

AN OVERVIEW OF FINANCIAL NEEDS REQUIRED FOR RUNNING SMALL BUSINESS

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ABSTRACT

It is important to clearly identify the purpose of the funds. Business finance is generally used to acquire assets which are employed to help the business achieve its profit-making objectives, such as to purchase capital items (fixed assets) e.g., plant, equipment, land or buildings, motor vehicles; or to increase holdings of trading stock and supplies; or to fund research and development; or to expand distribution or develop new markets. Present paper describe the overview of financial needs required for running small business.

KEYWORDS: Financial Requirement, Debt Finance, Equity Finance.

INTRODUCTION

TYPES OF FINANCE

There are two main types of finance available to small business:

DEBT FINANCE

The majority of small businesses in Australia use debt finance, by borrowing from banks or other financial institutions. Debt finance is provided subject to specific terms and conditions for repayment (eg, overdraft or bank loan). The lender (e.g., bank) will evaluate the risks of a business and seek security (collateral) to cover the risk of default. The borrower repays principal and interest.

EQUITY FINANCE

An investor provides funds in exchange for a "share" in your business. Equity investors provide total risk capital, and have no security to call upon if the business does not perform as

expected. Equity finance may be sourced through a joint venture, venture capital funds (such as the Australian Stock Exchange's new Enterprise Market), or private investors commonly known as "Business Angels". The equity investment process is more complex and time-consuming than the process involved in raising debt finance.

APPLYING FOR FINANCE

Bank overdrafts and loans (debt finance) are the most important source of funds for small business. When seeking finance, it is usually necessary to make a formal application to the financial institution.

Because the bank (lender) can only make decisions based on the information you supply, you should try to give them as much detail as possible on all matters relating to your business venture. Remember that banks do credit reference checks, so there is no point in withholding information.

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WHAT DOES THE BANK LOOK FOR

Applicants must be able to demonstrate that they have a plan, and that they manage their finances and cash flow carefully. The real issue is giving the bank confidence in your ability to repay the debt.

You need to convince the bank that your proposition is practical and that your business will be able to service all borrowings. The lender will have to be confident that you have the skills and ability to manage your business in order to repay the loan and interest.

A well-researched and well-presented application is critical. Be prepared to seek and accept independent, professional advice from your accountant. Banks look at several factors when assessing a business loan application.

CRITERIA WHILE GETTING FINANCES

More effective appraisal policy is needed while determining the source of the fund. The company has to achieve its main objectives while deciding the sources of funds available to him. The appraisal policy solely relies upon the risk, tenure and cost of each and every source of fund. Keeping in view the financial conditions of the economy as well as the company the sources of finance are determined. As the sources of funds have their own merits and demerits.

TYPES OF FINANCIAL NEEDS IN A BUSINESS

Generally the Business enterprises need funds to

meet different types of needs. All the financial needs of a business may be broadly grouped into three categories, which are as follows:

LONG-TERM FINANCIAL NEEDS

Here the requirements of funds are for a period exceeding 5-10 year. Investments in plant, machinery, land, buildings etc. are considered as long-term financial needs.

MEDIUM TERM FINANCIAL NEEDS

In case of the medium term financial needs the time constraint is fixed at a period exceeding one year but not exceeding 5 years. In some cases the long-term requirements, funds cannot be arranged immediately so it is fulfilled from the medium term sources and thus the demand of medium term financial needs are generated.

SHORT TERM FINANCIAL NEEDS

Financial needs dealing with financing the current assets such as stock, debtors, cash etc comes under this category.

Meeting the working capital requirements comes under this. Here the accounting period is of one year.

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