**Short Term Sources of Finance**

**Cover short terms needs of the business/household, e.g. expenses, ordering stock. Timeframe 0-1 years**.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Source of Finance** | **Cost** | **Control** | **Security** | **Risk** |
| **Creditors:** Buy now, pay later. Used to purchase stock, don’t have cash immediately so very important to use. (B) | No direct, but cash discounts may be lost, late payments can result in interest charges. | 0 | None, seller has ownership of goods until paid for. | Little risk, other than personal reputation if you don’t pay. |
| **Bank Overdraft:** Permission to withdraw more money than is in your account. Agreed limit with the bank. (B) (H) | APR varies from bank-bank. Can be high dependent on individual payment plan and circumstances. | 0-But can be taken to court to recover debt. | A good credit rating may be required, might be turned down if you do not have one. | Low risk, bank can recall overdraft at little notice however it must be paid back.  Future Credit Rating issues. |
| **Accruals:** Delaying payment until the last moment to free up cash.(B) (H) | No direct- but cash discounts may be lost | 0 | 0 | Failure to pay bills can lead to reputational damage, some cases bankruptcy proceedings. |
| **Factoring of Debtors:** Selling off a debt at a discounted rate to get instant cash. (B) | Expensive-some of debt owed lost at a big discount. | 0 | 0 | Risk of upsetting customers- may not like dealing with 3rd party and risk to reputation that this is needed. |
| **Credit Cards**: Plastic card, allows you to purchase goods now and pay at a later date. agreed limit with the bank. (B) (H) | Can be expensive, high interest rates. | 0 | Spending limits. | Can build up large debt, can damage credit rating for the future. |

**Medium Term Sources of Finance**

**Cover medium term needs of the business/household, e.g. purchase of delivery vans, equipment. Timeframe 1-5 years.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Source of Finance** | **Cost** | **Control** | **Security** | **Risk** |
| **Leasing:** Like renting, you never own the asset. Sign a lease agreement to make fixed and regular payments to the leasing company. In the short term less expensive, but in the long run can be more expensive as you never own the asset. (B) (H) | Can be expensive as never own the asset, but less expensive immediately. Does free up the use of the good now with more manageable monthly payments. | Always remains with the leasing company | 0 | No real risk, just have to keep making payments. |
| **Medium Term Loan:** Loan from the bank, depends on your credit rating. (B) (H) | APR cheaper than bank overdraft | Failure to repay- legal action taken. | Collateral may be required to secure the loan | Failure to repay means loss of reputational damage, legal action, and bad credit rating. |
| **Hire Purchase:** Immediate use of good, pay in instalments under HP Agreement. Only own goods when the last payment has been made. The retailer will use a HP company and earn commission from this. (B) (H) | Expensive- APR can be over 20%. Generally used as an alternative to a loan due to poor Credit Rating. | 0 | Non-payment- asset called back. | Little risk, but failure to repay means the asset is repossessed. |

**Long Term Sources of Finance**

**Cover long term needs of a business/household, e.g. expansion, new house/building. Timeframe 5+ years.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Source of Finance** | **Cost** | **Control** | **Security** | **Risk** |
| **Share Capital:** Shareholders invest capital in return for a dividend. Private means invited, Public means anyone. (B) | No profit means no dividend. For PLC, cost of putting on stock exchange high. | Selling shares reduce control. | 0 | Little- good for securing more capital, just don’t sell too many to dilute control. |
| **Debentures:** Borrow a lump sum with fixed interest, pay interest regularly and lump sum at the end. (B) | Fixed interest and amount borrowed paid in full. | 0-But Some assets may be used as collateral. | Assets as collateral. | Failure to repay means security surrendered, loss of reputational damage and Credit Rating. |
| **Retained Earnings:** Putting portion of profits back into the business. (B) | Cheap- your own money, no interest, but beware of opportunity cost. | 0 | 0 | 0 |
| **Venture Capital:** Seeking investment for your business, like Dragons Den. (B) | Investor looks for significant return on investment and dividends, | Some shares lost. | 0 | Little- apart from loss of control. |
| **Grants:** Money provided to a business by local authority, government, or EU (B) | No interest if not repaid. | Strict conditions, criteria of grant must be met. | 0 | 0-But if not used for intended purpose, money has to be repaid. |
| **Mortgage:** Long term loan to purchase property, interest fixed or variable. (B) (H) | APR repaid over term, can be very expensive. | If default, court action to recover debt. | Claim on property if cannot repay. | Non-payment means repossessed, damage to credit rating. |
| **Sale and Leaseback:** Selling an asset and lease it back, gives large amount of extra capital. (B) | Annual rental charge. | Reduce value of your Fixed Assets as your asset is sold. | 0 | 0-Only that you will have to do without the asset if you cannot repay. |