Unit 2

[Parts of the World](), [European Union]()

Unit 2 P4 Describe sources of internal and external finance for a selected business Leasing There are many ways in which Coombe Dean School uses different types of external and internal types of finance. The school aims to save money in any way they can one way of doing this is through leasing. This is where the school hires or rents a piece of equipment instead of paying the full price to buy it. They pay a regular amount for a period of time until they no longer need the equipment or they can afford to purchase it permanently. The advantages of leasing are that its cheaper in the short run, it can be easily updated and replaced without having to buy a new one or new software, and cash flow management is easier because of the regular cash flow. However disadvantages of leasing is that its more expensive in the long run as the added cost you'd have to pay over the amount of time may add up to more than the price of the product or software itself. Hire Purchase Business hires the equipment for a period of time making fixed regular payments. Once payments have finished it then owns the piece of equipment. Hire purchase is different to leasing in that the business owns the equipment when it has finished making payments. With an equipment lease, the equipment is handed back to the leasing provider. Debt Factoring A business sells its outstanding customer accounts (those who have not paid their debts to the business) to a debt factoring company. The factoring company pays the business - say 80-90% of face value of the debts - and then collects the full amount of the debts. Once it has done this it will pay the remaining amount to the business less a charge. It is a good way of raising cash quickly, without the hassle of chasing payments. BUT it is not so good for profits since it reduces the total revenue received from those sales.

Government Finance The government and the European Union provide help to businesses for the following reasons: -Protect jobs in failing/declining industries. -Help create jobs in areas of high unemployment. -Help start up new businesses. -Help businesses relocate to areas of high unemployment. Some of the main sources of funds are: -European Structural Fund -Assisted Areas -Regional Selective Assistance -Small Loans Guarantee Scheme Trade Credit A business does not always have to pay their bills as soon as they receive them. They are given period of credit, normally around 30-60 days. By trying to extend this period they can improve their short-term finance position. Small businesses now have some protection under law that prevents larger firms exploiting their credit terms. Trade credit is an important source of finance for nearly all businesses — since it is effectively a free source of finance. Retained Profits The cheapest form of finance is the business' own profits. In the UK over 80% of retained profits are reinvested back into the business. Since it is not being borrowed from anyone, it does not cost money to use. Own Capital For sole traders and partnerships a common source of finance, especially for start up is money from the individuals who are forming the business. They may also borrow money from family and friends. Own capital is a costless form of finance, but carries the risk of the money being lost. Working Capital Working capital is the amount of money available for the day to day running of the business. It is the difference between current assets and current liabilities. See below for more details of how working capital can be used. Sources of Finance for Public Sector Organisations Public sector organisations receive from both the normal sources that most businesses receive money, but also from tax revenues. Most public sector organisations, such as schools and hospitals obtain more straight from the government - who have previously collected the money from tax payers. Other organisations gain money from sales, e. g. stamps for the Post Office, and licences for the BBC