Sources of finance – summary table

Finance method	Explanation	Benefits	Drawbacks
Owner's Funds	▪ Money put into the business by the owner	▪ No need to pay interest on the money	▪ Could have been invested elsewhere, earning a higher profit ▪ Owner may not have enough funds to meet the needs of the business
Retained Profits	▪ Money kept in the business by the owners ▪ Known as retained profit on the balance sheet	▪ No need to pay interest on the money	▪ Could have been invested elsewhere, earning a higher profit ▪ The business may not have enough retained profit to meet its needs ▪ Shareholders may become unhappy if this means lower dividend payments
Selling Assets	▪ Items owned by the business are sold and the money made used to finance the business	▪ The business is using money it already has – so no need to take on loans or pay any interest or charges	▪ The business has to have something worth selling for this to be an option ▪ The business may sell something they later need
Overdraft	▪ The bank allows the business to draw more money from their bank account than they actually have in it	▪ Very quick to arrange ▪ A good short term solution to a cash flow problem	▪ Only suitable for smaller amounts and has to be repaid within a short amount of time ▪ Interest or charges are paid
Trade Credit	▪ Items are bought from suppliers on a 'buy now pay later' basis	▪ Gives the business more cash to use in the immediate future	▪ Can only be used to buy certain goods ▪ Bills usually have to be settled within 30,60 or 90 days
Debt Factoring	▪ The company sells a debt it is owed to a debt factoring company who pay the business a smaller sum than they were owed	▪ Allows the business to get money for debts that might otherwise never have been paid ▪ Saves the business time chasing customers etc for money owed	▪ Time consuming to arrange ▪ The business receives less money than it was originally owed – this may affect profitability
Leasing	▪ Used to help obtain new equipment eg cars ▪ The business rents the item from its owner	▪ Cost of the asset is spread over its life ▪ No need to find a lump-sum of money to purchase it	▪ May be more expensive than buying the asset – the owner will want to profit from the deal ▪ The business does not own the asset so it does not appear on the balance sheet

Sources of finance – summary table

Debentures	▪ Long term borrowing similar to selling shares, but with the promise of repaying the amount lent at a fixed period in time, usually for a set amount of interest	▪ A very structured method which allows the business to know exactly how much interest will be paid and when the debt has to be paid back	▪ Usually 'secured' onto assets of the business such as property, therefore if the interest on the debt, or the debt itself isn't repaid, the debenture holder will claim the item/property ▪ No longer a popular method of finance for businesses
Bank Loan	▪ An amount of money is borrowed from the bank, then repaid (with interest) over a set period of time	▪ Easy and quick to set up ▪ Large amounts of money can be borrowed ▪ Structured repayment term	▪ Interest payable ▪ If repayments cannot be kept up, the business risks getting a poor credit rating or being made bankrupt
Issuing Shares	▪ A share in the business is sold to an individual or another business. This money then used to purchase new assets	▪ No need to repay the money invested ▪ Cheaper than a loan. ▪ Some businesses can raise large sums of money this way	▪ Need to pay the shareholders a share of future profits ▪ Ownership also means some influence over how the business is run – the original owners may lose control of the business ▪ Risky for the shareholder - the investment may be lost if the business fails
Government Grants	▪ Money given to the business by the government. ▪ Used to help finance new projects – especially those that create new jobs	▪ No need to repay the grant	▪ Limited funds are available ▪ May be restrictions on what the money can be used for
Hire Purchase	▪ An item is bought on finance, repayments are made each month until the final payment when the item becomes the property of the firm	▪ Flexible method – can hand back the item if no longer required and payment will stop	▪ High interest often charged ▪ Item doesn't belong to the business until the end of the term
Venture Capital	▪ Venture capitalists invest in small, risky business e.g. new business start-ups	▪ Can raise money from them even when banks have refused to lend to the business	▪ Risky for the venture capitalist ▪ The VC may want to have some control over how the business operates