3.2 Sources of finance

Terminology exercise

Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

An source of finance is money that is raised from the business's or owner's existing assets. These include personal funds, retained profits and the sale of assets. These sources of finance are often the only ones available to small businesses such as sole traders and .

One external source of finance is finance, where a business borrows money to fund investments. This can come in the form of loan capital, overdrafts and microcredit. Another external source of finance is , where a business delays paying suppliers for a period in order to free up working capital for business operations and investments.

Another, newer form of finance is , where many people, perhaps thousands, invest small amounts of money to fund a business or project. This form of financing only works when a business or entrepreneur has a large following of loyal supporters.

Generally, when choosing a source of finance, businesses need to consider their ownership type and size, the purpose of the business and their purpose of the business and their financing objectives, as well as tolerance. It is important for a business to choose the right source of finance in order to avoid conflict and prevent .

risk | internal | partnerships | insolvency | crowdfunding | debt | trade credit

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