

An illustration showing two hands in business suits. The left hand holds a green 100 Euro banknote, and the right hand holds a glowing yellow lightbulb. The background is filled with various grey icons representing different industries and concepts like technology, environment, and business.

WHAT ENTREPRENEURS AND BUSINESSES NEED TO KNOW ABOUT FINANCIAL CAPITAL

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Table Of Contents

Foreword

Chapter 1:

Capital Finance Basics

Chapter 2:

Factors Determining Fixed Capital Requirements

Chapter 3:

Factors Determining Working Capital Requirements

Chapter 4:

The Differences Between Own And Borrowed Capital

Chapter 5:

Constant Purchasing Power Accounting

Chapter 6:

Services Provided By Financial Instruments

Chapter 7:

Financial Institutions And Short Term Loans For Businesses

Wrapping Up

Foreword

Capital financing is all about defining the process of planning to fit into a stipulated budget for projects. The assets with the cash flows are then maneuvered to project a one year period before the actual commencing of the project. The budgeting in place must be able to completely encompass the workings of the project for that stipulated period of time. Get all the info you need here.

Capital Maintenance Concepts

What Entrepreneurs And Businesses Need To Know About Financial
Capital

Chapter 1:

Capital Finance Basics

Synopsis

The capital finances can be used to plan or address several different platforms such as replacement decisions to maintain the general business entity, the focus on existing products or changes for market expansion, new products and services, regulatory, safety and environmental issues or any other major changes that require a substantial amount of funds to be utilized over a period of at least one year.

The Basics

The necessity of having the information to run the capital finance platform is important as it affects the general direction the company intends to take, for the immediate future.

This will also dictate the direction and also how it's going to affect the long term future of the company. Since most projects commence based on the capital financing allowances, there is a need to ensure the project is capable of yielding the desired result the long term time frame requires.

Locking in the commitment levels of all departments within the entity, provides the resources to only this plan, leaving little room for other considerations or changes.

Decisions on the purchases of assets, manpower expansions and other complimenting tools that are needed for the forecast done through the capital finance planning will eventually take shape once such financing is arranged and approved.

Chapter 2:

Factors Determining Fixed Capital Requirements

Synopsis

Not all fixed capital budgets are the same nor are they all fitted squarely into any particular frame where one budget fits all. There are several factors that play a defining role in the eventual fixed capital required for any endeavor.

Factors

The following are some of the factor that may contribute in some way to the amounts required within the fixed capital frame:

The nature of the business entity is one of the dictating factors that will affect the fixed capital. Within the platform there are several smaller considerations to be taken into account such as the size of the business entity, the products it will be dealing in, the type of production processes and may other defining elements that constitute the smooth running of the business entity.

The size and commitment towards the business idea is also something that will be formed based on the fixed capital available.

For some this is not really a major issue as there would be room for expansion considerations when the business eventually makes good percentages of profits.

While for others having too small a fixed capital budget, would not make the business entity something viable and worth considering. Therefore the fixed capital very much dictates the eventual positioning of the business entity.

The stages the business progresses and the corresponding speed involved are also dictated by the fixed capital involved. This also applies to the business entity that is focused very much on expansions that will bring in the added revenue to the company which needs a lesser fixed capital

when compared to a company that is just starting out its business endeavors.

Ideally the fixed capital should be able to accommodate all phases of the business entity without having to make compromises which may eventually affect the overall performance and projections first drawn up.

Chapter 3:

Factors Determining Working Capital Requirements

Synopsis

Generally explained as current assets within the business entity, the working capital would encompass all stocks, cash, debtors, and anything linked to the company. Though these working capital figures may vary through time, calculations should be done as estimates to ensure there is always sufficient working capital for the smooth running of the company or business entity.

The Factors

The following are some of the factors that would determine or dictate the working capital needed to ensure the business is run smoothly and at its optimum:

If the business entity is based on a product that requires some raw materials then the stock of such material should be available.

The working capital also has to take into consideration that those materials are always be available and ready to be used. This can only be feasibly facilitated if there is a proper working capital to tap into when stocks of such raw material are on the low side.

The time frame needed to actually produce the goods or services. Ensuring that the method used is both cost effective and time effective would then make the working capital functional rather than not.

Credit terms from suppliers also affect the working capital that needs to be in place to ensure the balance is kept even if the credit terms are not really adhered to. Likewise the credit terms offered to the customers also factors heavily in the working capital platform. All these should be considered in relation to each other, thus ensuring the eventual calculation of the working capital is suitable and enough to weather any situations as it unfolds.

Estimated sales for the month are also other elements to be considered, when drawing up the working capital layout. Although just estimates and projections are given, suitable working capital amounts can be

forecasted. Profit margins are also taken into account for such estimations to be complete.

Chapter 4:

The Differences Between Own And Borrowed Capital

Synopsis

There are a few very obvious differences between these two capital supply avenues, however both are equally useful when it comes to seeing a business entity materialize successfully.

The Differences

In the scenario where the capital investment is provided for by the business owner itself means there is a lot less paper work involved when comparisons are made to the borrowed capital source.

The borrowed capital would require the justification exercise and all it entails in order to actually receive some if not all of the initial amounts requested.

