

SOURCES OF BUSINESS FINANCE

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MEANING AND NATURE

- The financial needs of a business can be categorized as follows:

-Fixed Capital Requirements

-Working Capital Requirements

CLASSIFICATION OF SOURCES OF FUNDS- *ON THE BASIS OF PERIOD*

Long -Term

- Equity Shares
- Retained Earnings
- Preference Shares
- Debentures
- Loan from Financial Institutions
- Loan from Banks

Medium-Term

- Loan from Bank
- Public Deposits
- Loan from Financial Institutions
- Lease Financing

Short -Term

- Trade Credit
- Factoring
- Banks
- Commercial Banks

CLASSIFICATION OF SOURCES OF FUNDS- *ON THE BASIS OF OWNERSHIP*

Owner's Fund

- Equity Shares
- Retained Earnings

Borrowed Funds

- Debentures
- Loan from Bank
- Loan from Financial Institutions
- Public Deposits
- Lease Financing
- Commercial Papers

CLASSIFICATION OF SOURCES OF FUNDS- *ON THE BASIS OF SOURCE OF GENERATION*

Internal Sources

- Equity Share Capital
- Retained Earnings

External Sources

- Financial Institutions
- Loan from Bank
- Preference Shares
- Public Deposits
- Debentures
- Lease Financing
- Commercial Papers
- Trade Credit
- Factoring

BOX A

The Lessors

- *Specialized Leasing Companies*
- *Banks and Bank-subsiidiaries*
- *Specialized Financial Institutions*
- *Manufacturer-Lessors*

The Lessees

- *Public Sectors Undertakings*
- *Mid-Market Companies*
- *Consumers*
- *Government depts. and such*

INTERNATIONAL FINANCING

- ◉ COMMERCIAL BANKS
- ◉ INTERNATIONAL AGENCIES AND DEVELOPMENT BANKS
- ◉ INTERNATIONAL CAPITAL MARKETS
 - Global Depository Receipts(GDR's)
 - American Depository Receipts (ADR's)
 - Foreign Currency Convertible Bonds (FCCB's)

FACTORS AFFECTING THE CHOICE OF THE SOURCE OF FUNDS

- i. Cost
- ii. Financial Strength and Stability of Operations
- iii. Form of Organization and Legal Status
- iv. Purpose and Time Period
- v. Risk Profile
- vi. Control
- vii. Effect on Credit Worthiness
- viii. Flexibility and Ease
- ix. Tax Benefits

REFERENCES

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CHECK YOUR KNOWLEDGE

➤ Equity Shareholders are called _____

- a) Owners of the Company
- b) Partners of the Company
- c) Executives of the Company
- d) Guardian of the Company

➤ The Term ' Redeemable' is used for _____

- a) Preference Shares
- b) Commercial Papers
- c) Equity Shares
- d) Public Deposits

CHECK YOUR KNOWLEDGE

- Funds required for purchasing current assets is an example of _____
- a) Fixed Capital Requirements
 - b) Ploughing back of Profits
 - c) Working Capital Requirements
 - d) Lease Financing

- ADR's are issued in _____
- a) Canada
 - b) China
 - c) India
 - d) U.S.A

CHECK YOUR KNOWLEDGE

➤ Public Deposits are the deposits that are raised directly from _____

- a) The Public
- b) The Directors
- c) The Auditors
- d) The Owners

➤ Under lease agreement, the lessee gets the right to _____

- a) Share Profits Earned
- b) Participate in the Management of the Organization
- c) Use the asset for a specified period
- d) Sell the Assets

CHECK YOUR KNOWLEDGE

- Debentures represent _____
 - a) Fixed Capital of the Company
 - b) Permanent Capital of the Company
 - c) Fluctuating Capital of the Company
 - d) Loan Capital of the Company

- Under the factoring arrangement, the factor _____
 - a) Produces and Distributes the Goods and Services
 - b) Makes the payment on behalf of the client
 - c) Collects the client's debt or account receivables
 - d) Transfer of goods from one place to another

CHECK YOUR KNOWLEDGE

➤ The maturity period of a Commercial Paper usually ranges from _____

- a) 20 to 40 days
- b) 60 to 90 days
- c) 120 to 365 days
- d) 90 to 364 days

➤ Internal sources of Capital are those that are _____

- a) generated through outsiders such as suppliers
- b) generated through loans from commercial banks
- c) generated through issue issue of shares
- d) generated within the business

*Thank
you*

