Business Financial Needs
(2.11 – Finance & Cashflow)

Short Term needs

1. These are needs that must be repaid within 12 months (0-12 Months).
2. They are usually current expenditure. Current expenditure is day to day expenditure.

Example include Wages, Insurance Rent

1

Business Financial Needs
(2.11 – Finance & Cashflow)

Medium Term Needs

1. These are needs that must be repaid within 1-5 years.
2. They are usually capital expenditure. Capital expenditure is once off expenditure.

Example include buying vehicles

2

Business Financial Needs
(2.11 – Finance & Cashflow)

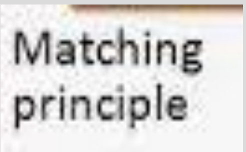
Long Term Needs

1. These are needs that must be repaid within over 5 years.
2. They are usually capital expenditure.

Example include buying premises.

3

Matching Principal
(2.11 – Finance & Cashflow)



Matching principal

The matching principal states that the short, medium- and long-term needs should match the short, medium and long term source finance

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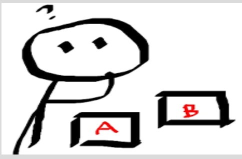
Choosing a source of finance
(2.11 – Finance & Cashflow)



1. **The purpose of the finance** – What is the finance needs for is it short term, medium term or long term
2. **The amount of finance required** –It is important not to get too much, as you pay back interest, this is expensive
3. **Cost of Finance** – known as the financial Cost, compare the APR
4. **Control** – will the company lose control of their business
5. **Security** – will the company have to give Collateral

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Loan Application
(2.11 – Finance & Cashflow)

1. **The purpose of the loan** –Will the loan help the business to be in a better position. Can the business repay it
2. **A Business Plan** – sets out the vision for the business and helps the bank understand the future projection
3. **Collateral** – Security maybe required. This is sold if the loan if not repaid
4. **Credit History** –to see if they have previous loans and if they were repaid
5. **Own Investment** – The banks like to see the business put up some of the

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Finance
(2.11 – Finance & Cashflow)

There are 3 types of finance -

1. Short Term (repaid within 0-1years)
2. Medium (repaid 1-5 years)
3. Long Term (Repaid 5+ years)

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Short term Finance
(2.11 – Finance & Cashflow)

Short Term

Short term source of finance includes the following

1. Cash
2. Bank overdraft
3. Accrued Expenses
4. Trade Credit
5. Credit Card
6. Invoice Discounting
7. Factoring

8

Cash
(2.11 – Finance & Cashflow)

Cash

1. Using the cash, the company has to pay debt.
2. This is money that the company has and the can get access to is very easy

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Bank Overdraft
(2.11 – Finance & Cashflow)

Bank Overdraft
1. This is an agreement with the bank to withdraw money that you don't have in your current account up to a certain limit.
2. You pay interest on the overdrawn amount

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Accrued expenses
(2.11 – Finance & Cashflow)

Accrued Expenses
1. This is also known as deferred payment. You don't pay a bill when you get it but leave it to the last minute.
2. It can affect you credit rating.

11

Trade Credit
(2.11 – Finance & Cashflow)

Trade credit
1. This means buying now paying for them at a later date.
2. If you pay before the date you will receive a discount.
3. Interest can be charge on overdrawn amounts

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Credit Card
(2.11 – Finance & Cashflow)

Credit Card
1. This is buying now and paying for them at a later date.
2. The credit card company will pay for the purchase and you will pay the credit card company back with interest.
3. It is can be very expensive

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Invoice Discounting
(2.11 – Finance & Cashflow)

Invoice Discounting
1. This is borrowing money based on payment from an invoice.
2. The business will collect payment and will use this to repay the loan.
3. Interest can be charge on overdrawn amounts

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Factoring
(2.11 – Finance & Cashflow)

Factoring
1. This is when a business sells a debt to a factoring company for less value of the amount owed.
2. They used this money to pay bill and the factoring company will get the full value from the debtor

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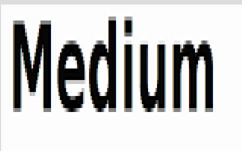
Medium term Finance
(2.11 – Finance & Cashflow)



