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ACCA F9

Financial Management (MA)

财务管理

ACCA Lecturer: Sinny Shao

Part E：Business Finance——Source of Finance

1. Short-term sources of finance
2. Debt finance
3. Venture capital &

Short-term Sources of Finance

A range of short-term sources of finance are available to businesses including overdrafts, short-term loans, trade credit and operating lease finance

Overdrafts: .the deficit loan provided by the bank

quickly flexible high interest rate

Short-term loan: A term loan is a loan for a fixed amount for a specified period, offered with a variety of repayment schedules.

偿还期限确定，可以提前进行管理监控

Short-term Sources of Finance

When to choose overdrafts instead of a loan?

- when a customer wants finance to help with 'day to day' trading and cash flow needs, an overdraft would be the appropriate method of financing.
- When a customer wants to borrow from a bank for only a short period of time, even for the purchase of a major fixed asset such as an item of plant or machinery, an overdraft facility might be more suitable than a loan,

Short-term Sources of Finance

Advantages of an overdraft over a loan

(a) The customer only pays interest when he is overdrawn.

(b) The bank has the flexibility to review the customer's overdraft facility periodically.

(c) An overdraft can do the same job as a loan

Bear in mind, however, that overdrafts are normally repayable on demand.

Advantages of a loan for longer term lending

(a) simpler planning.

(b) The interest rate on the loan balance is likely to be lower than the interest charged on overdrawn balances.

(c) The customer does not have to worry about the bank deciding to reduce or withdraw an overdraft facility before he is in a position to repay what is owed

(d) Loans normally carry a facility letter

Short-term Sources of Finance

Trade credit: a source of short-term finance normally varying from between 30 to 90 days. interest-free short-term loan——trade payables

If the payment of the payables delayed——credit risk

Lease: covered in chapter 14

Debt Finance

Source of long-term finance: debt finance , leasing , venture capital and equity finance

Reason for choosing debt finance

1) current shareholders will be unwilling to contribute additional capital
2) Other reasons for choosing debt finance may include lesser cost and easier availability
3) Debt finance provides tax relief on interest payments

Debt Finance

Factors influencing choice of debt finance:

- Availability
- Credit rating
- Amount
- Duration
- Fixed or floating rate
- Security and covenants

Bonds:

The term bonds describes various forms of long-term debt a company may issue, such as loan notes ,which may be:

- Redeemable
- Irredeemable

Bonds or loans come in various forms, including:

- Floating rate loan notes
- Zero coupon bonds
- Convertible bonds

Venture Capital & Islamic finance

Venture Capital: risk capital, normally provided by a venture capital firm or individual venture capitalist, in return for an equity stake.

The types of venture that the VC might invest in include the following.

(a) Business start-ups

(b) Business development . The group may be willing to provide development capital for a companywhich wants to invest in new

(c) Management buyouts .

(d) Helping a company where one of its owners wants to realise all or part of his investment

Venture Capital & Islamic finance

VC will take account of various factors in deciding whether or not to invest:

Factors in investment decisions	
The nature of the company's **product**	Viability of production and selling potential
Expertise in **production**	Technical ability to produce efficiently
Expertise in **management**	Commitment, skills and experience
The **market and competition**	Threat from rival producers or future new entrants
Future profits	Detailed business plan showing profit prospects that compensate for risks
Board membership	To take account of VC's interests and ensure VC has say in future strategy
Risk borne by existing owners	Owners bear significant risk and invest significant part of their overall wealth

Islamic finance:

Islamic finance transaction	Similar to	Differences
Murabaha	Trade credit / loan	There is a pre-agreed mark-up to be paid, in recognition of the convenience of paying later, for an asset that is transferred immediately. There is no interest charged.
Musharaka	Venture capital	Profits are shared according to a pre-agreed contract. There are no dividends paid. Losses are shared according to capital contribution.
Mudaraba	Equity	Profits are shared according to a pre-agreed contract. There are no dividends paid. Losses are solely attributable to the provider of capital.
Ijara	Leasing	Whether an operating or finance transaction, in Ijara the lessor is still the owner of the asset and incurs the risk of ownership. This means that the lessor will be responsible for major maintenance and insurance which is different from a conventional finance lease.
Sukuk	Bonds	There is an underlying tangible asset that the sukuk holder shares in the risk and rewards of ownership. This gives the sukuk properties of equity finance as well as debt finance.

Example

Which of the following is least likely to be a reason for seeking a stock market flotation?

A shareholders are unwilling to contribute additional capital

B lesser cost and easier availability

C Improving the existing owners' control over the business

D tax relief

Thank You!