

ENTREPRENEURSHIP

M.SC- CT- 2nd sem

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TOPICS COVERED

- ▶ **Project Budgeting and Finance**
- ▶ **Sources of Finance**

PROJECT FINANCE

- ▶ What Is Project Finance?
- ▶ Project finance is the funding (financing) of long-term infrastructure, industrial projects, and public services using a non-recourse or limited recourse financial structure. The debt and equity used to finance the project are paid back from the cash flow generated by the project.
- ▶ Project financing is a loan structure that relies primarily on the project's cash flow for repayment, with the project's assets, rights, and interests held as secondary collateral. Project finance is especially attractive to the private sector because companies can fund major projects off-balance sheet.

LONG TERM FINANCE

▶ **Definition**

- ▶ Long-term finance can be defined as any financial instrument with maturity exceeding one year (such as bank loans, bonds, leasing and other forms of debt finance), and public and private equity instruments. Maturity refers to the length of time between origination of a financial claim (loan, bond, or other financial instrument) and the final payment date, at which point the remaining principal and interest are due to be paid. Equity, which has no final repayment date of a principal, can be seen as an instrument with nonfinite maturity. The one year cut-off maturity corresponds to the definition of fixed investment in national accounts.

LONG TERM SOURCES OF FINANCE

- ▶ Sources of finance for business are equity, debt, debentures, retained earnings, term loans, working capital loans, letter of credit, euro issue, venture funding etc. These sources of funds are used in different situations. They are classified based on time period, ownership and control, and their source of generation. It is ideal to evaluate each source of capital before opting for it.
- ▶ 1 Long-Term Sources of Finance
- ▶ 2 Medium Term Sources of Finance
- ▶ 3 Short Term Sources of Finance
- ▶ 4 Owned Capital
- ▶ 5 Borrowed Capital
- ▶ 6 Internal Sources
- ▶ 7 External Sources

