Ways of finance essay

There are many diffrent types of finace but normaly finace is put in to two sectors sort term and long term finace. i will explain to you what short and long term finace is and what types of finace are in the two. Short term finances: Short term finances are used by people and business.

It is money given to people for a short amount of time that is normal given to people for about 30 day up to 5 years. Short term types of finances are used to keep a business running not to be used when it is first starting up. Below is the different type of short term finances. 1 Overdraft (short term)An overdraft is a short term way of barrowing. It allows you to have money after your balance has run out. But has a high interest rate.

The Disadvantages are like has to be paid with in 30 days, have to pay high interest on top of money, after an amount of time you will get fines , has a limit on how much you have a day. The interest of an overdraft is high. There are is good thing to overdrafts as well the advantages are quick way of getting money, if you have a high overdraft you will be able to pay a bill of ï¿½1, 500 and not worry about cheques bouncing if you have a draft of ï¿½5, 000 the bank will pay out to the person or company without paying interest to the bank. You my have to pay interest if you do not pay back with in 30 days. 2 Bank loans (short term)A bank loan is where you take an amount of money from your bank but you will have to pay a high interest on top of the amount you have borrowed for example you borrow ï¿½100 you will have to pay back anther ï¿½10 on top so you will be paying back ï¿½110 back to the . There are disadvantages high interest and I not paid back it can be taken back by your asset taken away.

The advantages are allowed to take a big amount out and can be paid over a long amount of time. A bank loan is normally used to buy a new car or to pay some of your bills off is just a couple of examples that are used with bank loans you can use the capital for what ever you want to buy. 3 Leasing (short term)A lease is were you have a peace of property for a amount of times after that time it is returned to the owner or can be renewed. The disadvantages it dose not belong to you, only have a small amount of time to use it. The advantages are if there are any problems with the product you do not have to deal with it.

An example of leasing a digger for building work or some equipment that you only need one. 4 Trade credit (short term)Trade credit is where a business customer can have a product or asset and can arrange for it to be paid for at a later date. The disadvantage is have 28 days to pay. The advantages are doing not have to pay for a lot of time.

An example of trade credit is buying materials and not paying for it that day but it would only happen between businesses. 5 Credit card (short term)A credit card is like trade credit you buy something and you pay it back later this is normally trade credit for the consumers not a company but you can get a company credit card that is the same thing as a credit card. The disadvantages are can have a high interest rate and more to pay back and can get in to debt you will only pay interest if you pay the full amount that you owe you will not have to pay interest on it but if you only pay a small amount of the money you owe you will have to pay interest on top of the money you owe. The advantages are getting a product with out money and don’t have to carry money. Example of credit card companies are like

American express and egg card are just some examples of these types of credit card companies.

6 Inventory loanInventory loan financing (also known as “ Flooring”) is the leveraging of inventory using the value of the financed equipment or stock as collateral for the loan. Lenders want to make sure their loans are secure, so this method will improve the chances of getting financed drastically. 7 letter of creditA binding document that a buyer can request from his bank in order to guarentee that the payment for goods will be tranferred to the seller. Basically, a letter of credit gives the seller reassurance that he will receive the payment for the goods. In order for the payment to occur, the seller has to present the bank with the necessary shipping documents confirming the delivery of goods within a given time frame.

It is often used ininternational trade to eliminate risks such as unfamiliarity with the foreign country, customs, or political instability. Long term financesLong term finances is normal a large amount of money that you pay back over a large amount of time. With this you will have to pay interest on top of the money you have to pay back to the bank or money lending companies. 1 Taking a new partner (long term)This allows someone to buy in to the business which means more capital in to the company.

There are disadvantages are that more people are in the company and you do not get 100% of the profits you will have to share them with other investors in the company. There is anther disadvantage is you have ask other people if you want to change anything about the business for permissions first. There are advantage are more money in the company and less reliable. 2 Share issues (long term)This allows a number of people to enter the company which brings in more money in to the companies. Share issues or share holder are the people that own the business together they will pay something like ï¿½1.

59 a share this mean that that person with own 1 share of the company. There are two types of share holders. The first one is public limited witch is anyone can buy into witch is mainly on the stock exchange the other is private limited which means you can choose who comes in to the company. 3 Government grant (long term)A government grant is where the government pays for the business to be started up this is normally when it is a new entrepreneur is start in the world of business this is not for companies that already started up.

The disadvantage is that it will be closely monitored by the government for the first couple of years. An advantage is you do not have to find any capital for the company. 4 MortgageThis is used to buy a house with the money that is give to you by a mortgage. This a special type of loan for people to a house and not for any other use. This will have interest on it. You would pay this back over a large amount of time from 5 year to 25 year or even longer.

The advantage to this is that you would be paying it back will take you a long time order pending on the income of the house and interest rate at the time. ownershipthere are diffrent types of ownership and here are some examples some of these examples have all diffrent targets. e. g a solo trader first target is to stay in bussiness (survive). most diffrent ownerships change on haw many owners there are e. g.

solo is one owner and partners is 2 to twenty. so look among my examples of ownership. Solo traderA solo trader is when one person owns a business by themselves this is a problem because it means that you have all of the liability but all of the profit. The options of the types of finance that is available to a solo trader ownership which are the followingThis one opition for your business but I will go though the others. Public limitedPublic litmited means that is where you will not own the business you can sell shares out to anyone this will bring money into the business but you would not have 100% of the control.

You would have no liablitys if the company went wrong. The following types of finance are avilable to this type of ownership. Private limitedThis is like public limited but you can control who comes in to your business it is normal family members or friends it is still anther way of get money in to the buiness. You can use the following types of finacnesPartnersParnters mean between 2 and 20 people that own the business at the same time. Is is good becasue it will bring the more money in to the business.

The probleams with this that you and the other people have liablity for the business if the business gose wrong and you have to ask the other person if there is any changes to the business. The following types fo finance are avilable to this type of ownershipI am suggesting to you the for the type of ownership which is a DVD shop is a solo trader because it is easyer for you to set it up and it will be easyer for you to get the finance after you have set up and the business isPlan of storeFixtures and fittingsYou will need a log of fixtures and fittings for the store. When the store opens for the first time you will need to pay out fir display units and other thing like this you will only have to pay out for once and will not need to pay out for it a again unless it is broken then you will have pay out for it again but that would be about 5 to 10 year down the line. The following ideas you will have pay out for once and not again. You will have to pay out for once is security, lights , display units , shelves and disp[lay units, cash registers, sign inside and out and carpets thsi are just some of the ideas you will have to pay for once and that is it.