

Working in Practice Financing Options

There are many factors to consider when looking at additional finance for a business.

A business needs to justify why and have the resources to raise more cash/finance?

Is it to allow more in drawings or salaries? If the loan is for the drawings/salaries of the owners it will not be allowed as a business loan.

Is the loan for the purchase of assets, e.g. company vans, stock purchases or to finance increase in sales debtors?

Is the additional finance required for a long or short term period, and how is it repaid?

There are two main sources of obtaining finance: -

Internal

- Bank loans and/or overdrafts.
- Equity Capital – in a Limited Company by the issuing of more shares to existing shareholders.
- Monies invested by the owners of the business from private sources
 - Sole traders or partners making loans to the business.
 - Shareholders and Directors making loans to the company.
- Plough back of profits, by not taking in drawings, salary or dividends to the maximum permitted by the balance on the bank account.
- Factoring or invoice discounting the book debts to specialist Finance Providers.

External

- Equity Capital – in a Limited company this is done by the issuing of shares to third party investors, who have no direct influence on the day to day running of the business.
- Loans raised on the assets of the company or business, i.e. a mortgage on a property.

Hire Purchase

Finance is provided for the purchase of an asset. Generally a deposit (10% to 20%) is paid and the balance is borrowed from a Finance House. Monthly repayment of the amount borrowed is over a set number of years and will include interest.

The "Title" (ownership of the asset) is with the purchaser and the asset appears on the Balance Sheet and writing down allowances for tax computations are taken against profits.

Lease Purchase

This is similar to Hire Purchase, but with smaller monthly repayments. There is a larger Balloon Payment at the end of the agreement.

The title in the asset passes to the purchaser with the final payment.