Long Term Financing

Sources

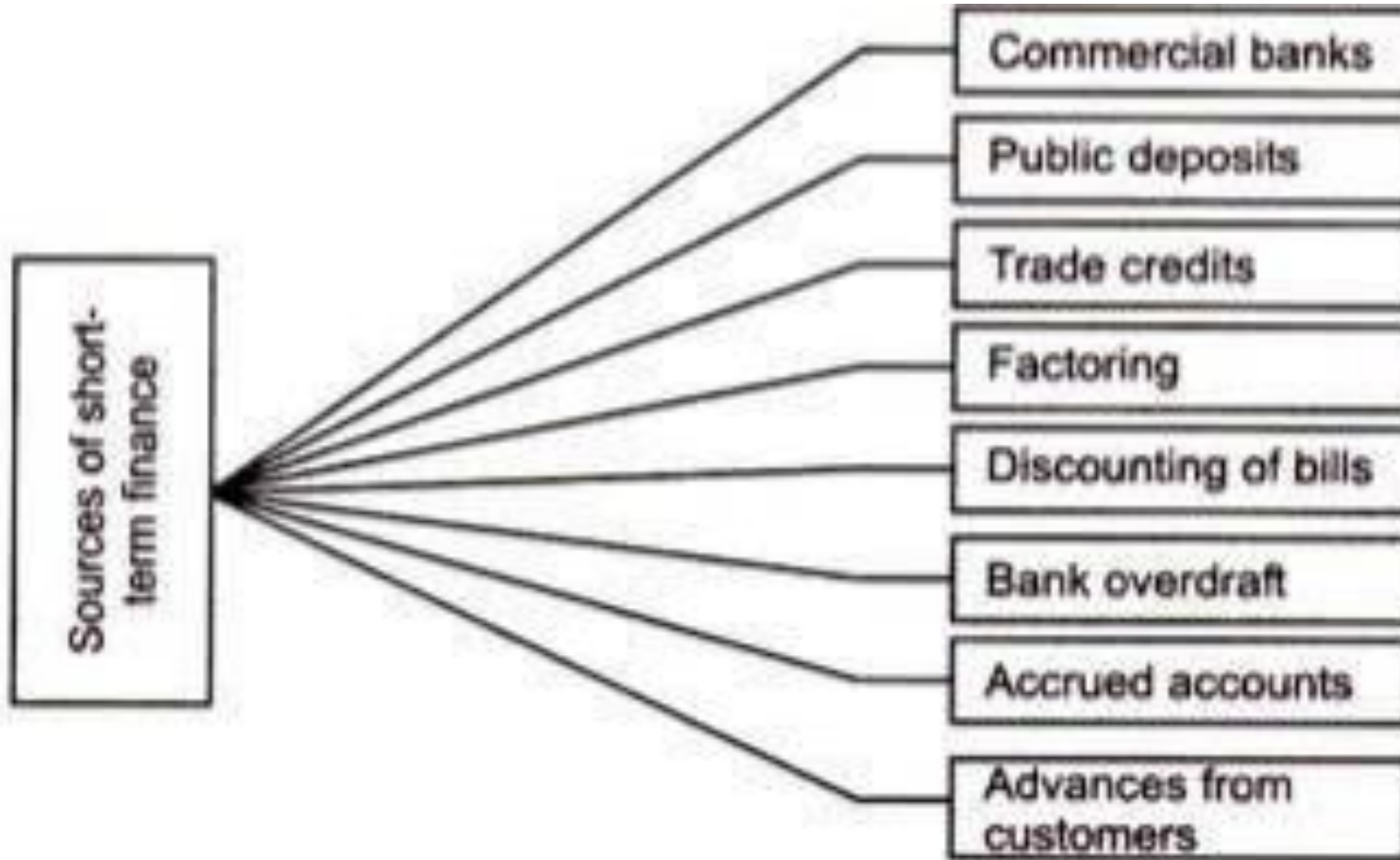


SHORT TERM FINANCE

- ▶ Defination
- ▶ Short term is a concept that refers to holding an asset for a year or less, and accountants use the term “current” to refer to an asset expected to be converted into cash in the next year or liability coming due in the next year. The accounting profession uses current assets and current liabilities to perform analysis, and in the investing industry, a security with a holding period of one year or less is a short-term security.

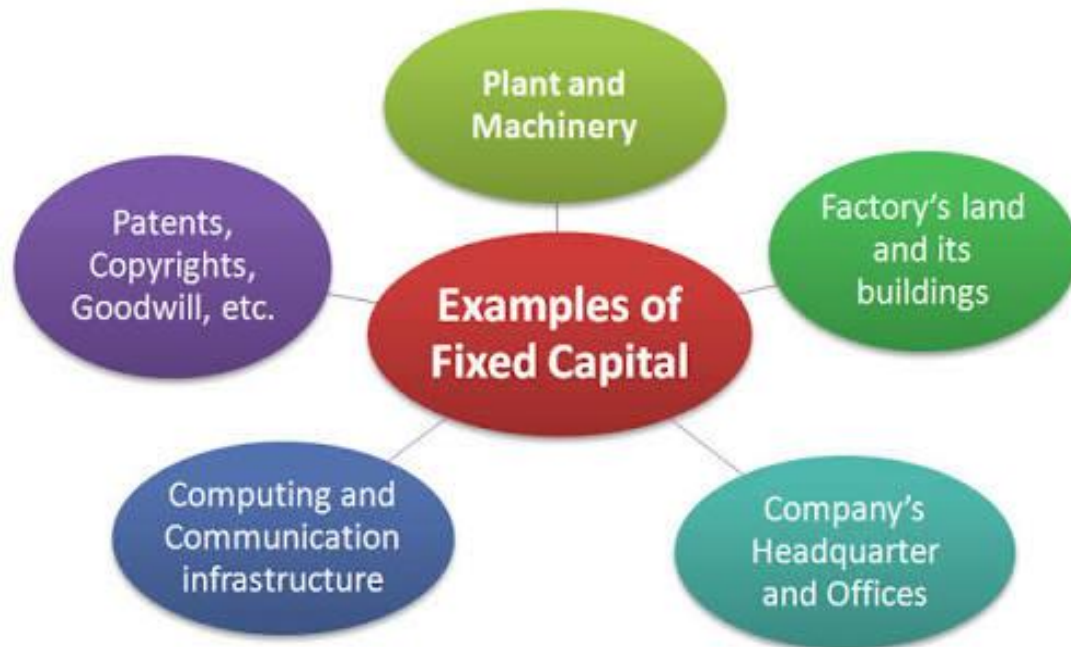
SHORT TERM SOURCES OF FINANCE

- ▶ *Any delay in the procurement of the short-term fund may hinder the operational activities of the enterprise. An enterprise always strives to manage its short-term financing in the most efficient manner.*
- ▶ *The prime objective of the short-term finance is to maintain the liquidity of the enterprise.*
- ▶ The short-term sources of finance are:-
 - ▶ 1. Trade Credit
 - ▶ 2. Commercial Paper
 - ▶ 3. Unsecured Short-Term Bank Loans
 - ▶ 4. Secured Forms of Credit
 - ▶ 5. Customer Advances
 - ▶ 6. Installment Credit
 - ▶ 7. Bank Loan
 - ▶ 8. Cash Credit
 - ▶ 9. Certificates of Deposit
 - ▶ 10. Bill of Exchange



FIXED CAPITAL

- ▶ **Fixed capital** is capital or money that we invest in **fixed assets**. In other words, money that we invest in assets of a durable nature. These are assets that we repeatedly use over a long period. We can also use the term '**fixed investment**' with the same meaning.



WORKING CAPITAL

- ▶ **Working capital**, also known as net working capital (NWC), is the difference between a company's current assets, such as cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable.



DIFFERENCE BTW FIXED CAPITAL AND WORKING CAPITAL

Difference between fixed and working capital

Basis	Fixed capital	Working capital
Time period	Required for long-term.	Required for short-term.
Purpose	Money needed to buy fixed assets.	Money needed to buy current assets.
Nature	Remains sunk in business.	Revolves in business.
Source	Raised through shares, debentures and term loans.	Raised through banks, trade credit, shares and debentures.

*Thank
you!*