

## Task 11- Availability of Finance

There are three main types of financing: Short, Medium and long term

### Short

**Selling Assets:**

The business can sell factory or office areas and space that is not in use.

**Factoring:**

The factor is a organisation which will collect debts of other businesses quicker and more efficiently.

**Retained Profits:**

This is the part of the profit made that is left and is not distributed amongst owners instead it is retained to perhaps put back into the business .

**Grants:**

Government gives money to the business.

### Medium

**Bank loans:**

The borrowing of money from a bank however this has to be paid back including interest within a set period of time

**Trade credit:**

Businesses are able to spend money to purchase goods and services on credit. By doing this the payment is delayed between 1-3 months.

**Leasing:**

The renting of perhaps: equipments, machinery and premises. Leasing is paid by parts(instalments) over a period of time normally within 1-3 years.

**Sale and lease back:**

In this case the business sells one of its main buildings to a financial institution and then leases it back from them by paying a rent.

Businesses sell one of their main buildings to a financial association. Thereafter it is leased back from them by paying rent.

Hire purchase:

The renting of: equipment before buying. This means the borrower does not own the affect until the final instalments have been successfully paid.

Subsidy:

A grant given by the government to businesses to boost their employment rate and also to allow development in those poorer locations in the country.

A type of grant: given to businesses by the government. This money is used to enhance their employment rate and to develop the less wealthy areas of the country.

## Long

Preference shares:

In a limited company the shareholders receive a fixed amount of divided each year. When dividends are paid the preference shareholders seize precedence over normal shareholders.

Ordinary shares:

In a limited company the shareholders receive dividends each year dependant on the sum of profit.

Venture capital:

A financial institution: borrows money to businesses considering expansion rather than for new inventions or production .

Mortgage:

A long loan secured upon property. If the borrowers do not keep up with the payments then the property can be repossessed.

Debentures:

A long term loan to a business between 5 -25 years.

## Finance availability for my Business

The financial scheme that is be most suitable for my business will be by obtaining a bank overdraft. Such an approach will be necessary if I am in need of money or unable to reach the break even stage then the bank can help me raise money in order to successfully reach the break even stage.

Moreover under certain circumstances if my business is in debt move towards trade credit. A specialist business will collect my money that is owed to me by other companies in advance and charge a fee.

Also the concept of leasing is another method that I feel will work for my business. My financial availability is not a lot therefore I will have to pay instalments of money over a period of 1-3 years. This will increase finance and I will not have to pay all at once. In addition I will be in need of equipment. By renting the: latest coffee machines, cake makers, ovens, brewers etc. The actual area that I wish to rent will need a new design to make it viable and exciting to customers.

My business will be new therefore my budget is not as large as other companies. I can apply for a grant from the government to start me off and keep the business alive. This will allow me to raise capital from sales to repay this type of finance.

A bank loan will try and be avoided as it has many disadvantages to it. However it will allow me to pay off debts easily yet repayments need to be paid on a monthly basis including interest that makes it more costly depending on the income and the amount of the loan taken. This is problematic as attention will be needed to monitor the interest rates in order to be paying the less possible amount of money. Profits will be tried to kept at the highest possible level.