Why a business needs funds

To commence business activities

To expand business

To help survive a loss making business

Difference between short term and long term capital needs

Short term needs are mostly concerned with less than 3 years

Long term needs are mostly concerned with more than 3 years

Internal sources of funds

Retained profits

Borrow from friends and family

Investment by the owner

Selling assets

External sources of funds

Loan

Debentures

Shares

Overdraft

Difference between internal and external sources of capital

Internal sources are generated from within the company or from the owner

External sources of capital are generated from outside the company. Most commonly from a bank

Impact of debt capital compared to owners fund

In debt capital the following happens

The ownership does not change

The money has to be returned

Interest has to be paid to the lenders

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Determining appropriate sources of funds

Several factors are to be considered:
The required money
Gearing ratio
Purpose of the fund
Size of the business

Determining appropriate sources of funds

The required money

If a large amount of money is required the business will opt for long term loan and equity rather than overdraft and retained profits.

Gearing ratio

The companies with low gearing ratio will be able to get more loans

Determining appropriate sources of funds

Purpose of the fund

It would be unwise to do a capital expenditure with a short term loan

Size of the business

It would be easier for a bigger company to raise funds

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