned capital is raised by of shares and ploughing back of profits. Borrowed capital is raised by issuing debentures, public deposits and loans from industrial and financial institutions. A company cannot made mistake of financing fixed assets out of short term sources of finance as the funds invested in fixed assets are permanently sunk into the business and are not convertible into cash at a short notice. The sources of fixed capital, both owned and borrowed, are now discussed in brief.

- (3) Owned capital. An enlisted company can now raise owned capital by issuing of more than one kind and classed of share capital. The capital mopped up through the sales of shares is a part of the capital of a company. It belongs to the company for intents and purposes. Such capital has a claim on dividend in case of profit but no right to receive interest. It is, therefore, in no way burden on the resources of a company.
- (4) Ploughing back of profits (owned capital) Ploughing back of profits is the process of retaining profits year after year and their utilization in the business. The technique of reinvestment of profits or ploughing back of profits is employed for making the company self dependent for finances. This method is also employed for expansion of business, redemption of loans and debentures etc .
- (5) Debentures (Borrowed capital) a company may raise long term finance through public borrowing. These loans are raised by issue of debentures. A debenture is an instrument issued by a company to acknowledge the loan taken under the company's seal. A debenture holder is the creditor of the company. The company pays fixed rate of interest on debentures. After the commencement of Companies Ordinance, a company is not allowed to issue debentures. Company a raise loan by issue of Modaraba certificates 'Term Finance Certificates etc.
- (6) Loans from industrial and financial institutions. (Borrowed capital) Another important source of raising long term finance is from the financial institutions like the IDBP, PICIC, NIT, BEL, Muharika, certificates etc. the loans are obtained both in local and foreign currencies for the purchase of machinery equipments etc.