Finance

Unit 5

Finance

- Finance is the money needed to start and smoothly run the business.

Types of Finance

- All different sources of finance can be divided in 3 categories namely ***internal finance*** and ***external finance.***
- Internal Finance is any finance that the business is generating within the business / or from business ongoing activities.
- External Finance is any finance that is coming from outside the business organization.

Retained Profit	Issuance of Shares
Sale of some assets	Bank Borrowing
Existing business owners / partners brining in more investment	Brining in new investor / partner

Types of Finance

- ***Debt versus Equity Finance***

- Debt is borrowing that needs to be repaid and the repayment schedule does not take into account the business profitability and therefore the loan needs to be repaid whether the business is making a profit or a loss.
- Equity is when someone joins in the business as a partner or shareholders. Which means that if a business makes a profit it will be shared among all of its shareholders.

Though in equity finance you need to share your profits with your partners but it is better in case the business makes a loss because then the loss is also shared.	Fixed interest needs to be paid and so there will be no sharing in the profits. However in case of loss the business still needs to pay the loan / interest which is not the case in equity financing.
Equity is a better choice of finance for newly established businesses	Debt is a better choice for well established businesses.