

11th Standard -Business Studies

Sources of Business Finance

Concept, Nature and Significance of Business Finance

Quick Review—

-> Introduction

Every business enterprise, whether big or small, needs finance to carry on its operation. The importance of finance increased tremendously these days because of mass production and use of capital intensive techniques. As a result finance is considered as the life-blood of any business.

-> Nature And Significance Of Business Finance :

Business Finance Refers to the Money required for carrying out business activities.

-> Need For Business Finance :

All business activities require some finance. Finance is needed :

- Start and establish a business.
- To run day to day activities of business like payment for raw materials, salaries etc.
- To modernize, expand and diversify the business.

Hence the availability of adequate finance is very crucial for the survival and growth of a business.

-> The financial needs of a business can be classified into two categories :

1. Fixed capital requirement
2. Working capital requirement

Know the Terms—

- > **Finance** : Funds or capital required to meet the needs of an organisation.
- > **Business Finance** : Is concerned with the acquisition and utilisation of funds in meeting the financial needs and overall objectives of a business enterprise.
- > **Fixed Capital**: The capital required for long-term investment in fixed assets of a business.
- > **Working Capital**: The capital which is required to hold current assets and to meet its day-to-day expenditure.
- > **Owners fund** : Funds that are provided by the owners of the enterprise and remain invested in the business for a longer duration till the business continue to exist.
- > **Borrowed Fund**: Fund raised through loans and borrowings for a specified period, on a fixed rate of interest.
- > **Financial Risk**: The possibility of a firms, inability to pay the interest and to refund the borrowed amount.