

Chapter # 11

“Sources of Capital.”

(1)

Short Answers:

1. Debt Financing:

⇒ Debt financing means when a firm raises money for working capital or capital expenditures by selling bonds, bills or notes to individual and / or institutional investors.

2. Equity Financing:

⇒ Equity financing is the method of raising capital by selling company stock to investors. In return for the investment, the shareholders receive ownership interests in the company.

3. Factors affecting type of financing:

- Cost.
- Purpose & time period.
- Risk profile.
- Control.
- Flexibility & ease.
- Effect on credit worthiness.

②

4. Internal Funds:

⇒ Internal funds - generated from sources within the company.

- Profits.
- Sales of assets.
- Working capital reduction.
- Accounts receivable.

5. External Funds:

⇒ External funds - generated from sources outside the company.

- Loans.
- Leasing.
- Hire purchase.
- Bank overdraft.

6. Personal Funds:

⇒ Personal funds means payments the individual receives, whether earned or unearned, including wages, pensions, social security benefits, and retirement benefits.

③

7. Types of Bank Loans:

(i) Credit on the basis of nature

→ Credit from banks fund.

→ Documentary credit.

(ii) Credit based on objectives.

→ Commercial loan.

→ Non-commercial loan.

(iii) Credit based on period.

→ Short term loan.

→ Mid term loan.

→ Long term loan.

11. Bootstrap Financing:

- ⇒ Bootstrap financing is probably one of the best & most inexpensive routes an entrepreneur can explore when raising capital.
- ⇒ A way to pull yourself up without the help of others.
- ⇒ It utilizes unused opportunities that can be found within your own company by simply managing your finances better.

(4)

(5)

Long Questions:

8. SBA? Rule of SBA in small Business financing?

○ SBA:

- ⇒ Small Business Administration.
- ⇒ A United States government agency that provides support to entrepreneurs and small businesses.

○ Business:

- ⇒ Any legal activity which is done for the purpose of earning profit is known as business.

“A big business starts small.”) SE

○ Financing:

- ⇒ Financing is the process of providing funds for business activities, making purchases or investing.

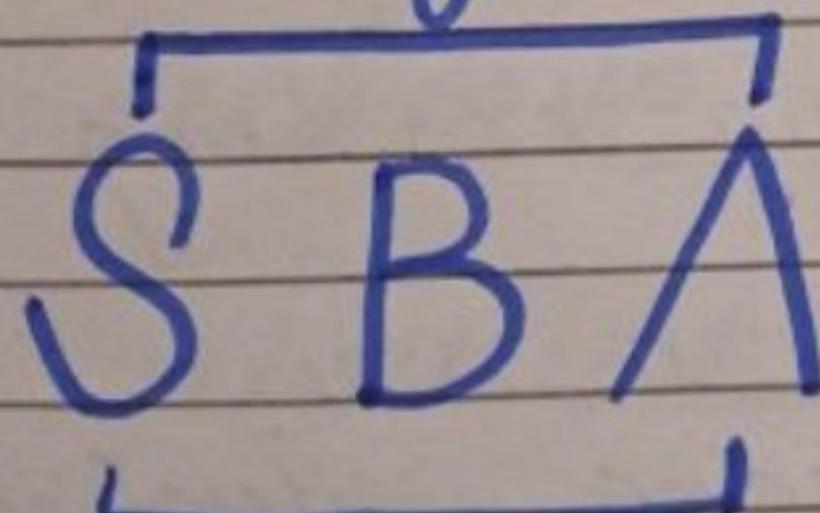
(5)

"Financial freedom is a mental, emotional & educational process."

• Rules of SBA:

- Lower equity requirements for acquisition loans.
- Seller standby rule is extended to the life of loan.
- New SBA franchise directory listing franchises eligible for SBA financial assistance.
- New SBA rules & pro-business environment expected to fuel small business expansion.
- Disaster assistance loan program.
- Micro-loan program.

• SBA Logo:



⑥

"Take risks, if you succeed,
you will be happy.
If you fail, will be
wiser."



q. Write a note on research & development
limited partnerships.

① Research:

=> The systematic investigation into &
study of materials & sources in
order to establish facts &
reach new conclusions.

① Development:

=> The process of developing or being
developed.
=> An event constituting a new
stage in a changing situation.

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① Partnership:

- ⇒ A partnership is a formal arrangement by two or more parties to manage & operate a business and share its profits.

② Limited Partner:

- ⇒ No company involvement.
- ⇒ No daily responsibilities.
- ⇒ No liability

③ General Partner:

- ⇒ Oversees company.
- ⇒ Responsible for daily operations.
- ⇒ Full liability.

“ Set partnerships to achieve a strategic Business Objective.”

