

# **Chapter 7: Sources of Business Finance**

## **1. Concept and Need for Business Finance**

- **Definition: Business finance refers to funds required for various business activities.**
- **Types of Finance Needs:**
  - **Fixed Capital: Long-term funds required to acquire fixed assets like buildings and machinery.**
  - **Working Capital: Short-term funds required for day-to-day operations, like purchasing raw materials.**

## **2. Classification of Sources of Funds**

- **On the Basis of Time:**
  - **Long-term: For more than five years (e.g., equity shares, debentures).**
  - **Medium-term: One to five years (e.g., loans from banks).**
  - **Short-term: Less than one year (e.g., trade credit).**
- **On the Basis of Ownership:**

- **Owned Capital: Funds provided by the owners (e.g., equity shares).**
- **Borrowed Capital: Funds provided by outsiders (e.g., loans, debentures).**

### **3. Sources of Owned Capital**

- **Equity Shares: Permanent capital, shareholders are the owners, and they receive dividends.**
- **Retained Earnings: Part of profits reinvested in the business, also known as ploughing back of profits.**
- **Preference Shares: Owners get a fixed dividend and have preferential rights over equity shareholders in terms of dividend and capital repayment.**

### **4. Sources of Borrowed Capital**

- **Debentures: Long-term debt instruments, with fixed interest payments. Holders are creditors, not owners.**
- **Loans from Financial Institutions: Medium- to long-term loans for major projects, often secured by assets.**
- **Commercial Banks: Provide short- to medium-term loans and offer flexibility.**

- **Trade Credit: Short-term credit extended by suppliers to purchase goods and services.**

## **5. International Sources of Finance**

- **Foreign Direct Investment (FDI): Investment by foreign entities, boosting local businesses with funds and expertise.**
- **Euro Issues: Raising capital by issuing securities in international markets.**
- **Foreign Bonds: Bonds issued by an Indian firm in a foreign country, helping to access global capital.**