



Croeso | Welcome to ABS Level 3 Business Lecture Series



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Making financial decisions

Sources of finance

Content to support Level 3 Business

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Learning Outcomes

- What is Finance
- Why do companies need finance
- Sources of finance
 - Internal finance
 - External finance
- Time period of finance

What is Finance?

- Managing the funds of a business
- Raising finance
- Managing assets and liabilities
- Analysing the risks and returns of investments
- Money management

Why does a Business need Finance?

- To start (Buy assets, pay bills, marketing)
- To function
- To expand
- Difficult times

Finance

- Capital Expenditure
 - E.g. Money to spend on Fixed Assets
- Revenue Expenditure
 - E.g. Money to spend on day-day-expenses

Responsibility

- The Owners
- The Finance Managers
- The Accountant

Advise from:

- Independent Advisors
- Commercial Banks
- Press

Responsibility

- For knowing the Financial data of your Company
- For understanding the different sources of Finance
- For knowing the Strategy and goals of your Company.
- The long term objectives of the Company.
- For knowing the market and industry the Company operates in.
- For keeping up to date with financial markets and wider issues that may effect the economy.
- In-depth analysis of each and every source of fund.

Sources of Finance

Can you think of any sources of finance?

Examples of Finance.....

- From the owners / Share Capital
- Retained Earnings
- Loans
- Leases / HP Agreements
- Debentures
- Equity Shares
- Fixed deposits
- Bonds
- Debt factoring
- Grants
- Overdrafts
- Trade Credit
- Private Equity
- International Finance

Sources of Finance

- Internal / Owned
 - External / Borrowed
-
- Can you think of some examples of each type?
 - What advantages do they have?



Internal / Owned	External / Borrowed
Equity Capital	Bank Loans
Retained Earnings	Loan from other financial institution
Venture funding	Commercial loans
Trade Payables (Creditors)	Issue of shares
Reduction in level of stock (inventory) held	Selling debentures
Sales of Assets	Factoring debts
Private equity	Grants and Subsidies

Internal finance

- What are the benefits to internal finance?
- What are the disadvantages to internal finance?

Internal

- Business remains independent
- Control
- Ownership
- Cost
- Company value
- Increase transaction costs

Internal Financing: Retained Profit

ADVANTAGES

- No payback
- Cheap

DISADVANTAGES

- Availability
- Shareholder payments reduced

Internal Finance

Group discussion

1. Can you think of other sources of internal finance?
2. List the advantages and disadvantages associated with the sources of finance identified.

Internal Financing: Sale of existing assets

- **ADVANTAGES**

- Reduce number of unwanted assets held.
- Better use of Capital

- **DISADVANTAGES**

- Reduces the value of the Company
- Time consuming
- Need assets to sell
- Wrong decision

Internal Financing: Reducing stock levels

- **ADVANTAGES**

- Reduces storage costs
- Better use of Capital
- Reduction in obsolete / damaged stock

- **DISADVANTAGES**

- Stock management
- Reliance on Suppliers
- Customer disappointment
- Wrong decision

External finance

- What are the benefits to external finance?
- What are the disadvantages to external finance?

External finance

- Advantages
- Use internal resources for other purposes
- Growth opportunities
- Disadvantages
- Increase in administration
- Dilution of ownership and control of business
- Interest payments

External financing: Issue of Shares

- ADVANTAGES

- Permanent source of capital
- Does not have to be repaid
- No interest paid

- DISADVANTAGES

- Dividend payments
- Ownership
- Control

External financing: Bank Loan

- ADVANTAGES

- Speed
- Flexible

- DISADVANTAGES

- Interest payments
- Collateral required
- Collateral security
- Administration

Factors involved in decision making

- Purpose
- Time period
- Amount required
- Status and size of Company
- Control
- Risk and gearing
- Corporate objectives
- Capital structure

Time period of finance

- Long term
- Medium term
- Short term

Can you think of some examples of each?

Time period of finance

LONG TERM	MEDIUM TERM	SHORT TERM
Issue of shares	Issue of shares	Overdraft
Debentures	Government grants	Fixed deposits
Long term loans	Bank loans	Advances from customers
	HP Finance	Factoring services
	Lease Finance	
	Bonds	

Summary

- What is Finance
- Why do companies need finance
- Sources of finance
- Internal finance
- External finance
- Time period of finance

Internal finance

Group discussion

1. Can you think of sources of internal finance?
2. List the advantages and disadvantages associated with the sources of finance identified.

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