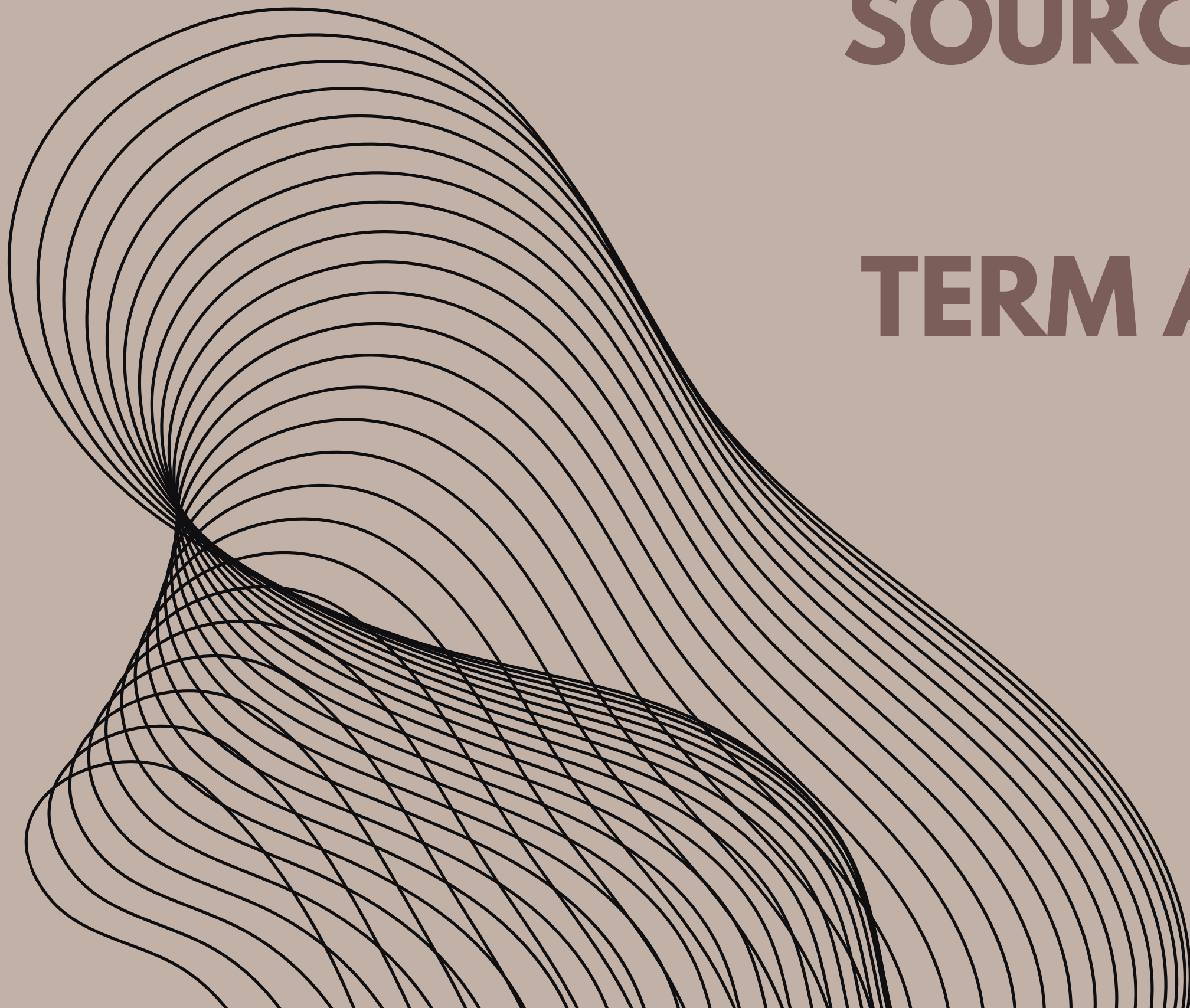


MODULE 4



SOURCES AND USES OF SHORT- TERM AND LONG-TERM FUNDS



DEBT AND EQUITY FINANCING

The sources of financing are divided into two major categories: debt financing and equity financing. The following sections describe the features of each source.

