**Sources of Finance**

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| **Source of finance** | **Description** |
| Personal funds (for sole traders) |  |
| Retained profits |  |
| Sale of assets |  |

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| **Source of finance** | **Description** |
| Loan Capital |  |
| Leasing |  |
| Trade credit |  |

|  |  |
| --- | --- |
| **Source of finance** | **Description** |
| Overdrafts |  |
| Grants |  |
| Subsidies |  |

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| --- | --- |
| **Source of finance** | **Description** |
| Business angels |  |
| Debt factoring |  |
| Share capital |  |

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| --- | --- |
| **Source of finance** | **Description** |
| Venture capital |  |

**Your task**

match up the descriptions with the terms by moving the pieces into the table above.

Unlike companies, small business owners using sole trader structures are legally connected to their businesses and the profits. These profits for small business owners can be used to fund the business, however, they are treated differently than companies.

At the end of the financial year, a firm can decide to keep back some or all of its profit to spend within the business in the future. This may be good in the long-term, but will obviously have some short-term implications, particularly for shareholders.

A public company (plc.) is a company that has ‘floated’ on a stock market. This means a portion of the company (sometimes all of it) has been sold to the general public, who are then free to buy or sell shares as they see fit. If an existing plc. is looking to raise extra finance, it can issue more shares onto the stock market.

Assets are any item a business owns that has value, for example stock, equipment, trademarks and investments. Selling them will generate cash for the business immediately, but does mean the firm no longer owns them.

A firm can borrow money from friends/family or from a bank. If borrowing from people you know personally, this may create other issues, but they may be more supportive than a bank if you run into trouble. Money will have to be repaid, with interest, usually over a set time period, via regular monthly payments. If used for the purchase of an asset, the asset may be used as collateral.

Businesses sell to customers on credit, and sometimes customers have difficulty repaying the amount owing. The business may choose to sell the liability to another organisation, but only receive the partial amount. This results in a loss between the expected and the actual income; however, it provides a short-term source of finance that may not have ever been recovered.

Businesses may suffer challenging trade periods due to factors outside their control and require sources of finance to survive. Examples might include damaging weather. The government can provide this finance to help prop up businesses until they recover. This funding does not usually require repayment, and can be important in saving a business that is heavily relied on by a community or society.

This is when a business purchases assets from another business, but then don’t pay for it immediately. It is common practice across many business sectors, and helps to boost a firm’s day-to-day working capital. The business is expected to pay the amount owing before the end of the following month.

Think Google! When a small business presents a high risk/high reward opportunity and seeks a wealthy individual to invest. There is obviously no guarantee of success, but the small business may need to give some ownership.

Some businesses seek smaller to medium sized levels of investment from the government. These businesses usually involve innovative or growth opportunities that might provide a greater benefit to the local economy, providing jobs or more. This money usually does not need to be repaid, but can be difficult to receive.

This is an agreement many businesses have with their bank, stating that their bank account is allowed to go into negative up to a certain amount. When this happens, the bank will charge them interest on the amount by which they are effectively borrowing from the bank. The interest rate is generally much higher than for a loan.

If a firm lacks the funds to purchase very expensive equipment, it can instead hire this from another company. They pay a fixed amount for the use of the equipment for a set period of time, and then it is returned to the owners. Many smaller airlines lease aircraft and offices usually rent computers and furniture. It is not a direct investment of cash into the business, but it is a method purchasing assets.

Think Facebook/The Social Network! High risk but high reward companies that require a large investment, but banks are not prepared to take the risk, and the public is not prepared to buy shares. Specialist investment businesses provide the funding, usually by taking some ownership in the company. There is a high failure rate using this source of finance.