Unit 3.1: Sources of Finance

Capital Expenditure: Fixed assets (machinery, land, buildings, etc.)
Revenue Expenditure: Day to day (rent, wages, raw mat., insurance)

INTERNAL:
1) Personal funds: cheap and easy, no interest/risky
2) Retained profit: after taxes & expenses / start-ups don't have any
3) Sale of assets: time consuming / good soft.

EXTERNAL:
1) Share capital: money from sale of shares
2) Loan capital: money from institutions, needs to be paid back
3) Overdrafts: when you spend more money than what you have
4) Trade credit: allows buyer to pay seller in the future (30 - 90 days)
5) Grants: funds given by government / very selective benefit society
6) Subsidies: financial assistance by govt. or non-gov. (NGO) support
7) Debt factoring: reducing the debt owed to the business
8) Leasing: allows to use assets without purchasing (machinery, equipment)
9) Venture capital: financial capital given by investors to high risk - potential
10) Business angels: individuals who give cash to small start-ups in return leads

**SHORT**
- Day-to-day running
- Overdrafts, trade credit, debt factoring
- 1 year or less

**MEDIUM**
- Purchase equipment/vehicles
- Leasing, med. loans, grants
- 1 to 5 years

**LONG**
- Long term fixed assets
- Long t. loans, share cap.
- 5 to 30 years

Factors influencing choice of S.O.F.:
1) Purpose of funds
2) Cost
3) Status and size
4) Amount required
5) Flexibility
6) State of external env.
7) Gearing (high = risky
   low = safe)