



# **SNS COLLEGE OF ENGINEERING**

**Kurumbapalayam (Po), Coimbatore - 641 107**

**An Autonomous Institution**

**Accredited by NBA - AICTE and Accredited by NAAC - UGC**

**with 'A' Grade**

**Approved by AICTE, New Delhi & Affiliated to Anna  
University, Chennai**

## **DEPARTMENT OF MANAGEMENT STUDIES**

**COURSE NAME : FINANCIAL SOURCING MANAGEMENT**

**II YEAR /III SEMESTER**

**Unit 1 – Sources of Funds**





# Topic ??????????

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# Recall

- ❖ **Meaning of Funds**
- ❖ **Purpose of Funds**
- ❖ **Types of Funds**





Lets Focus on



# Sources of Funds





# Sources of Funds



Business simply cannot function without money, and the money required to make a business function is known as business funds.

Throughout the life of business, money is required continuously.

Sources of funds are used in activities of the business.





To start business as the initial expenditure

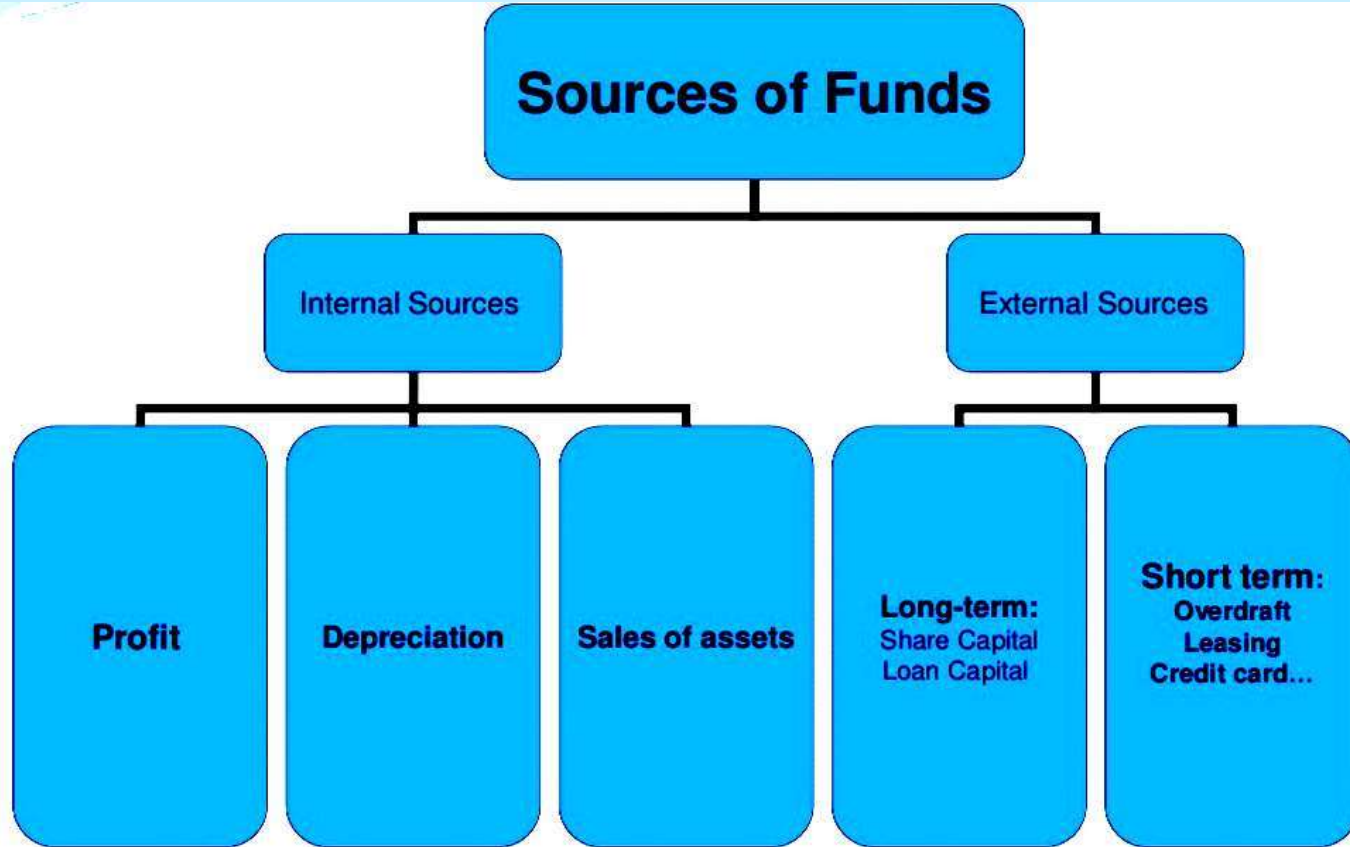


To fund continuous business activities



To expand business







## Internal source of finance



- Profit
- Depreciation
- Sale of Asset







# PROFIT



The after-tax profit earned and retained by a business which is an important and inexpensive source of finance.

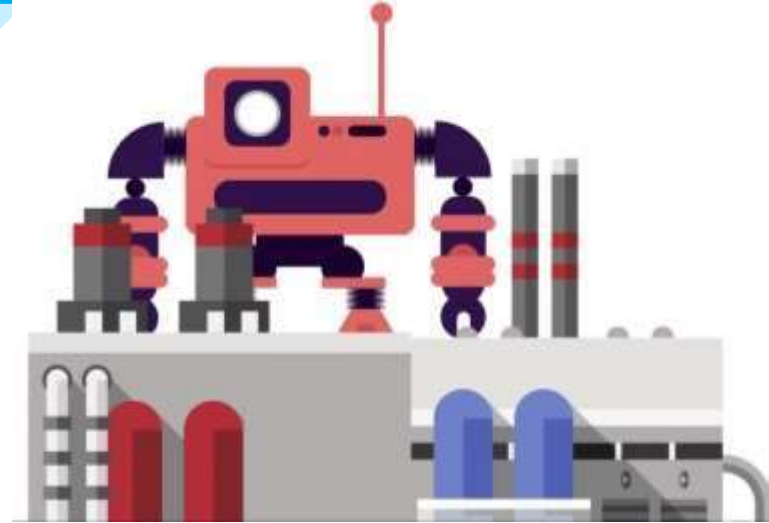
Example, the retained earnings of the business. A large part of finance is funded from profit.



# DEPRECIATION

The financial provision for the replacement of worn-out machinery and equipment.

Nearly all businesses use depreciation as a source of funds.





# SALES OF ASSETS

The activity that a business sells off assets to raise funds for the business.





# External Long term source of finance

- Share Capital
- Loan Capital





# SHARE CAPITAL



The most important source of funds for a limited company. It is often considered as permanent capital as it is not repaid by the business but the shareholder can have a share in the profit, called dividend.





# Three types of shares

1. **Ordinary shares**; The most riskiest shares since no guaranteed dividend. But all ordinary shareholders have voting rights.
