

# SOURCE OF BUSINESS FINANCE

## 1) BUSINESS FINANCE

Business finance refers to the funds necessary to carry out business activities.

### I. Nature or characteristics of business finance

1. Required for all business
2. Depending on the nature and size of the business.
3. Covers all forms of funds.
4. Required on a continuous basis.
5. Wider Term
6. Fluctuating Nature
7. Determines the scale of the business.

### II. The Importance of Business Finance:

1. Starting and establishing a business.
2. Ensure that daily activities go smoothly.
3. To modernize, grow, and diversify the business.
4. Purchase tangible and intangible assets.
5. To compete and stay ahead of the market.
6. To withstand a recession or depression.
7. Take advantage of business possibilities.

### III. Sources of Funds :

Depending on ownership, the sources can be classed as:

1. Owners' funds.
2. Borrowed funds.

(a) **Owners' Funds:** The monies contributed by the owner of the business.

### Features of Owners' Funds.

1. Permanent capital
2. Control
3. Risk Bearer Capital
4. Return
5. No security needed
6. Sources.

### Types of owners fund.

1. Equity shares
2. Preference shares
3. Retained Earnings:
4. Global Depository Receipts (GDRs)
5. American Depository Receipts (ADRs)
6. Indian Depository Receipts (IDRs)

(b) **Borrowed Funds:-** Money raised through loans or borrowings.

### Features of Borrowed Funds

1. Temporary capital.
2. Periodic interest payments
3. Control
4. Security
5. Resources

### Types of borrowed funds.

1. Public Deposits:
2. Loans from commercial banks
3. Loans from Financial Institutions
4. Debentures/Bonds
5. Trade credit

## 2. OWNERS' FUNDS:

### (a) Equity shares

Equity shares are those that do not have any special or preferential rights regarding the payment of yearly dividends or capital return.

#### Features of Equity Shares:

1. Risk-Bearer Capital
2. Maturity
3. Return
4. Claim for residual income.
5. Voting privileges.
6. Limited Liability

### (b) Preference shares

Preference shares are shares that have a preferred entitlement to dividend payments and capital repayments.

#### Features of Preference Shares

1. Fixed Dividend Rate
2. Repayment of capital
3. No voting rights
4. No charge on assets.
5. Hybrid Security.

### (c) Retained Earnings:

This term refers to a portion of profits that is set aside for future use.

#### Features of Retained Earnings

1. dependable source

2. Economical
3. Maintains control
4. Conversion to Share Capital
5. Supports medium and long-term financial goals
6. Improves business resilience to shocks
8. Stability of Dividend

**(d) Global Depository Receipts (GDRs)**

Global Depository Receipts (GDRs) are instruments issued overseas by a firm to raise capital in a foreign currency that are listed and traded on a foreign stock market.

**(e) American Depository Receipts (ADRs)**

American Depository Receipts (ADRs) are issued by non-US corporations to Americans in order to raise foreign money. ADRs are identical to GDRs, however they can only be issued in America and traded on the American stock exchange.

**(f) Indian Depository Receipts (IDRs)**

An IDR is a financial instrument denominated in Indian rupees that takes the form of a Depository Receipt issued by an Indian Depository to allow a foreign firm to raise capital from the Indian securities market.

**3. BORROWED FUNDS.**

**(a) Debentures/Bonds**

A debenture is a document or certificate issued under the company's common seal that acknowledges its obligation to the holder on certain terms and circumstances.

Features of Debentures

1. Borrowed Fund
2. Periodic interest payments
3. Requirement to pay interest

4. No voting rights
5. Redemption of Debentures
6. Economical.
7. Security

**(b) Loans from Financial Institutions:**

These institutions finance businesses and are ideal for raising substantial amounts of money over time.

Features of Loan from Financial Institutions

1. Medium and long-term financing
2. Business assistance
3. A source of goodwill
4. Easy Repayment Scheme
5. Finance, especially during the Depression

**(c) Loans from commercial banks:**

Commercial banks are a valuable source of funding for a variety of reasons and time periods.

**(d) Public Deposits:**

These are deposits made by organizations directly from the public.

Features of Public Deposits:

1. Simple procedure.
2. Economical
3. No security
4. No loss of control.
5. Limited funds.

(e) **Trade credit**

Trade credit refers to credit granted by one merchant to another for the purchase of products and services.

Features of Trade Credit

1. Short-Term Finance.
2. Convenient Resource
3. Ready Availability.
4. No Interest Commitment
5. Promotes sales.
6. Lack of security
7. Contributes to increased inventory levels
8. Subject to many circumstances

(f) **Inter-Corporate Deposits (ICD)**

An inter-corporate deposit is an unsecured loan by a company (corporate) from another corporate entity registered under the Companies Act.

Features of Inter-Corporate Deposits:

1. Short-term source of funding
2. Interest
3. Free of bureaucratic and legal issues.
4. Secrecy is preserved.