

# VIDYA BHAWAN BALIKA VIDYA PITH

## शक्ति उत्थान आश्रम लखीसराय बिहार

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*This chapter provides an overview of the various sources from where funds can be procured for starting as also for running a business. It also discusses the advantages and limitations of various sources and points out the factors that determine the choice of a suitable source of business finance. It is important for any person who wants to start a business to know about the different sources from where money can be raised. It is also important to know the relative merits and demerits of different sources so that choice of an appropriate source can be made.*

### MEANING, NATURE AND SIGNIFICANCE OF BUSINESS FINANCE

*Business is concerned with the production and distribution of goods and services for the satisfaction of needs of society. For carrying out various activities, business requires money. Finance, therefore, is called the life blood of any business. The requirements of funds by business to carry out its various activities is called business finance.*

*A business cannot function unless adequate funds are made available to it. The initial capital contributed by the entrepreneur is not always sufficient to take care of all financial requirements of the business. A business person, therefore, has to look for different other sources from where the need for funds can be met. A clear assessment of the financial needs and the identification of various sources of finance, therefore, is a significant aspect of running a business organisation.*

*The need for funds arises from the stage when an entrepreneur makes a decision to start a business. Some funds are needed immediately say for the purchase of plant and machinery, furniture, and other fixed assets. Similarly, some funds are required for day-to-day operations, say to purchase raw materials, pay salaries to employees, etc. Also when the business expands, it needs funds.*

The financial needs of a business can be categorised as follows:

(a) Fixed capital requirements: In order to start business, funds are required to purchase fixed assets like land and building, plant and machinery, and furniture and fixtures. This is known as fixed capital requirements of the enterprise. The funds required in fixed assets remain invested in the business for a long period of time. Different business units need varying amount of fixed capital depending on various factors such as the nature of business, etc. A trading concern for example, may require small amount of fixed capital

as compared to a manufacturing concern. Likewise, the need for fixed capital investment would be greater for a large enterprise, as compared to that of a small enterprise.

(b) Working Capital requirements: The financial requirements of an enterprise do not end with the procurement of fixed assets. No matter how small or large a business is, it needs funds for its day-to-day operations. This is known as working capital of an enterprise, which is used for holding current assets such as stock of material, bills receivables and for meeting current expenses like salaries, wages, taxes, and rent.

The amount of working capital required varies from one business concern to another depending on various factors. A business unit selling goods on credit, or having a slow sales turnover, for example, would require more working capital as compared to a concern selling its goods and services on cash basis or having a speedier turnover.

The requirement for fixed and working capital increases with the growth and expansion of business. At times additional funds are required for upgrading the technology employed so that the cost of production or operations can be reduced. Similarly, larger funds may be required for building higher inventories for the festive season or to meet current debts or expand the business or to shift to a new location. It is, therefore, important to evaluate the different sources from where funds can be raised.