

**BUSINESS:** *Creating informed, discerning employees, consumers and future leaders*

## 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. Interest can be fixed or variable

**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.

	<b>Benefit</b>	<b>Limitation</b>
<b>Overdraft</b>	Flexible – only use what you need when you need	High interest rates
<b>Trade Credit</b>	Free; helps cash flow	Might not be granted
<b>Personal savings</b>	No interest to repay	Might not have enough
<b>Retained profits</b>	No interest to repay	New businesses won't have any
<b>Venture capital</b>	Advise and support provided	Have to share profit
<b>Share capital</b>	No need to repay	Have to share profit
<b>Loan</b>	Fixed monthly payments helps cash flow	Time to arrange and may not be granted
<b>Crowdfunding</b>	Risk is shared among many people	May not raise enough

### Misconceptions

- 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

### Application

**Dragon's Den** – the Dragons are venture capitalists

**Go Fund Me** – an example of a crowdfunding website



### Topic 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 can sell shares

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