

Sources of finance

<p>There are many sources of finance. Finance can be used to: buy stock/products, advertising, create websites, taxes, wages, rent, buy machinery</p>	<p>New share issue -shares represent ownership of a company</p>	<p>Bank Loan - a set amount of money borrowed from the bank, normally for a specific purpose to be paid back over a period of time</p>	<p>Hire purchase - spreading the cost of an asset over a period of time</p>
<p>Examples of internal sources of finance: family & friends, retained profits, sales of assets</p>	<p>-shareholders will receive a dividend (a share of the profits) and be given a voting right (one voter per share)</p>	<p>-interest has to be paid on the amount borrowed eg. 5years with a fixed interest rate 6% of the initial sum yearly</p>	<p>-the asset is received by the business immediately but paid for in regular instalments</p>
<p>Examples of external sources of finance: new shares, bank loans, mortgages, overdraft, hire purchase government grants or trade credits</p>	<p>-the amount of dividend payable will vary year on year and depends on: profit levels and company objectives</p>	<p>-banks may require security on the loan, known as collateral. This can be an asset of the business owner or the company e.g. house, factory</p>	<p>- after all payments have been made the asset belongs to the business</p>
<p>Trade credit - when a customer is allowed to purchase goods or services and pay the supplier at a later scheduled date</p>		<p>Mortgage - a type of long term loan secured against an asset, normally a building</p>	

Cash Flow

<p>If cash outflow is higher than cash inflow over a period time then cash in hand will decrease. At some point it may run out.</p>	<p>Cash Flow Statements- a record of all the cash flowing into and out of the business. It is normally produced monthly but can be any time frame e.g. weekly</p>	<p>Cash flow forecast - the process of predicting future cash inflows and outflows. This allows a business to identify any potential negative closing balances in advance and therefore take action: speed-up or increase cash inflows, slow down or reduce cash outflows, arrange an overdraft</p>	<p>Cash Flow problems - when a business is spending more money than one is currently earning; not having money.</p>
<p>net cash flow - the difference between total cash in and cash out</p>	<p>Opening balance - cash available at the start of the month</p>	<p>-can monitor actual cash flow against predicted</p>	<p>-if a business does have a cash flow problem this can be serious and they may need to take corrective action</p>

Cash Flow (cont)

Closing balance - cash available at the end of the month

-can help set targets for future years

-businesses do fail as a result of cash flow problems so it is important to find a solution

-allows a business to identify positive closing balances: if too high can be seen as being too careful

- a solution to improve cash flow is to strategically sell products

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