Your notes

GCSE Business: revision notes

Sources of finance

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Why businesses need finance

- To start up (equipment, premises and stock), to run from day to day (bills and wages), and to grow (expansion and new products).

Short-term sources

- An **overdraft** lets a business take more money out of its bank account than it has, up to an agreed limit. It is flexible, but the **interest** rate is high.
- **Trade credit** means buying from suppliers and paying later, often after 30 or 60 days. There is no **interest**, but the business may lose discounts for paying early.

Long-term sources

- A **bank loan** is a fixed sum repaid with **interest** over a set time. The bank may want security (**collateral**).
- **Share capital** is money raised by selling shares (only limited companies can do this). It doesn't need repaying, but the owners lose some control and share the profits through dividends.
- **Retained profit** is profit kept in the business. There is no **interest**, but there may not be enough.
- **Venture capital** is investment in a risky, growing business in exchange for a share of ownership; investors may also bring expertise.
- **Crowdfunding** raises small amounts from many people online, often in return for rewards or shares.
- Owners' savings, selling assets and government grants are other sources.

Choosing a source

- The best source depends on how much is needed and for how long, the cost (**interest**), the type of business (only companies can sell shares), the risk, and how much control the owners want to keep.
- Match the finance to the use: short-term needs suit short-term finance, and long-term investments suit long-term finance.

Key terms

Overdraft	An agreement to take more money out of a bank account than it holds, up to a limit.
Trade credit	An agreement to pay a supplier at a later date.
Bank loan	A sum borrowed from a bank and repaid with interest over a set time.
Share capital	Money raised by selling shares in a company.
Retained profit	Profit kept in the business rather than paid out.
Venture capital	Investment in a risky business in exchange for a share of ownership.
Crowdfunding	Raising small amounts of money from many people, usually online.
Interest	The cost of borrowing money.
Collateral	An asset offered as security for a loan.

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. What is an overdraft?
2. What is trade credit?
3. What is retained profit?
4. What is share capital?
5. What is a disadvantage of selling shares?
6. What is venture capital?
7. What is crowdfunding?
8. Which source of finance usually suits buying a new machine?

Answers

1. Taking more money out of a bank account than it holds, up to an agreed limit
2. Buying from a supplier now and paying later
3. Profit kept in the business rather than paid out
4. Money raised by selling shares in a company
5. The owners lose some control
6. Investment in a risky business in exchange for a share of ownership

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7. Raising money from many people, usually online
8. A bank loan

What to do next

Practise 12 questions on this topic

Try 4 exam questions, with mark schemes

Read the lesson, one step at a time

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