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# UNIT 5 METHODS OF RAISING FINANCE

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## 5.0 'OBJECTIVES

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- After going through this unit, you will be able to:
- explain the need for finance
  - classify types of financial needs
  - distinguish between ownership capital and borrowed capital
  - explain the concept of capital structure and identify the factors determining it
  - describe different methods of raising finance
  - evaluate the advantages and limitations of different methods of raising finance

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## 5.1 INTRODUCTION

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In Unit 4 you have learnt about various steps taken by promoters before setting up any business venture. One of the important steps is of arrangement of finance for the business. No one can start a business unless adequate capital is available. In this unit you will learn why finance is needed, what the sources of finance are and the methods of raising finance to meet capital requirements of the business.

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## 5.2 NEED FOR AND IMPORTANCE OF FINANCE

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We all know that every business activity requires money to run it. Take the case of manufacturers. They must have a place to produce goods. They must buy machinery and raw materials, engage workers and managers, pay for electricity and water supply, and incur expenses for delivery of goods to their customers. Similarly, take the case of traders. They must buy goods and have godown to keep them. They have to arrange for the delivery of the goods to their customers. They must employ people for loading and unloading of goods, for keeping accounts as well as for bill collection. Take another example of goods transportation business, The transporters