M. Com. Sem. I

Subject - Business Finance

Topic - <u>Sources of Business Finance</u>

Every business requires different kind of finance which is obtained from different sources. On the basis of needs and time, financial requirements are divided into three parts—

1. Long-term financial needs – When finance is needed for a period of 10 years and above, it is called long-term finance. This type of finance is used for the purpose of land, building, machinery, etc.
2. Medium-Term financial needs – When finance is needed for a period of 1 year to 10 years, it is called medium-term financial need. This type of finance is used for replacement of machine, research and development, long-scale publicity, etc.
3. Short-term financial needs – When finance is needed for less than 1 year, it is called short-term financial needs. This type of finance is used for the purpose of raw material; payment of wages, rent, tax and transport charges, etc.

Above three needs of finance is also called as—long-term finance, medium-term finance and short-term finance. Sources of business finance can be classified as internal and external. These are as below—

A. Internal source of finance -

Following are the main source of Internal finance -

1. Owner's funds - Personal savings or other funds of business owner, they can be invest in the business.
2. Working capital reduction - speeding up the collection of accounts receivable and slowing down the payment of accounts payable to free up cash.
3. Retained earnings - This is also a ~~not~~ internal source of finance. The portion of a company's profit remaining after covering all expenses and distributing dividends to shareholders.
4. Sale of Assets - Sale of assets like unwanted or nonproductive assets ~~such as~~ (old machinery or vehicles) may be sold and generate funds.

B. External source of finance -

Following are the external sources of finance -

1. Issue of Equity share capital,
2. Debt financing - It includes bank loans, commercial papers, overdrafts, debentures and trade credit,
3. Government grants and subsidies, and
4. Leasing and hire purchase.

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