2. **Preference shares**: The share owners receive a fixed rate of return. They carry less risk .But they are not strictly owners of the company.
3. **Deferred shares**: These shares are often held by the founders of the company. Deferred shareholders only receive the dividend after the ordinary shareholders have been paid.





# LOAN CAPITAL

Any money which is borrowed for a long period of time by a business is called loan capital.





# Types of Loan Capital

1. **Debentures:** The holder of a debenture is a creditor of the company, not an owner. and having no voting rights.
2. **Mortgage:** These are long-term bank loans (usually over one year period)-from banks or other financial institutions.
3. **Loan specialists' funds:** These are venture capital or specialists who provide funds for small businesses,
4. **Government assistance:** To encourage small businesses and high employment, governments may be involved in providing finance







# External short term source of finance



- Overdraft
- Leasing
- Credit card





# OVERDRAFT



This is a short term financing from banks.

The amount to be overdrawn depends on the needs of the business at the time and its credit standing.

Interest is calculated from the time the account is overdrawn..





# LEASING



Leasing allows businesses to buy plant, machinery or equipment without paying large sums of money immediately. Lease payments are made by the hire company yearly or monthly, etc.



# CREDIT CARD



**Credit cards can be used to pay for hotel bills, meals, shopping and materials, etc. They are convenient, and secure because it can avoid the use of cash. The payment of interests within credit periods. Cards have a credit limit also.**





# Assessment



The after-tax profit earned and retained by a business which is an important and inexpensive source of finance. \_\_\_\_\_





# Summary

In general, a business may have two major sources of funds which are needed for its business operations. They are internal sources of funds and external sources of funds. Sources of funds are used in activities of the business.

SUMMARY