**2.1.2 External finance**

1. Place each source of finance as column headings and each method of finance as row headings in the table below.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Methods of finance | Sources of finance | | | | | |
| Family and friends | Banks | Peer-to-peer funding | Business angels | Crowd funding | Other businesses |
| Loans | **** | **** | **** |  |  | **** |
| Share capital | **** |  | **** | **** | **** | **** |
| Venture capital | **** |  | **** | **** | **** | **** |
| Overdrafts |  | **** |  |  |  |  |
| Leasing |  |  |  |  |  | **** |
| Trade credit |  |  |  |  |  | **** |
| Grants |  |  |  |  |  | **** |

1. On the table above place a tick in the cells to show which sources apply to which methods e.g. bank and loan. One source may apply to more than one method.
2. Distinguish between:
   1. An overdraft and a bank loan

An overdraft is a short term source of finance where interest is payable on the outstanding balance. A bank loan is a long term source of finance for a specific purpose. The loan is repayable in pre agreed instalments with a set amount of interest.

* 1. Share capital and venture capital

Both are external sources of finance where individuals or groups invest in a business in return for equity. Venture capital however will have the added advantage that the investor will be an experienced entrepreneur who can also provide advice and guidance.

* 1. Short term and long term sources of finance

A short term source of finance will be needed for less than a year e.g. an overdraft to solve cash flow problems. A longer term source of finance however will be needed for a longer period of time i.e. over a year. An example would be a 10 year bank loan to buy a new building.