

SOURCES OF FINANCE

Sources of finance mean the ways for mobilizing various terms of finance to the industrial concern. Sources of finance state that, how the companies are mobilizing finance for their requirements. The companies belong to the existing or the new which need sum amount of finance to meet the long-term and short-term requirements such as purchasing of fixed assets, construction of office building, purchase of raw materials and day-to-day expenses.

Sources of finance may be classified under various categories according to the following important heads:

1. Based on the Period

Long-term sources: When the finance mobilized with large amount and the repayable over the period will be more than five years, it may be considered as long-term sources.

Long-term sources of finance include:

- Equity Shares
- Preference Shares
- Long-term Loans
- Fixed Deposits

Short-term sources: Apart from the long-term source of finance, firms can generate finance with the help of short-term sources.

Short-term source of finance include:

- Bank Credit
- Customer Advances
- Trade Credit
- Factoring
- Public Deposits
- Money Market Instruments

2. Based on Ownership

An ownership source of finance include

- Shares capital, earnings
- Retained earnings
- Surplus and Profits

3. Based on Sources of Generation

Internal source of finance includes

- Retained earnings
- Depreciation funds

External sources of finance may be include

- Debenture
- Loans from Banks and Financial institutions