There would also, in most cases, be the need to provide some sort of collateral toward the borrowed capital requested. Other features such as legal implications and documentation would have to be filed before the business can be checked for its suitability and estimated success rates.

In terms of taxes, there is also a lot of relief that can be enjoyed from both types of capital providing styles; however the percentages of taxes calculated would depend largely on the style chosen to set up the business.

Time frames affecting the eventual debut of the business entity also dictate the type of capital available. If the capital is provided for by the owner, then the time frame is easier and quicker to establish.

However if the capital is derived from a borrowed source, then delays maybe something to expect, which could have poor effects on the business, especially if the launching time frame has a level of significance tied to it.

The interest rates that the borrowed capital would incur could also be a negative element that might need to be avoided if the said capital will put the business in debt. Although it is natural to pay such interest on the borrowed amount, the said interest would eat into the profits that are made from the business.

Chapter 5:

Constant Purchasing Power Accounting

Synopsis

There are many tools that can assist a business owner when it comes to financial elements. One such tool is the CPP, also known as the constant purchasing power, which is an accounting measuring tool that effectively shows the effects of inflation on the value of money at any given time. The historical costs are converted into current pricing values by using the index reflected in the consumer price index of the day also referred to as CPI.

Purchasing Power

The following are some of the elements that contribute positively to the business through the use of this method:

This method ideally adopts the same unit of measurement when it takes into account the price changes or any fluctuations. This is especially useful as it gives the business owner a better understanding of the current positions and values of elements in “real time”.

With the help of the constant purchasing power accounting tool the historical accounts continue to be maintained and statements are prepared on a supplementary basis.

This will then facilitate the calculations of gains and losses in the actual purchasing power because of the monetary items being held.

Comparative studies are made much easier as the purchasing power is done in measuring units and this then makes any overview or study of the financials fairly easy.

The reliability of the information is also advantageous for those making management decisions that formulate the plans and policies for the business and its future.

If there are other participating entities within the business setup, the constant purchasing power accounting tool will help to ensure the capital contributors are kept in the “know” thus keeping the purchasing power within the boundaries of those shareholders. However it should be noted that though this tool can be rather helpful, it only deals in the general

purchasing power and not in the actual changes the value of the individual items may bear.

Chapter 6:

Services Provided By Financial Instruments

Synopsis

Most financial instruments are designed to assist any business in the various issues pertaining to the actual functioning of the business entity. These may come in the form of checks, drafts, bonds, shares, bills of exchange, futures, option contracts and many others. These various styles of documentation portray a monetary value, which is both legally enforced and binding. Acting as a form of legal agreement between parties connected to the business entity in one way or another in the payments of monies.

Sources

Most companies and businesses today understand the customers sentiments, is the one element which eventually dictates the more strategic moves the business takes on.

This focus on the customer or consumer then creates the need to have factual financial information that can assist in making decisions that will impact the business metrics ranging from brand positioning to other elements that seal customer loyalty.

All these financial instruments have the goal of eventually assisting in creating the increased revenue and cost saving formats that will increase the business entities chances of being even more successful.

All the services provided for by the various financial instruments are usually in place or chosen for its specific abilities to facilitate any transactions or agreements between parties linked to the business entity. The convenience of such documentation eases the burden of actually having to deal in real cash and making projections with real cash availability at any given time.

All these contractual obligations will ensure the delivery of financial commitments corresponding to the agreements between parties. Some of these financial instruments may include the listed and unlisted debt securities, listed equity securities, purchased loans, financial assets in help for trading, trade and other receivables, cash or cash equivalents, trading liabilities, current and long term bank borrowing and many other similar contributing elements.

Chapter 7:

Financial Institutions And Short Term Loans For Businesses

Synopsis

A lot of businesses today require some form of assistance when it comes to the financial aspect of things, thus creating the need to seek out such assistance from sources which may include financial institutions or other platforms where short term loans can be issued.

Loans

If the business entity planned has a very confident overview of its eventual success, which is projected to be evident within a short period of time, then the option to acquire just a short term loan becomes a more viable way to garner the much needed funds.

This also applies to any business expansion plans that don't really need the long term commitments of huge funding. Financial institutions are also a rather popularly sought after alternative when funds are needed for businesses or business expansions.

The relationship between the two parties is usually limited to the financial party just providing the funds without having any direct say in how the said funds are to be used.

However when the applications are tabled for the said funds, outlines on its projected uses are usually presented to the financial institutions and short term loan extensions would need such information for the assessment and requirement merits of the said funds.

It should be noted that most short term loans tend to incur higher interest charges thus sometimes making payments more difficult to clear.

Therefore although the accessibility to such funds is considerably easier when comparisons are made to other forms of financial help, the fact remains that in most cases the interest charged is also comparatively higher.

Of late however, due to all the financial turmoil, the financial institutions are more careful in approving loans, either short or long term, to business entities. More stringent credit checks are done to ensure the percentages of being able to realize profits from the loan are both assured and possible.

Wrapping Up

The capital financing of the project will ultimately dictate the decision making, which in turn will define the strategic plans laid out for the business entity. Therefore having a capital finance plan that is strong will be less restrictive when it comes to planning for the company.

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