Medium Term

Medium term source of finance includes the following
1. Leasing
2. Hire Purchases
3. Term Loan

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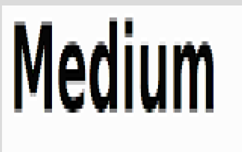
Leasing
(2.11 – Finance & Cashflow)



Leasing
1. This is renting an asset form a firm It allows the company to use the asset as long as they pay regular payments.
2. It is a legally binding agreement is expensive as you never own the asset

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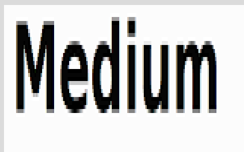
Hire Purchases
(2.11 – Finance & Cashflow)



Hire Purchases
1. This is when a business pays a deposit for an asset, then a finance firm pays the balance.
2. The business pays back the finance company with interest.
3. The business doesn't own the asset until the last instalment is paid

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Term Loan
(2.11 – Finance & Cashflow)

Term Loan
1. This is usually a loan from a financial institution.
2. The business swill make fixed repayment to the financial institution until the loan is repaid.
3. This repayment includes the interest plus the loan repayment amount.

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Long Term Finance
(2.11 – Finance & Cashflow)

Long Term
Long term source of finance includes the following
1. Share Capital
2. Venture Capital
3. Retained Earnings
8. Grants
9. Debentures
10. Mortgage
11. Crowd Funding

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Share Capital
(2.11 – Finance & Cashflow)

Share capital
1. This is money that is invested into the business by its shareholders.
2. In return for this they will receive a dividend.

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Venture Capital
(2.11 – Finance & Cashflow)

Venture Capital
1. This is like dragon Den. They invest in new or high-risk business.
2. They will sit on the board of directors
3. The investors will look for a high return on their investment.

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Retained Earnings
(2.11 – Finance & Cashflow)

Retained Earnings
1. This is when the business puts the profits from the year back into the business.
2. This is a form of equity finance. There are no interest repayment or loss of control

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Grants
(2.11 – Finance & Cashflow)

Grants
1. This is money given by the Government to a specific purpose.
2. There is no interest charged as long as the money is used for the intended purpose.

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Debentures
(2.11 – Finance & Cashflow)

Debenture
1. This is s long term loan that has to be paid back a specific date in the future.
2. They will have to pay back interest each year. There is no loss of control, but security will be required

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Mortgage
(2.11 – Finance & Cashflow)

Mortgage
1. This is s loan that is used to purchase a premise.
2. It is usually paid back between 25-30 years
3. If the business can't repay the mortgage, they may loss the premises.

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Crowd Funding
(2.11 – Finance & Cashflow)

Crowd Funding
1. This is asking investors for small amount of money for which they will receive a reward
2. It can be hard to raise finance this way. A share of the profits may be given to investors

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Debt Finance
(2.11 – Finance & Cashflow)

Define

Debt Finance

This is money that is borrowed that has to be repaid with interest

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Equity Finance
(2.11 – Finance & Cashflow)

Define

Equity Finance

1. This is money that is usually got from selling shares.
2. It is the owners capital

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Working Capital
(2.11 – Finance & Cashflow)

Define

Working Capital

1. This is the money that a business uses for the day-to-day running of a business
2. Working capital is calculate by using the following formula – Current Assets – Current Liabilities

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Liquidity
(2.11 – Finance & Cashflow)

Define

Liquidity

1. This is the business ability to repay debts as they fall due.
2. It is about cashflow and if the business can pay its day-to-day expenses

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Debtors
(2.11 – Finance & Cashflow)

Define

Debtors

1. These are the customer who owe use money.
2. We have sold goods to them on credit

32

Stock
(2.11 – Finance & Cashflow)

Define

Stock

1. This is making sure that the business has the optimum level of stock.
2. This is not having to little or too much stock.

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Cashflow
(2.11 – Finance & Cashflow)

Define

Cashflow

1. this is like a household budget but for a business.
2. It shows the expected monthly income and expenditure.
3. It helps to identify future surplus and deficits

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