📘 Chapter 7 – Sources of Business Finance

1️⃣ Meaning of Business Finance

- **Definition:** Money required for carrying out business activities.

- **Purpose:** Purchase of assets, meeting day-to-day expenses, business expansion.

2️⃣ Need for Business Finance

- **Starting a business** – buying assets, raw materials.

- **Operating expenses** – salaries, rent, utilities.

- **Expansion** – opening new branches, upgrading technology.

- **Unexpected events** – economic crises, disasters.

3️⃣ Classification of Business Finance

📅 A. On the basis of Duration

1. **Short-term finance** (≤ 1 year) – for working capital needs.
   Examples: Trade credit, bank overdraft.

2. **Medium-term finance** (1–5 years) – for modernization or expansion.
   Examples: Loans from financial institutions.

3. **Long-term finance** (> 5 years) – for fixed assets, infrastructure.
   Examples: Shares, debentures.

🏢 B. On the basis of Ownership

- **Owned Capital:** Provided by owners (equity, retained earnings).

- **Borrowed Capital:** Loans from outsiders (banks, debentures).

🌍 **C. On the basis of Source of Generation**

- **Internal Sources:** Retained profits, sale of assets.

- **External Sources:** Loans, public deposits, share issue.

4 Sources of Finance

A. Internal Sources

- **Retained earnings** – reinvested profit.

- **Sale of assets** – selling surplus property.

B. External Sources

- **Equity shares** – ownership capital.

- **Preference shares** – fixed dividend, priority in repayment.

- **Debentures** – borrowed capital with fixed interest.

- **Loans from banks/financial institutions** – medium & long term.

- **Trade credit** – suppliers allowing delayed payment.

- **Public deposits** – money collected from public.

- **Lease financing** – use of assets without buying.

- **Commercial paper** – short-term unsecured promissory notes.

5 Factors Affecting Choice of Source

- **Cost** of finance.

- **Risk** involved.

- **Control** implications (ownership dilution).

- **Flexibility** & repayment terms.

6️⃣ Importance of Business Finance

- Smooth functioning.

- Business growth.

- Handling emergencies.

- Competitive advantage.