



Business Finance

AS Business

Business Finance

- *Is the money / investment that a business needs to run its operations.*
- *For example a business will need to buy equipment, it will need to buy raw material, pay labor wages etc.*

Types of Business Expenditure

- *Capital Expenditure: any expense on buying the fixed asset is known as capital expenditure. Meaning that it is not a recurring expense. Like buying machinery will be capital expenditure.*
- *Revenue Expenditure: any expense that is a*

Types of Business Expenditure

recurring expense for the business is known as Revenue Expenditure like wages, raw material.

MEGA LECTURE

Fixed Assets versus Current Assets

- *Fixed Asset: is any asset that will last for more than one year. Non Current is another name of Fixed Asset. Example the building, the machines, furniture.*
- *Current Assets: is any asset that has a life of less than 1 year. For example stationery, cash held by the business, the stock of raw material etc.*
- *Asset is any resource that is being used in the*

Fixed Assets versus Current Assets

business to produce a good or service.

MEGA LECTURE

Types of Liabilities

- *Liability is the amount that the business owes to someone.*
- *Current Liabilities:* any amount that the business needs to pay back within one year
- *Long Term Liabilities:* any amount that has a repayment period of more than 1 year.

Sources of Finance

• To start a business or for an existing business where will you get the money / investment from?

1. Retained Earnings

2. Bank Loans

3. Brining in more Shareholders / partners

4. Sale of old assets

5. Hire Purchase

6. Leasing

Sources of Finance

7. *Microfinance*

8. *Crowd Funding*

9. *Debt Factoring*

MEGA LECTURE

Types of Business Finance

- *Internal Finance: any finance that is coming from within the business example the owners own investment.*

MEGA LECTURE

Types of Business Finance

- *External Finance*: is any finance that comes from outside the business example a bank loan.

MEGA LECTURE

Types of Internal Finance

- 1. Retained Earnings:* are unused profits that a business has saved over the years.
- 2. Owner Own Investment / Savings:* is any money that the owner himself / herself is contributing to the business
- 3. Sale of existing asset:* selling out dates asset to get the finance that you need for something

External Sources Of Finance

- *Bank Loan:* is when you borrow from a bank. The loans have to be repaid with interest.
- *Brining in new partners / shareholders:* any money that is being contributed by the new partners / shareholders.
- *Hire Purchase:* is when someone buys something from a bank on installments like a car or a house. At the end after all the installments have been paid the car /

External Sources Of Finance

house becomes the property of the person or the business.

- *Leasing: is basically renting out some equipment / premises. In leasing the property / car etc stays the property of the original owner.*

Microfinance

- *Is when a small amount of loan is being provided to a business. Often times the microfinance / micro-loan does not require collateral (the security that someone needs to deposit with the bank to be able to get a loan).*
- *Another benefit of microfinance is that the amount of interest will be lower than usual loans.*

Microfinance

- *Microfinance is also be external source of finance.*

MEGA LECTURE

Crowd Funding

- *Is when small amounts of money are raised from a large number of people it is known Crowd Funding.*
- *For instance when a not for profit entity is raising donations for its social cause.*
- *Crowd Funding is also be external source of finance.*

Debt Factoring

- Any loan / or borrowing is known as debt.
- Debt is any amount of money that the business owes to any other business.
- Debtor is the person who owes someone some money.
- Debt Factoring is when a business sells its debt to the 3rd party.
- For example if person A owes RS 500 money to Primax

Debt Factoring

and the person is not paying it back. Then Primax can ask the 3rd party like a bank to buy its debt.

