



5.1 Business Finance: Needs and Sources

What are the duration of financing needs and their products?

1. Short-term => less than 1 year => payroll, raw materials/supplies
 - a. Overdraft
 - b. Credit Card
 - c. Trade credit
2. Long-term => more than 1 year => capital/machine/equipment/building/v ehicle
 - a. Commercial/Term Loan
 - b. Hire-purchasing/Leasing
 - c. Mortgage
 - d. Debentures
3. Microcredit => short to long-term

What are the main sources of capital?

1. Internal source
 - a. Retained profit
 - b. Sale of assets/re-leasing
 - c. Personal savings of owners
2. External source
 - a. Loans => commercial banks
 - b. Share sales/investment => investment banks
 - c. Trade credit => suppliers
 - d. Venture capital => Venture capitalist/business angel
 - e. Government grants

What are the factors to consider when choosing a method of finance?

1. What are the sources of finance currently available?
 - a. Business size/legal form
 - b. Performance track record/profitability
 - c. Management experience/performance
 - d. Growth/Industry potential
 - e. Current debt-level
2. What is financing needed for?
3. Amount of financing needed
4. Urgency of financing

Why do business need capital?

1. Capital for start-ups
2. Growth/expansion
3. Survival

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