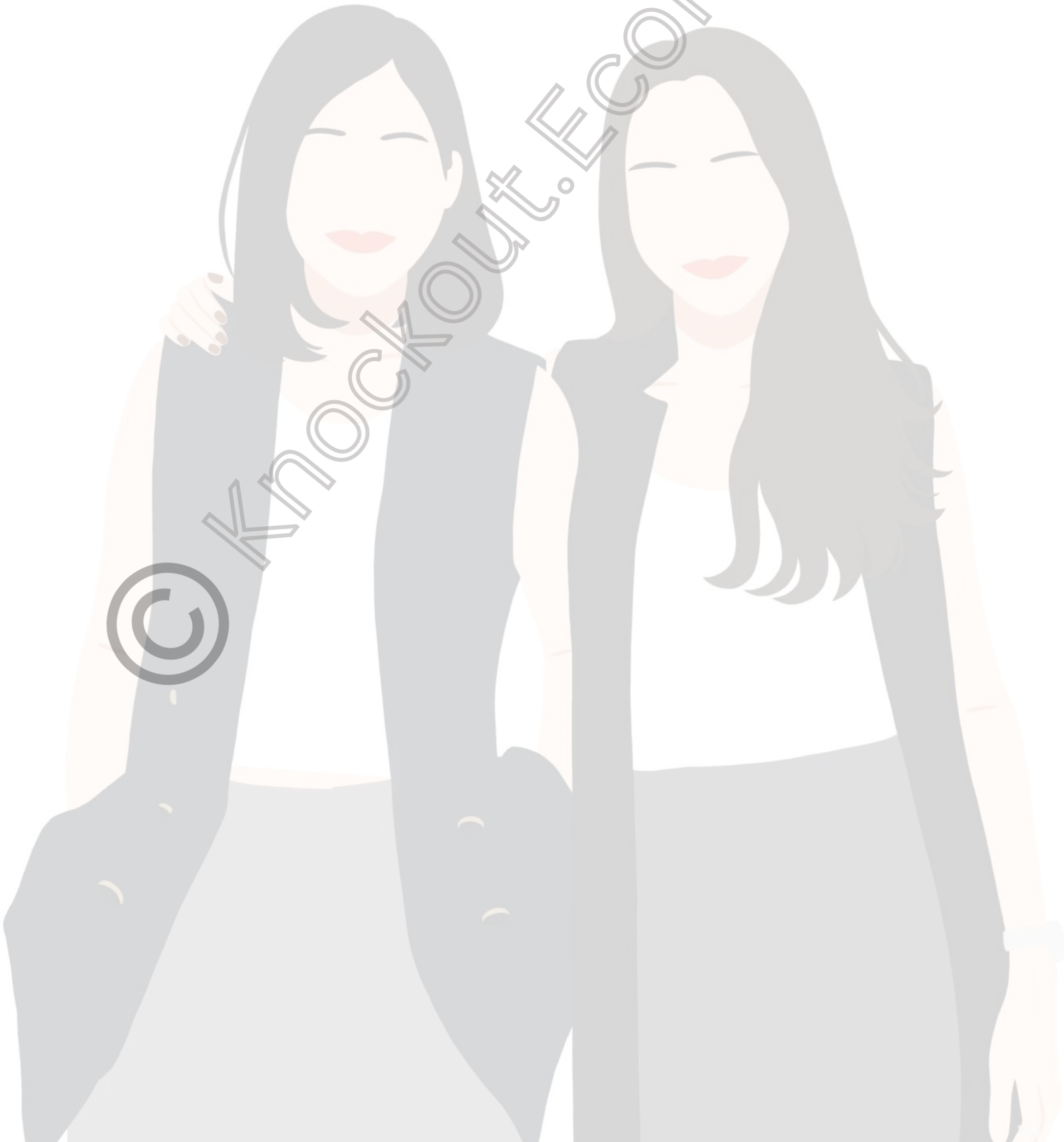
Chapter 24 Internal finance

Key terms

1. Capital: money put into the business by the owners.
2. Capital expenditure: spending on business resources that can be used repeatedly over a period of time.
3. Internal finance: money generated by the business or its current owners.
4. Retained profit: profit after tax that is ploughed back into the business.
5. Revenue expenditure: spending on business resources that have already been consumed or will be very shortly.
6. Sale and leaseback: the practice of selling assets such as property or machinery and leasing them back from the buyer.



- **Capital;** money put into the business by the owners.
- **Capital expenditure;** spending on business resources that can be used repeatedly
- over the period of time. e.g. machines
- **Revenue expenditure;** spending on business resources that have already been consumed or will be very shortly. e.g. raw material, wage, maintenance and repair of building and machines.

1. Internal finance

1. Owners' capital ; money provided by owners in a business.

2. Retained profit ; profit after tax that is put back into business and not returned to the owners.

3. Sale of assets ; An established business may be able to sell some unwanted assets to raise finance. e. g. machines, stocks, land and buildings that are no longer required could be sold off for cash.

4. Sale and leaseback ; the practice of selling assets, such as property or machines and leasing them back from the buyer.

2. Advantages and disadvantages of Internal finance

Advantages of Internal finance

1. Business can get fund immediately
2. It is a cheap source of fund

Disadvantages of Internal finance

1. Internal finance can be limited.
2. There is opportunity cost of using internal finance