How to use: Learn, cover, write and check

Topic 1.3.4 Sources of finance

Key Vocabulary

Interest – the charge on borrowing money

Share capital - the investment raised from selling shares (part of the company) to investors

Dividends – the part of the profit that is paid to shareholders as a reward for their investment

Loan – borrowing an amount of money from the bank which is paid back in monthly instalments at a fixed rate of interest

Mortgage – a type of loan that is secured on property.

Venture capital – a combination of share and loan capital providing by an investor willing to take a risk

Retained profit – profit kept by the business from previous years

Crowdfunding – raising capital online from lots of small investors

Overdraft – having a negative bank balance

Trade credit – buying goods and paying for them at a later date

Core Knowledge

A business will need finance at three key times:

- At start-up to help fund start-up costs, e.g. initial stock
- During periods of expansion to fund new buildings, legal costs, etc
- During periods when cash flow is poor

Short term finance (trade credit and overdraft) are for small amounts and short periods of time. Long term sources are for longer periods and larger amounts.

Be aware:

- Being in debt is not a bad thing and won't always lead to business failure
- The interest rate, is not to do with the number of people who want to buy, but the charge you pay on borrowing money
- Remember you pay back loans and mortgages each month, not at the end of the time period

Wider Business World

Dragon's Den – the Dragons are venture capitalists

Go Fund Me – an example of a crowdfunding website

Synoptic Links

Interest – calculating and understanding the interest rate will help to understand which sources are cheaper

External factors – influences on businesses include the interest rates

Ownership – remember that only LTDs and PLCs can sell shares

Costs & breakeven – interest and loan payments are **fixed costs**