The Sir John Colfox Academy
Inspiring Learning, Achieving Excellence

Knowledge Organiser
Finance (Paper 2: Unit 6)
Sources of finance

Sources of finance

	Sources of finance	External/Internal Short/long term
Selling unwanted assets	the business can sell assets (items it owns) that are no longer really needed to free up cash, a problem if the assets are needed in the future.	Internal
Retained profit	This is the cash that is generated by the business when it trades profitably , using the retained profit's has an opportunity cost and shareholders/owners may not be pleased.	Internal
New share issue	Share capital is the **money invested in a company by the shareholders**. Share capital is a **long-term source of finance**. In return for their investment, shareholders gain a share of the ownership of the company.	External Long Term
Overdrafts	An overdraft facility, where a bank allows a firm to take out more money than it has in its bank account, interest rates are typically higher than loans.	External Short Term
Loan	Loans from a bank (or from family and friends). Usually paid with interest. Interest rates could be fixed or variable rate.	External Long term
Mortgage,	A mortgage, which is a special type of loan for buying property or land where monthly payments are spread over a number of years (usually 25+ years)	External Long term
Trade credit	Trade credits, where suppliers deliver goods now and are willing to wait for a number of days before payment. This does not incur interest so can benefit cash flow.	External Short term
Hire purchase	Hire purchase or leasing, where monthly payments are made for use of equipment such as a car. Hired equipment is owned by the firm after the final payment.	External Long term
Government grants	Grants from charities or the government to help businesses get started, especially in areas of high unemployment.	External Long term

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EDUCATION FOR THE FUTURE

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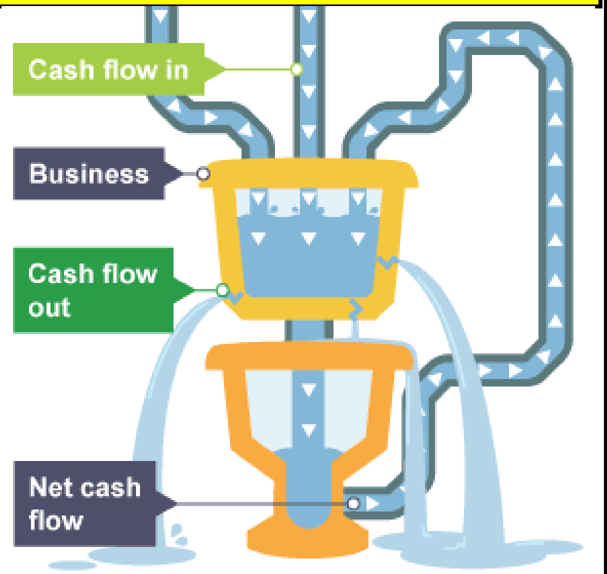
Cash Flow

Profit and **cash flow** are two very different things. Cash flow is simply about money coming and going from the business. The challenge for managers is to make sure there is always enough cash to pay expenses when they are due, as running out of cash threatens the survival of the business.

Cash flow is the movement of money in and out of the business.

The cash flow forecast **predicts** the net cash flows of the business over a **future period.**

The forecast estimates what the cash inflows into the bank account and outflows out of the bank account will be. The result of the cash flow forecast is an estimate of the bank balance at the end of each period covered



Insolvency

If a business runs out of cash and cannot pa suppliers or workers it is **insolvent**. The owners must raise extra finance or cease trading. This is why planning ahead and drawing up a **cash flow forecast** is so important, as it identifies when the firm might need an overdraft

possible solutions to cash flow problems:

- Re-scheduling payments
- Overdrafts
- reducing cash outflow,
- increasing cash inflow
- finding new sources of fi

Cash flow in	Cash flow out
Revenue	Wages
Capital	Expenses
Profits	Bills

Cash flow Surplus: occurs when a business ends the month in credit (positive figures)

Cash Flow defectit: occurs when a business ends in negative figures - shown by (brackets around the figures)

Sonya has produced a cash flow forecast.

Figure 2

	June £	July £	August £	September £
Total Income	5 000	11 100	9 200	11 600
Total Expenses	8 100	7 100	9 800	7 900
Balance brought forward	(1 300)	(4 400)	(400)	(1 000)
Balance carried forward	(4 400)	(400)	(1 000)	2 700