Section 3 Business finance

Unit 25 : Sources of finance

1. The need for funds

1.1 Short-term needs

: This money can be used to meet the day-to-day running costs of the business, such as wages, raw materials, components and promises and utility bills.

: Short-term finance : money borrowed for one year or less.

1.2 Long-term needs

: This money can be used to buy / invest in machinery, tools, vehicle, property.

: Long-term finance : money borrowed for more than one year.

1.3 Start-up capital

: Funds are most needed when first setting up a business. Eg. Land, property or equipment. Or other start-up costs might include research, converting premises, legal fees, website design and marketing.

1.4 Expansion

: Once a business is established, the owners often want to expand.

2. Internal sources of finance

Meaning : Finance generated by the business from its own means.

Internal Sources of finance	Details
1. Personal Saving	: Some owners have saved money for many years to invest in business
2. Retained profit	: profit held by a business rather than returning it to the owners and which may be used in the future.
3. Selling assets	: An established business may be able to sell some unwanted assets to raise finance.

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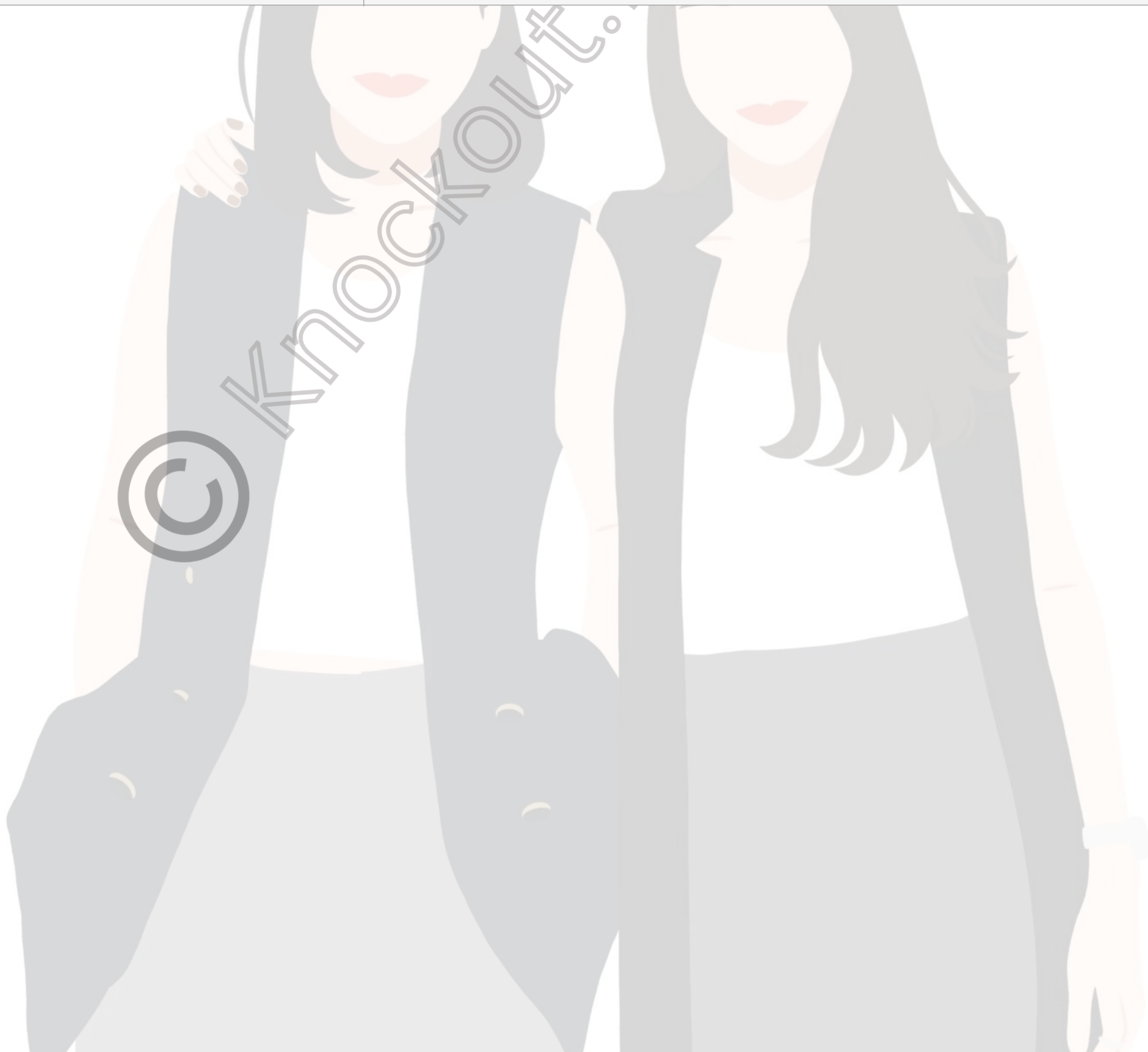
3. External sources of finance

Meaning : Finance obtained from outside the business

3.1 Short-term external sources of finance (Less than 1 year to repay debt)

External Sources of finance	Details
1. Bank Overdraft	: Agreement with a bank where a business spends more money than it has its account (Up to an agreed limit)
2. Trade payable	: Buying resources from suppliers such as raw materials and components, and paying for then at a later date.
3. Credit cards	: Credit cards are popular because they are convenient, flexible and avoid interest charges if accounts are settled within the credit period.



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3.2 Long-term external sources of finance (more than 1 year to repay debt)

External Sources of finance	Details
1. Loan capital	: A loan is fixed agreement between a business and the bank. The amount borrowed, interest must be repaid in regular instalment over a fixed period.
2. Unsecured bank loans	: This means that the bank lends money without the security of having a claim on your assets if you do not pay it back. Therefore, if the business collapses, the bank might not get its money back.
3. Mortgages	: is a long-term loan and the borrower must use land or property as security. This means that if the borrower fails to make the repayments, the lender can respossess the property.
4. Debenture	: Long-term security yielding a fixed rate of interest, issued by a company and secured against assets : Debentures holders are entitled to a fixed return, but have no voting rights.
5. Hire purchase	: Businesses may use hire purchase to buy tools, equipment, vehicles and machinery.
6. Share capital	: The sale of shares can raise very large amounts of money.When limited companies are formed, shares are issued to raise start-up capital.
7. Venture capital	: specialist investors in the provision of funds for small-medium size of businesses. : They may invest in businesses after the initial start-up.
8. Crowd funding	: where a large number of individuals invest in a business venture using on online platform and therefore avoiding using a bank.

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