DEBT FINANCING

Debt financing can be in the form of borrowing from banks or other lending institutions or the issuance of debt

INITIAL PUBLIC OFFERING (IPO)

Is the process by which a private company be-comes publicly listed through a stock exchange by offering shares of stocks to the public.

STOCK RIGHTS OFFERING

Is the process of offering new shares where existing shareholders can subscribe to the new issues based on their proportionate share in the company prior to the issuance of new shares



EQUITY FINANCING

Equity financing refers to the issuance of new shares of stock and retained earnings plowed back

1. Cash dividends are not tax-deductible.
2. Offering new shares to other investors may dilute the ownership stake, in terms of percentage, of the existing shareholders.
3. It is the most expensive source of financing.

PECKING ORDER HYPOTHESIS

The pecking order hypothesis in corporate finance was developed based on repeated observations of how companies fund their financing requirements.

1. Internally generated funds. These are the funds that come from operating cash flows and plowed back earnings of a company.
2. Debt. When internally generated funds have been exhausted, then debt financing is the next alternative.
3. Equity. The last in the priority list of financing is equity financing.



SHORT-TERM FUNDS

Short-term funds are normally used to finance the day-to-day operations of a company.

CREDIT COOPERATIVE

To borrow from credit cooperatives, one has to be a member,

Credit cooperatives can lend as much as five times equity contributions.

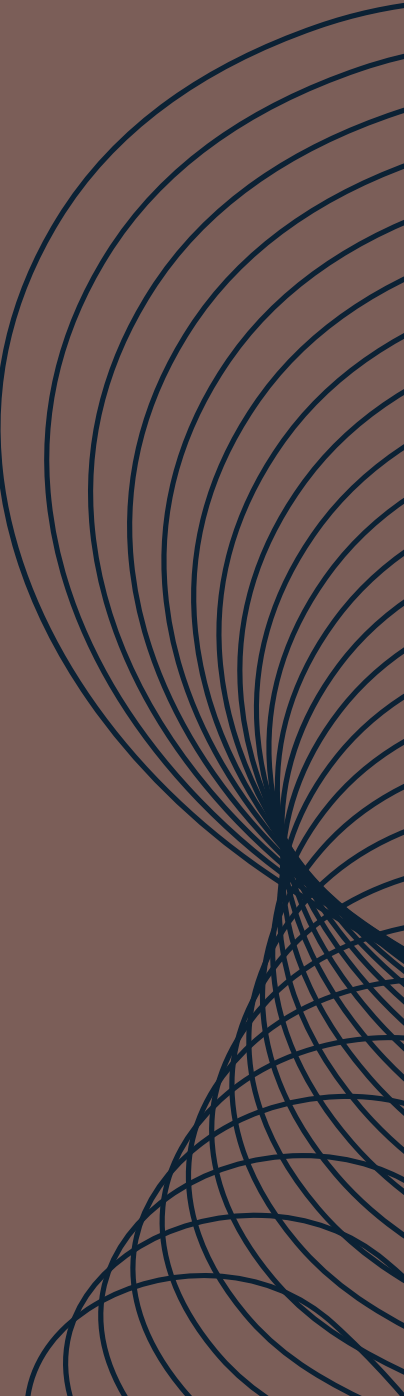


SHORT-TERM FUNDS

Short-term funds are normally used to finance the day-to-day operations of a company.

ADVANCES FROM CUSTOMERS

There are occasions when a customer advances the payment for his/her purchase orders.