- In this case the bank will pay Primax Rs 400 and will take back Rs 500 from person A and therefore both Primax and Bank benefit from this situation.*
- Debt Factoring is also external source of finance.*

Hire Purchase

- *Hire Purchase is when someone buys an asset on installments.*
- *And at the end of the period the ownership is transferred from the bank to the person buying the asset.*

Leasing

- *Is renting out any premises / machinery / asset.*
- *In leasing the ownership of the asset / equipment is never transferred.*

Further Classification of Finance

- *Equity versus Debt*
- *Equity is the owners own money. For instance in the case of Primax the value of invested money that is being contributed by the business owners is its equity.*
- *Debt is any amount of money that is borrowed by a bank etc.*

Further Classification of Finance

Return on Equity = Share in Profit /

Loss Return on Debt = Interest

MEGALECTURE

Debt versus Equity

- *Equity is better option for and new and small risky businesses*
- *Debt is a better option for old well established and less risky businesses*

Which of the 2 sources of finance a business should prefer? Equity versus Debt

- *The good thing about equity is that you do not need to pay fixed amount of interest in terms of loss. However on the downside the business will be sharing its profit with its new partners.*
- *On the other hand in the case of debt you need to pay interest no matter what. Which can even make the business go bankrupt. But the good thing is that in times of profit the bank will not ask for higher interest.*

- Rule of Thumb: If it is a risky business is you go for equity if it is less risky you go for debt

MEGA LECTURE

Financial Statements

- *Financial Statements are accounting documents that a business prepares to evaluate its financial progress.*
- *There are 3 major financial statements in any business*
 - 1. Income Statement / Profit and Loss Statement*
 - 2. Balance Sheet / Statement of Financial Position*
 - 3. Cash Flow Statement*

Income Statement

- *A statement that records the business revenue and expenses for the period.*
- *It calculates the Gross Profit and Net Profit earned by the business during certain time period.*

Balance Sheet / Statement of Financial Position

- *It is a statement that records all of the business assets and liabilities and capital.*
- *Balance Sheet lists all of the company's assets. Liabilities and capital on any given day.*

Cash Flow Statement

- *Cash flow statement records a business cash inflows and outflows for a period.*

MEGA LECTURE

Ratio Analysis

- *Ratio is comparison of 2 financial variables that is used to evaluate the business performance.*
1. *Profitability Ratios*
 2. *Liquidity Ratios*

1. Profitability Ratio

1. $\text{Gross Profit Margin} = \text{GROSS PROFIT} / \text{SALES} * 100$

2. $\text{Net Profit Margin} = \text{NET PROFIT} / \text{SALES} * 100$

10 % - GP

Margin 2% -

NP Margin

2. Liquidity Ratios

1. *Current Ratio = Current Assets / Current Liabilities*
2. *Acid Test Ratio = Current Assets - Stock / Current Liabilities*

The ideal value of current ratio for any business is 2 : 1. The ideal value of acid test

2. Liquidity Ratios

ratio is 1.5 : 1.

MEGA LECTURE

Liquidity

- *Liquidity is the ability of the business to pay back its debt.*

MEGA LECTURE

Key Terms

- *Debtors: are the people who owe business the money. These are also known as trade receivables.*
- *Creditors: are the people to whom you owe the money. This is also known as trade payables.*

Buffer Inventory

- *Buffer Inventory is the stock of raw material that a business holds at its warehouse all the time in case the supplies of raw material do not receive on time this buffer inventory can be used. This helps business to avoid productions halts in case of late deliveries.*

How a business can become more liquid

- *A business can become more liquid by selling of its high level of inventory and converting it in cash.*
- *Cash or Bank Balance is more liquid than any other form of asset.*

Partnership versus Private Limited Company

- *In private limited company there is limited liability which means that the shareholders cannot lose their personal assets.*
- *Continuity is another major benefit of private limited company which means that in case of change of ownership the business does not need to be registered again.*

Partnership versus Private Limited Company

- *To have the business converted into private limited company the owners will need to spend some time and resources to get the legal documentation.*

MEGA LECTURE

Reason for low Labor Motivation

- *Employees are saying that they do not learn new skills*
- *The workers might be made to work longer hours*
- *The employees are not made part of the decision making which means the business is using autocratic leadership style*
- *The MM should provide more training opportunities for its employees*

Reason for low Labor Motivation

- *The workers should be involved in decision making like their opinions should be considered while deciding on major issues*
- *Perhaps MM can try motivating employees by appreciating their work and so on.*