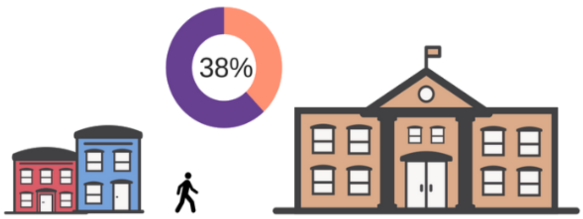
price davis

| CHARTERED CERTIFIED ACCOUNTANTS

Credit and Financing

When deciding whether your business could benefit from additional finance there are a series of questions you should ask yourself (or your accountant) beforehand, such as:

- **What do I need finance for?** - It is important to understand what you are getting finance for.
- **How much do I need?** - Borrowing too much or too little will lead to further issues down the road.
- **How long will I need it?** - If you require finance to cover a cash-flow shortage it is vital to know how long the finance will likely be needed for.
- **What exactly will it go towards?** - For example, will the amount sought be enough to cover the purchase cost of a new machine, or sustain business operations through an illiquid period.



38% of **small businesses** still went to their main **bank** directly for financing according to a 2016 government report.

Internal

Equity Sale

Often an easy way of raising finances for a business is through selling some of its equity to an investor. By selling equity of the business, you are selling part of the business and therefore have relinquished some control. Can be a less cost effective method of finance in the long run. e.g. £10,000 investment for 20% equity might diminish personal income and re-investment due to split profits.

Share Issuing

A Limited company has the ability to raise and sell shares to individual investors in order to raise additional finances. The selling of shares will mean that overall control of the company has been diluted resulting in less authority. In a way, issuing shares can be both internal, sold to individuals already within or close to the business, or external, being sold to a completely outside investor.

Investment

If the business is set up as a sole trader or a partnership, another way of bringing in additional funds would be by seeking a partner to invest in the business. May have access to funds with no interest or repayment required (apart from through profit share).However, will lose some control over the business, and personal income may decrease due to split profit sharing.

External

Grants

Usually issued as a lump sum or as a continuous stream of credit up until an agreed upon limit. Secured loans are backed by collateral e.g. a guarantor, personal guarantee, or asset security. personal assets can be seized if unable to repay. An unsecured loan is taken out without any assurances,and as such tends to be associated with higher interest rates.

Loans

Under certain circumstances businesses will be eligible to claim a non-repayable grant from governments.
These are often designed to help start-ups and SMEs to build and grow their operations. For Example, 'Horizon 2020' is an EU wide grant that supports SME's with funds between £100k and £10m.

Overdrafts

Drawing out a bank overdraft is a quick and easy way to access additional funds. Often only small in value compared to other financing methods.Ideal as small and short term financing options, such as covering for a few months of cash-flow shortage.

When considering whether or not to take out any form of finance, it would be prudent to seek professional advice. If the business is suffering from a cash-flow shortage, an accountant can draw up a series of forecasts outlining how long the cash-flow issues might last for and therefore indicating the amount of finance required, and for how long it will be needed for.

PROFESSIONAL PRO-ACTIVE SUPPORT