

Sources of Finance

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Figure 10.1



Chapter 1 – Cost Accounting

Chapter outlines

-  **Introduction to Sources of Finance.**
-  **Classification Of Sources Of Finances**
-  **Security Financing**

1. Introduction to Sources of Finance

- Every enterprise, whether big, medium or small needs finance to carry on its operations and to achieve its targets.
 - Finance is so indispensable today that it is rightly said that it is the lifeblood of an enterprise.
 - Without adequate finances, no enterprise can possibly accomplish its objective.
- Capital requirements for a business can be classified under two main categories, viz,
1. Fixed Capital, and
 2. Working Capital.

Introduction Continued.....

- Every business needs funds for two purposes- for its establishment and for carrying out its day to day operations.
- Long-term funds are required to create production facilities through purchase of fixed assets like plant, machinery, land ,building etc
- Investment in these assets block the capital on permanent basis & that capital is known as Fixed Capital.
- Short term funds are required for the purchase raw material, payment of wages and other day to day expenses.

Classification of sources of Finances.

1. According to the Period

- a. Short term* eg bank credit, customer advances, trade credit, factoring, accruals
- b. Medium term viz;* Debentures, Preference shares, Bank Loan, Public Deposits/ FD
- c. Long term viz:* Debentures, Shares, ploughing back of profits, loan from financial institutions

Classification Continued.....

2. According to the ownership

- a. *Owned capital viz;* share capital, retained earnings, profits and surpluses.
- b. *Borrowed capital viz;* Debentures, Bonds, Public Deposits, Loans etc.

Classification Continued.....

3. According to the source of Finance

- a. Internal Source viz;* ploughing back of profits, retained earnings, profits, depreciation/ Surpluses
- b. External Source viz;* Shares, Debentures, Public deposits, Loans etc.

Classification Continued.....

4. According to the Mode of Finance

- a. *Security / External Financing*; Through Corporate Securities such as shares Debentures.
- b. *Internal Financing*; Through retained earnings, capitalization of profits & depreciation.
- c. *Loan Financing*; Through raising of long-term & short-term loan.

Classification Continued.....

FINANCIAL REQUIREMENTS

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graph TD; A[FINANCIAL REQUIREMENTS] --> B[SHORT TERM]; A --> C[MEDIUM TERM]; A --> D[LONG TERM];
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SHORT TERM

1. BANK CREDIT
2. CUSTOMER ADVANCES
3. TRADE CREDITS
4. FACTORING
5. ACCRUALS
6. DEFFERED INCOMES
7. COMMERCIAL PAPERS
8. INSTALMENT CREDIT

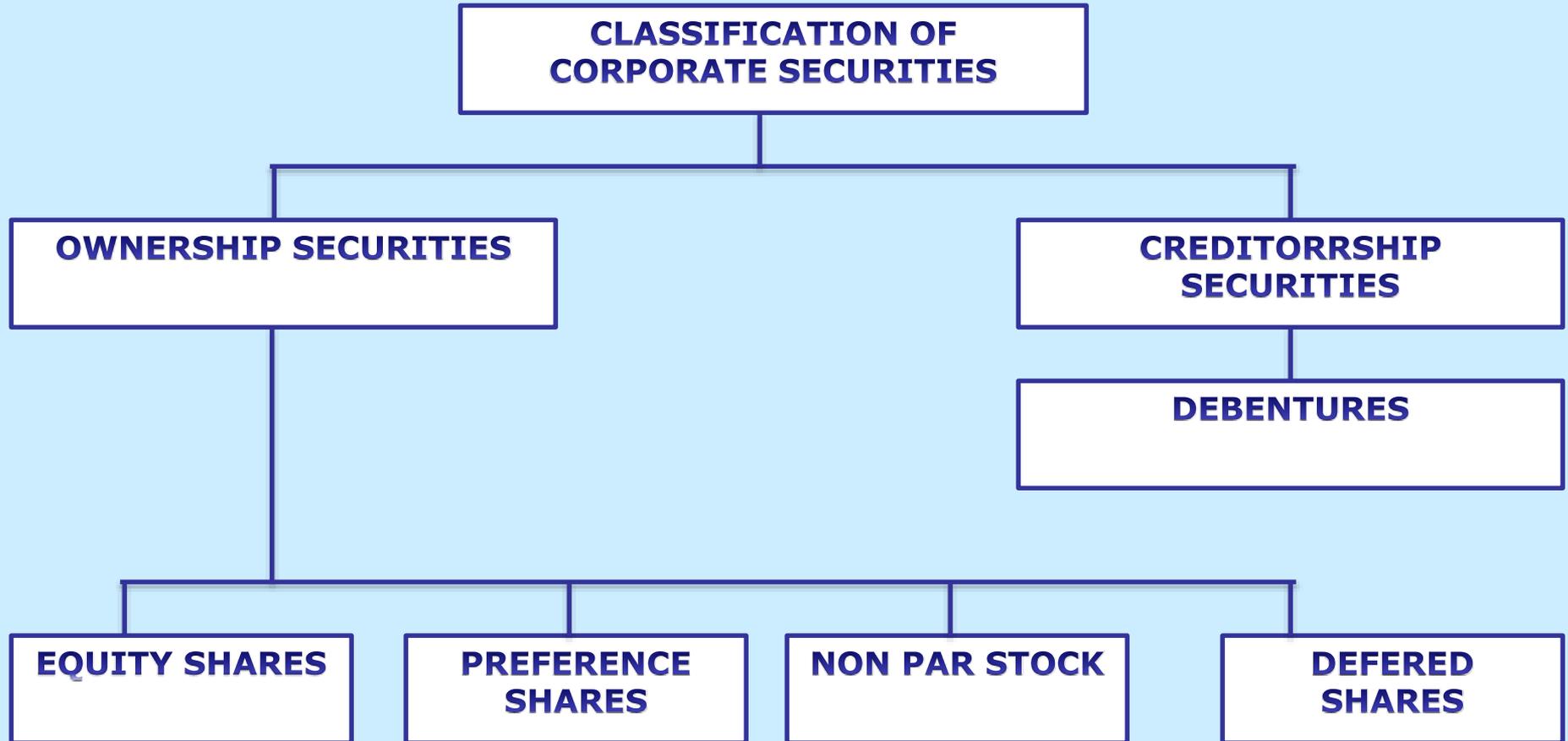
MEDIUM TERM

1. ISSUE OF DEBENTURES
2. ISSUE OF PREFERNCE SHARES
3. BANK LOAN
4. PUBLIC/ FIXED DEPOSITS
5. LOAN FROM FINANCIAL INSTITUTIONS

LONG TERM

1. ISSUE OF SHARES
2. ISSUE OF DEBENTURES
3. PLOUGHING BACK OF PROFITS
4. LOAN FROM SPECIALIZED FINANCIAL INSTITUTIONS

SECURITY FINANCING



Thank
you