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The Case of the Unidentified Financial Firms

Example for risk factors and parameters

The financial statements of a company are the main source of information for the analysis of its financial position and performance. They provide a detailed view of the company's activities and its results over a period of time.

Financial statements are prepared according to the accounting standards and provide a clear and concise summary of the company's financial performance.

Financial Sources of Finance

Types of Finance

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Market Capitalization (as seen in TV)

Market capitalization is the total value of a company's outstanding shares. It is calculated by multiplying the number of shares outstanding by the current share price.

Making the financing decision

When making a financing decision, a company must consider the costs of capital, the risk of debt, and the impact of taxes. The optimal financing structure is the one that minimizes the company's overall cost of capital.

The case of the unidentified financial firms is a complex one. It involves a detailed analysis of the company's financial statements and a thorough understanding of the market conditions. The goal is to identify the key factors that have led to the company's current financial position and to develop a strategy to address these issues.



Unidentifiable Finance

Unidentifiable finance refers to financial resources that are not clearly defined or categorized. This can include various types of investments, loans, and other financial instruments that do not fit neatly into traditional categories.

Types of Finance

There are several types of finance, including debt finance, equity finance, and hybrid finance. Each type has its own characteristics and risks, and the choice of finance depends on the company's needs and the market conditions.

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Characteristics of Long-term Finance

Long-term finance is characterized by a long maturity period and a high level of risk. It is typically used for large-scale investments and is often provided by institutional investors or the government.

Sources of Finance in Public Sector

The public sector has several sources of finance, including taxes, government bonds, and grants. These sources are used to fund public services and infrastructure projects.

Global Finance Center

A global finance center is a hub for financial activities, including banking, insurance, and investment services. It is typically located in major cities and attracts a large amount of international capital.



Financial Statements

Financial statements are prepared according to the accounting standards and provide a clear and concise summary of the company's financial performance.



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Features - Internal sources of finance
 • This type of capital has the lowest cost to the business with each case may be an opportunity
 • Internal finance does not increase the liabilities on the balance sheet as it is a job of the
 However, it is not available for all companies. For example, a small business is responsible for its own new assets.

Internal Sources of Finance
 • Retained profits
 • Dividends
 • Depreciation
 • Selling assets
 • Raising loans from friends and family
 • Selling shares
 • Selling patents
 • Selling licenses
 • Selling trademarks
 • Selling copyrights
 • Selling patents
 • Selling licenses
 • Selling trademarks
 • Selling copyrights



The Case of the Unidentified Financial Firms

Medium Term Finance

Medium term finance is used to finance the purchase of fixed assets. It is usually provided by banks, finance companies, and the public sector. It is usually repaid over a period of 3 to 5 years.

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Other sources of long-term finance

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Sources of Finance for Public Sector

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External Finance - Equity

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Companies should always raise equity finance over debt finance. Evidence that statements from the perspective of companies is made.

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3.1 Sources of Finance

LQ: How do firms decide on the most appropriate source of finance to meet their needs

- Define key financial terms.
- Analyse internal finance options.
- Evaluate external finance options

Role of finance for businesses:

- capital expenditure
- revenue expenditure AO2

The following internal sources of finance:

- personal funds (for sole traders)
- retained profit
- sale of assets AO2

The following external sources of finance:

- share capital
- loan capital
- overdrafts
- trade credit
- grants
- subsidies
- debt factoring
- leasing
- venture capital
- business angels AO2

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Short, medium and long-term finance AO1

The appropriateness, advantages and disadvantages of sources of finance for a given situation AO3

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Why do businesses need capital?

Finance is required for many business activities such as:

- *Start-up capital*
- *Working capital*
- *Business expansion*



Key terms:

Capital expenditure is finance spent on purchasing fixed assets.

Revenue expenditure refers to payment for daily running of a business such as wages.

Liquidation/ Bankruptcy - when a firm is unable to meet its debts.

Sources of finance

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Finance can come from two sources:

- **Internal Finance** - money raised from the businesses own assets or profits.
- **External Finance** - money raised from sources outside the business.

Finance is also divided into:

- Short-term finance - less than 1 year term
- Medium-term finance - 1 - 5 years term
- Long-term finance - 5+ years term

Internal Sources of Finance

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Retained profit/ Ploughed-back profits - any profit that remains after paying taxes and dividends.

Sale of assets - established companies often find they have assets that are no longer used.

Sale and lease back

Family and personal savings

Working capital - sale of goods and services

Investments - bond interest payments, dividends

Evaluation - Internal sources of finance

- This type of capital may have no direct cost to the business although there may be an *opportunity cost*.
- Internal finance does not increase the liabilities.
- There is no risk of loss of control by original owners as no shares are sold (if a plc or Ltd.)

However, it is not available for all companies, for example newly formed ones or unprofitable ones with few spare assets.

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"Companies should always choose equity finance over debt finance." Evaluate this statement from the perspective of an investor. 6 marks