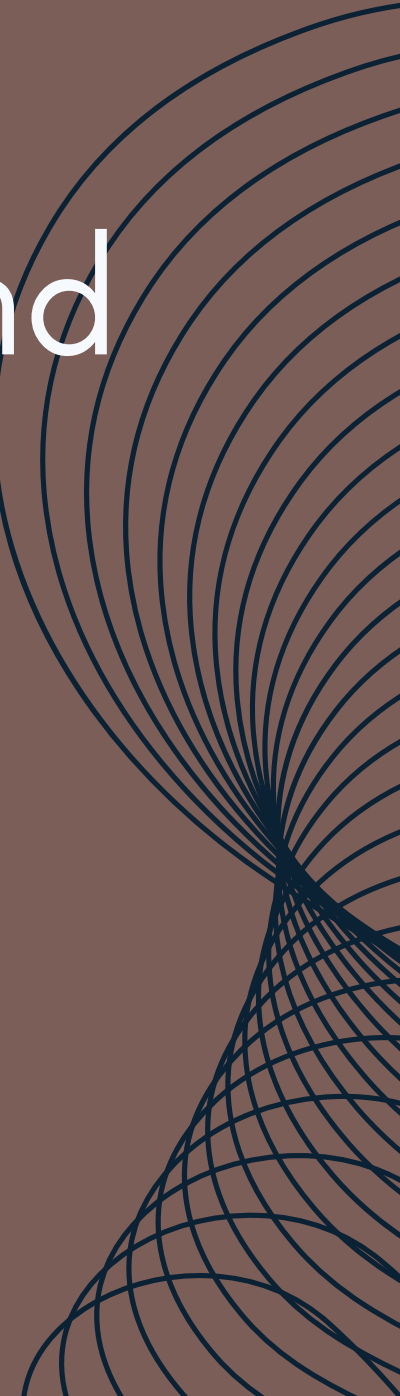


SHORT-TERM FUNDS

Short-term funds are normally used to finance the day-to-day operations of a company.

BANK LOAN

Banks can provide both short-term and long-term loans.



SHORT-TERM FUNDS

Short-term funds are normally used to finance the day-to-day operations of a company.

COMMERCIAL PAPERS

Commercial papers are short-term debt securities issued to the public, normally with tenors of one year.

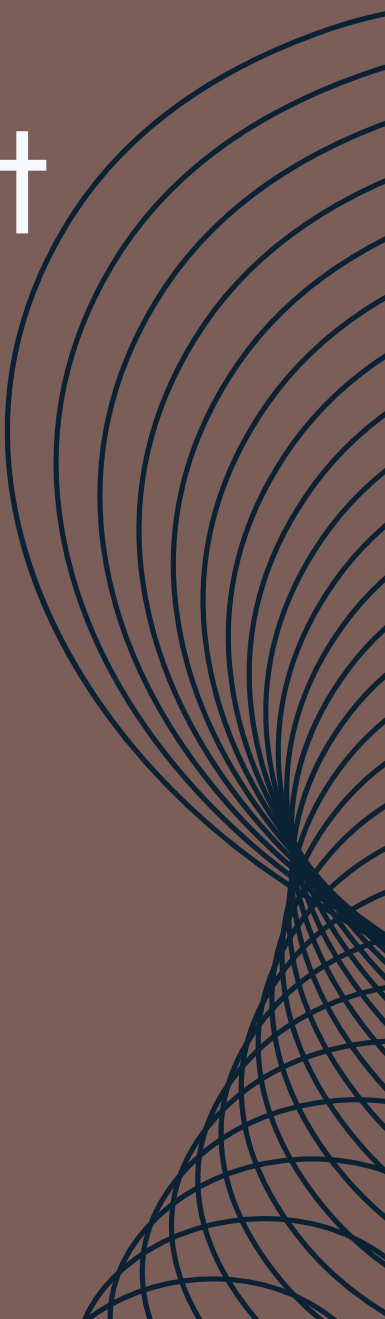


SHORT-TERM FUNDS

Short-term funds are normally used to finance the day-to-day operations of a company.

LENDING COMPANIES

These are small lending companies that cater normally to small and medium enterprises.



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ABOUT US



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THANK YOU

