|  |  |
| --- | --- |
| **Subject Content**  | **What students need to learn?**  |
| 1.3.4Sources of business finance | Sources of finance for a start-up or established smallbusiness:● short-term sources: overdraft and trade credit● long-term sources: personal savings, venture capital,share capital, loans, retained profit and crowd funding. |

**Short Term Finance**

**Overdraft:** This allows a business to spend more money than it has in its account. The bank and business will agree on a limit and interest is charged when the account goes overdrawn.

**Trade Credit:** This is when businesses buy raw materials and components and pay for then at a later date, usually within 30-90 days.

**Short term finance:**

This is money the business borrows and pays back within **one** year.

**Long term finance:**

This is money the business borrows and pays back over a long period of time, **over one year.**

**Long Term Finance**

**Personal savings:** Owners may be planning to set up their own business for a number of years. This will involve regular saving in order to have enough capital to set up the business/keep it running.

**Venture Capital:** These are industry experts who invest in small and medium sized businesses in return for a stake in the company.

**Share capital:** This is money raised through the selling of shares in the business. There are two main types – ordinary shares and preference shares.

**Bank loans**: This is an arrangement where the amount borrowed must be repaid over a clearly stated period of time, in regular instalments. The amount is paid back with interest.

**Retained Profit:** Profit kept within the business that is not paid out in dividends to the shareholders. This source of finance is the best if the business wants to expand.

**Crowd funding:** Raising capital online from many small investors to fund a project. (This does not involve the stock market)