(8)

① R&D & Limited Partnership :

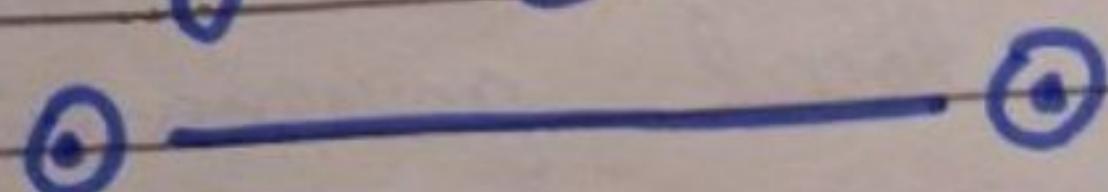
- Money given to a firm for developing a technology that involves a tax shelter.
- Good when the project involves a high degree of risks & significant expense.
- Risks & ensuing rewards are shared.
- Sponsoring company developing the technology with funds being provided by the limited partnership of individual investors.
- Restrictions placed on the technology can be substantial.
- Exit from the partner may be too complex & involve too much fiduciary responsibility.
- Provides the funds needed with a minimum amount of equity dilution while reducing the risks involved.
- Major elements:
 - Contract
 - Sponsoring company

⑨

- hip :
ing tax
ificant → a contract is established between the
sponsoring company and limited
partners.
ered. → money is vested for the proposed
R&D effort.
ership → terms & conditions of the ownership.
ggy too → scope of the research are documented.

“No research without action,
No action without research.”

“The growth & development
of people is the highest
calling of Leadership.”



(10)

10. Write a note on government grants?

○ Grant:

- ⇒ The sum of money given to an agency or individual to address a problem or need in the community.
- ⇒ Financial award.
- ⇒ Given to qualified recipient.
- ⇒ Designated for specific purpose.

○ Government Grant:

- ⇒ A Government Grant is a payment from the government to your business, given to complete a project or behave in a certain way.

“Government's first duty
is to protect the people,
not run their lives.

- ⇒ A Government Grant is a financial award given by the federal, state, or local government

authority for a beneficial project of some sort.

⑨ Imp Points:

- ⇒ Government grants are funded by tax dollars, they include stringent compliance and reporting measures to ensure the money is well-spent.
- ⇒ Receiving a government grant is highly prestigious and often brings an individual or entity to the attention of other donors or sources of revenue.
- ⇒ The Catalog of Federal Domestic Assistance (CFDA) and website grants.gov list currently available grants.

⑩ Key Note:

- ⇒ Government grants come with no strings, and that includes the application process; so, if you are asked to submit a fee to apply or to learn more about a grant, there is a good chance it is a scam.

① Grant-in-Aid:

- A grant-in-aid is the transfer of national funding to state, local, private or individual entities for a project.

② Accounting for Grant:

- A government grant is recognised only when there is reasonable assurance that:

- The entity will comply with any conditions attached to the grant.
- The grant will be received.

- A grant related to assets may be presented in one of two ways:

- as deferred income, or
- by deducting the grant from the assets carrying amount.

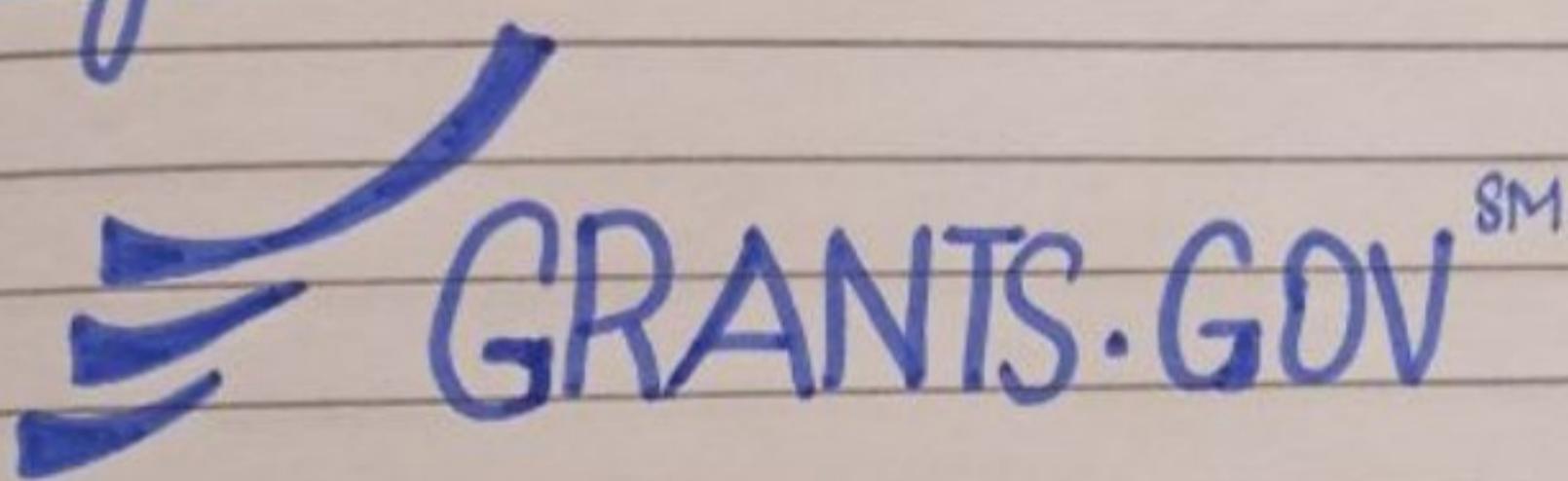
- A grant relating to Income may be reported separately as "other Income" or deducted from the related expense.

(13)

Diagram :



Logo :



"The Best Government is
that which teaches us
to govern ourselves"

