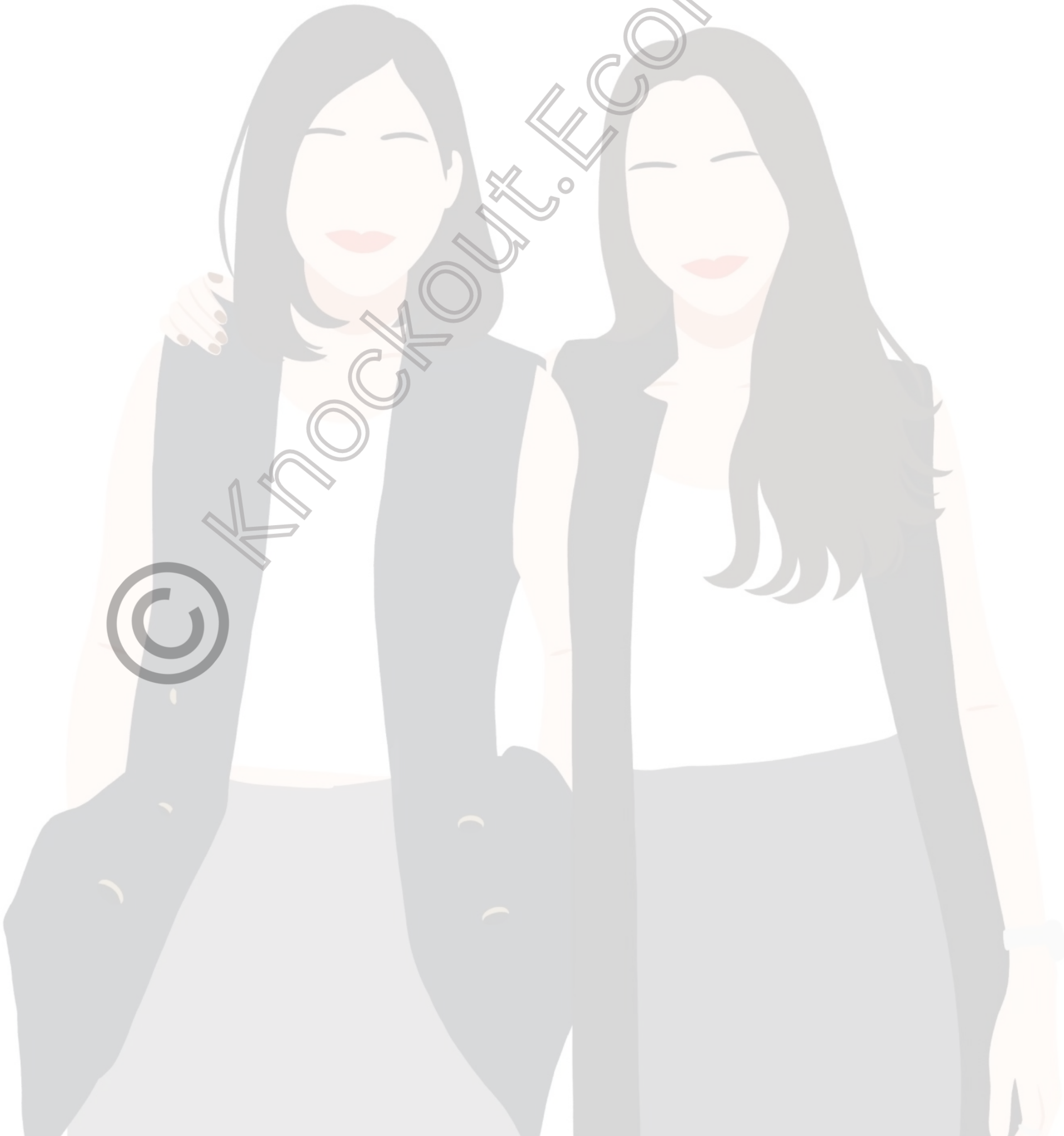
Chapter 28 Liability

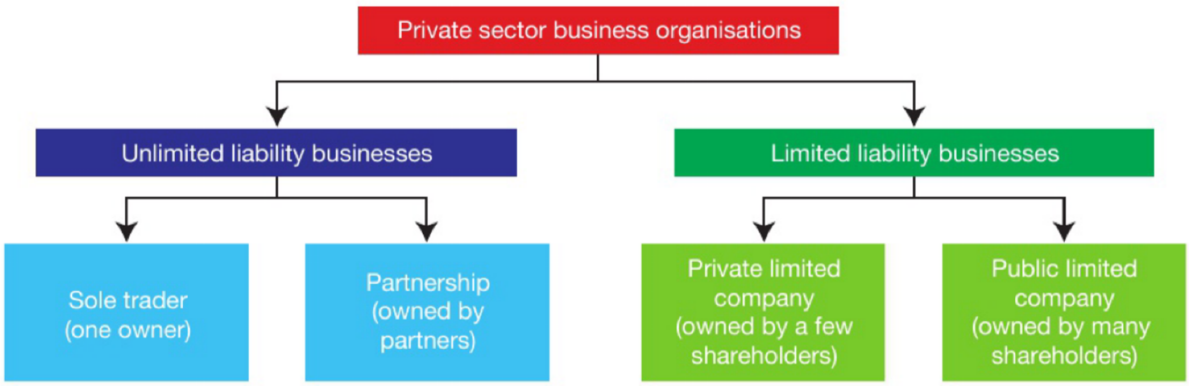
Key terms

1. Collateral: an asset that might be sold to pay a lender when a loan cannot be repaid.
2. Incorporated business: business has a legal identity separate from its owners.
3. Unincorporated business: businesses where there is no legal difference between the owners and the business.
4. Limited liability: a legal status which means that a business owner is only liable for the original amount of money invested in the business.
5. Long term finance: money borrowed for more than 1 year.
6. Short term borrowing: money borrowed for 12 months or less.



1. Limited liability & unlimited liability : depend on legal status.

- **Unlimited liability businesses:** businesses where there is no legal difference between the owners and the business, called unincorporated business. The owners have unlimited liability.
- **Limited liability businesses:** business has a legal identity separate from its owners. The owners have limited liability. it is called incorporated business.



Advantages and disadvantages of unlimited liability

Advantages	Disadvantages
• It is easy to raise fund. The lender will be repaid if a business fails.	• If a business fails, the owners are forced to sell their assets to repay debt.

<u>Choosing appropriate finance.</u>

1. Whether short term or long term finance is needed.

- Long term finance: mortgage and debenture
- Short term finance: trade credit, bank overdraft

2. The financial position of the business

- If the business is making a loss, it is hard to borrow money from banks.

3. The type of expenditure for which the money is needed.

- If business would like to borrow money to expand business, it should be long-term finance.

4. Cost

- Bank loan has borrowing cost in terms of interest payment.

5. The legal status of the business

↳ It depends on whether a business has limited or unlimited liability.

↳ **Finance appropriate for unlimited liability businesses.**

1) Personal saving
2) Retained profit
3) Mortgage.; loan which has collateral e. g. loans to buy house(house = collateral)
4) Unsecured bank loans.
5) peer to peer lending
6) crowdfunding ; provide long-term finance loan.
7) Bank overdraft

↳ **Financial appropriate for limited liability businesses**

1.) Share capital ; Public limited company can raise fund by selling shares in the stock market.

2.) Debenture ; long-term source of fund. Debenture holder do not have power to control business.

3.) Retained profit

4.) Venture capitalist ; Venture capitalist also like to invest large amounts of money than business angels.

5.) Business angels ; They will normally take a share.

6.) other sources ; overdraft, trade credit , leasing, unsecured bank loans, mortgages and grants.