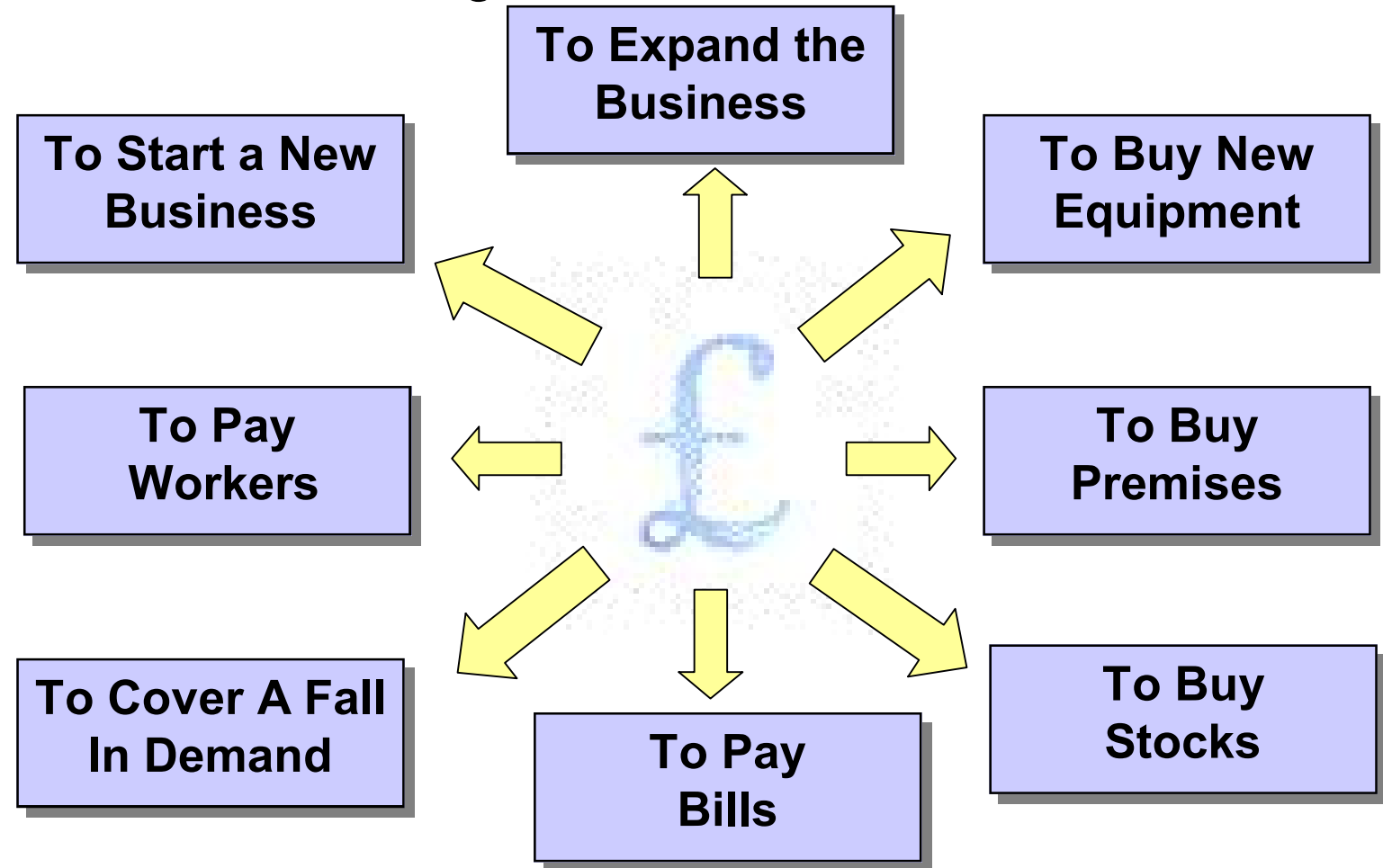




Why Do Firms Need Finance?

- There are a number of reasons why finance may be needed, including:





Different Types of Finance

- There are 2 different types of finance:

Types of Finance

Internal

- Money that is obtained from within the business, e.g. last year's profits
- Using this type of finance is cheaper, but means that the money cannot be used for anything else.



External

- Money obtained from outside the business. E.g. a bank loan
- This usually requires interest to be paid on the money obtained



Finance and Time

- The type of finance a business will use often depends upon how long they need the money for:

Short-Term

This refers to finance that is only required for a ***Maximum of 12 Months.***

Medium-Term

This refers to finance that is required for ***more than 1 year, but less than 5 years.***

Long-Term

This refers to finance that is required for ***more than 5 years.***





Sources of Finance

- There are a number of possible forms of finance available for a business
- Choosing the right one is not always easy!
- To make matters worse not every type of business can use every type of finance!



Which Source of Finance Can I Use?

	Retained Profit	Overdraft	Loan	Hire Purchase	Debenture	Shares
Sole Trader	✓	✓	✓	✓		
Partnership	✓	✓	✓	✓		
Ltd	✓	✓	✓	✓	✓	✓
PLC	✓	✓	✓	✓	✓	✓
Public Corporation	✓	✓	✓	✓	✓	