Sources of Finance

	Short/medium/long term? Type of business available to	Advantages	Disadvantages
Owners capital	Short, medium or long term, sole traders and partnerships	No need to repay the money No interest has to be paid No cost to raise the finance	Limited to amount of savings they have
Retained profit	Medium/ long term All businesses	No interest has to be paid No need to repay money No cost to raise the finance	Only available to businesses that have made a profit
Sale of assets 	Short, medium or long term All businesses	Can raise large amounts of capital depending how much the asset is worth Good if asset is no longer used	Can take time to sell the asset May not be possible to find a buyer
Overdraft	Short term All businesses 	Can meet short-term cash flow problems Can continue trading in the short term	Interest is charged – it can be expensive
Trade credit	Short term All businesses 	Allows the business buying the goods to sell them on to a customer before payment is made to the supplier Period of credit is usually interest free	Interest is charged if the credit is not repaid within the time limit
Taking on a new partner	Long term, partnerships only or sole traders who become partnerships	May bring new skills/ ideas to the business No cost to raise the finance	The new partner will have a say in the running of the business The new partner will be entitled to a share of any profits
Loan	Medium or long term All businesses 	Repayment is spread over a period of time Paying in instalments can help with budgeting	Interest has to be paid Business may need to risk an asset as security
Share issue	Long term, limited companies only 	A lot of finance can be raised from many investors Money does not have to be paid back No interest has to be paid	Dividends may have to be paid Shareholders are entitled to have a say in the running of the business The business may be taken over (plcs)
Crowdfunding	Medium or long term All businesses 	A lot of money can be raised from a lot of contributors Used for start-up or expansion	Interest will need to be paid on loans Profits may need to be shared if equities are sold

Exam questions

Delicious Cakes are forecast to have a negative cash flow of £3,000 in November and they are considering their finance options. They are not sure whether to take out a bank loan of £5,000 to cover their shortfall or use their overdraft which is £3,500.

Knowledge

1. **What is meant by the term 'overdraft'? (1 mark)**

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2. **What is meant by the term 'bank loan'? (1 mark)**

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Application

3. **How much do 'Delicious Cakes' need to borrow in November? (1 mark)**

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4. **How much finance would they have available to them if they combined their overdraft and the bank loan? (1 mark)**

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Analysis

5. **Analyse one benefit to 'Delicious Cakes' of using an overdraft (3 marks)**

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6. **Analyse one drawback to 'Delicious Cakes' of using a bank loan (3 marks)**

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