Long term and short term financing essay sample

Finance

Long-term financing is the type of financing that protects a business against the danger of not being able to provide adequate short-term financing. A company would want long-term financing when does not need to pay off the loan for more than a year's time. Long-term financing is a borrowing of capital that the business uses to pay off in more than a years time. This can benefit a business when they have a large amount of time to pay off a loan without affecting their credit score or paying late fees. Short term financing is a type of financing used when the business has up to one year to pay off the loan. This type of financing can benefit a company if they are not having financial difficulty because they can pay off that loan quickly and the interest rates are usually lower than long-term financing rates.

An example of long-term financing would be when a firm borrows money to construct a facility such as an office building or manufacturing plant. This would be a large loan that would take more than a year to pay off. This is what usually companies must do to get their business off and the companies profits must be used to help pay off the loans. An example of short-term financing is when a company needs to borrow money for supplies to use to manufacture the product or products that a company sells. This is usually less expensive than the materials used to build the facility and could be paid off in less time. Ideally a company would want to use short-term financing for short-term assets and long-term financing for long term permanent assets.

Reference

Block, B. B., Hirt, G. A., & Danielsen, B. R. (2009). Foundations of financial management (13th ed.). New York: McGraw Hill/Irwin.