



SNS COLLEGE OF TECHNOLOGY

(An Autonomous Institution)



TYPES OF FINANCING



DEFINITION OF 'FINANCE'



- Finance is the funds required to establish, operate business activities, and expand in the future. Funds are specifically required various purchase type of tangible assets such as furniture, machinery, buildings, offices, factories, or intangible assets like patents, technical expertise, and trademarks, etc.
- Apart from the assets mentioned above, other things that require funding are the day-to-day operational activities of a business. This activity includes purchasing raw materials, paying salaries, bills, collecting money from clients, etc. It is essential to have sufficient amount of money to survive and grow the business.



CLASSIFICATION OF SOURCES OF FINANCE

Businesses can raise capital through various sources of funds which are classified into three categories.

1. Based on Period – The period basis is further divided into three sub-division.

Long Term Source of Finance – This long term fund is utilized for more than five years. The fund is arranged through preference and equity shares and debentures etc. and is accumulated from the capital market.

Medium Term Source of Finance – These are short term funds that last more than one year but less than five years. The source includes borrowings from a public deposit, commercial banks, commercial paper, loans from a financial institute, and lease financing, etc.

Short Term Source of Finance – These are funds just required for a year. Working Capital Loans from Commercial bank and trade credit etc. are a few examples of these sources.

2. Based on Ownership – This sources of finance are divided into two categories.

Owner's Fund – This fund is financed by the company owners, also known as owner's capital. The capital is raised by issuing preference shares, retained earnings, equity shares, etc. These are for long term capital funds which form a base for owners to obtain their right to control the firm's management and operations.

Borrowed Funds – These are the funds accumulated with the help of borrowings or loans for a particular period of time. This source of fund is the most common and popular amongst the businesses. For example, loans from commercial banks and other financial institutions.

3. Based on Generation – This source of income is categorized into two divisions.

Internal Sources – The owners generated the funds within the organization. The example for this reference includes selling off assets and retained earnings, etc.

External Source – The fund is arranged from outside the business. For instance, issuance of equity shares to public, debentures, commercial banks loan, etc.



THANK YOU