

Essay on describe sources of internal and external finance for a selected business...

[Finance](#)



For a business to run successfully on a daily basis it needs finances. Success comes when a business expands, reinvests and uses human resources to run. Bentalls need money to run their business effectively and successfully. It needs finance for its daily running of the business for example, paying staff wages, paying bills for electricity and rent, paying taxes on time and ordering stock regularly.

For a long term goal, Bentalls would need the finance to expand their business, franchise, buy new equipment and or buy new buildings around the current building to expand the area and possibly generate more sales with new renting for high street retailers. Bentalls can acquire finance from two possible directions. These are internal and external sources of finance. Internal sources: Internal sources of finance are money that can be generated within the business itself. There are many methods to gain money from within a business itself.

One of these is Owner's savings which the owner of Bentalls can provide if Bentalls cannot find other ways to gather finance. This is usually if the bank is unwilling to lend for any reason such as bad repayment history. There are good and bad points about using the Owner's savings. One of the good points is that the company doesn't have to repay anyone back. The bad thing about this is that it may not be enough to efficiently run the business and or be a good investment. Most savings are not as large as assumed and so it may not be as helpful as a bank loan.

Another method is retained profit. Retained profit is an amount of profit which is kept aside for reinvestments for the business. It is an important and significant source of finance for an established profitable business. Retained
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profit does not need to be repaid back because it is all owned by the business. Not all businesses have the luxury to take out a retained profit as they only have enough profit to run the business, pay wages as well as bills. Other organisations such as charities and or non-profit organisations cannot route for this direction.

Bentalls however can take this procedure very effectively as they are a well-established and profitable business that can take out a large retained profit to reinvest into their businesses. Bentalls could use this investment to expand their business as well as gain a larger market by attracting new customers. Fixed assets are another way to convert assets into cash. Any equipment or items such as computers, TV, furniture and vehicles can be converted to cash by selling them. This procedure may be appropriate for as small business to gain quick cash.

For Bentalls this procedure may take longer and the amount may not be large enough to invest in. Bentalls is a large business and a large investment is needed to expand the business. Trade credit is a way of short borrowing and or delaying payments to suppliers so that the business cycle for Bentalls can run smoothly. Delaying payments for as long as possible can ruin the relationship between the supplier and the business. This may also affect the sales and discounts that the supplier may offer in the future. For Bentalls this may not be a bad procedure because Bentalls is a large business and its cash cycle can take a while to go around.

It is always good to pay the full amount within a month of purchase to avoid bad supplies and offers from suppliers in the future. Renting more space can generate cash for Bentalls. If they decided to allow more stores into their <https://assignbuster.com/essay-on-describe-sources-of-internal-and-external-finance-for-a-selected-business/>

centre then it can generate more income for them. Also increasing rent is another way to generate extra income. Share issues occurs when a business sells its shares to its employees in order to generate more finance however the business are losing control and power at the same time. Bentalls is a private limited company and so it can sell its shares to employees.

The share may not be large but a small percentage. This way Bentalls also know that the shareholders are trusted because they are already working for them and not outsiders that may change many decisions for them. Venture Capital is very similar to Share issues but shares are not sold to employees but some individuals who get together to provide finance for existing businesses as well as new, in return of share percentages. They do this because they hope at some point the business will grow and expand and generate enough profit to gain back their investment.

External sources: External sources of finance are funds that are obtained by a business from an individual or organisation. This involves the business repaying the creditor over a long or short period of time depending on the terms of agreement established by both parties. Bentalls are likely to borrow funds from external sources because larger amounts can be transferred, however the interest rates of which terms have been agreed upon of repayment can vary and are usually set very high.

Bentalls can pay their debts back slowly for a long period of time and most lenders will lend money to big businesses because they know that they are able to repay their debt back with interests. Not all lenders are willing to give large amounts of funds to organisations purely because of lack of trust or faith of repayment. However if the business is well known like Bentalls, then <https://assignbuster.com/essay-on-describe-sources-of-internal-and-external-finance-for-a-selected-business/>

it is easier to obtain a larger loan. A bank loan would be the first option for Bentalls to obtain a loan to fund their business.

It is the quickest and convenient way to borrow money. Interest rates are variable and depending on the loan size, its repayment method and period of repayment over time. There are many types of bank loans that the bank provides. Bentalls would have to get the commercial mortgage that is specifically designed for profit making businesses. This type of loan is secure in favour of the banks. The banks will hold legal rights over any buildings or properties and valuable assets until the repayment is over.

This is so that if Bentalls were to go out of business and are unable to repay their debt, then the banks have legal right to keep their properties, buildings and valuable assets. Leasing is another option for Bentalls to acquire equipment's for their business. Leasing is borrowing equipment such as a vehicle and then paying over a period of time to which both businesses have agreed upon. Leasing equipment can be repaired if it is in the contract for no extra charge. At the end of the lease, the business does not own the equipment.

If Bentalls took out a Hire purchase, they can own the equipment at the end of their hire and final payment. Hire purchase is more expensive over the long term, but it can be better for some businesses that don't want to pay a full large amount at once. Bentalls can lease out for new computers and get new models when they are released so that they are updated on their software and technology. This way they don't have to pay full amounts at once and pay small amounts every month and still get new models when they arrive.

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If they paid full amounts for new PCs, they would need to also take out some form of insurance and after 5 years the PCs will get old and slow down and most insurances won't replace old PCs because they depreciate after 5 years and so the value goes down. Building societies is also another external source of finance that involves long term mortgages with security. It works similarly to a bank but is more specialised in mortgages that involves purchasing properties and buildings and both bank and building societies offer loans and mortgages.

The loan will have a fixed interest rate and or variable depending on the contract given which can depend on a month's profit figures and also the amount borrowed. Bentalls could opt to borrow from the building society because they are more experienced and can supply more amount of money. In conclusion, looking at both internal and external sources of finance, there are far more options to choose from externally than internally and that external sources offer better security and effectiveness that can benefit both lenders and Bentalls. I think Bentalls can perform well if they obtain finance from an external source.