

Long-term sources of finance

Retained Earnings
Reserves - profit the company has accumulated

Advantages
1. No interest
2. No security needed
3. No worry about bankruptcy

Disadvantages
1. Can take years to accumulate
2. Businesses who save all their money and fail to pay dividends will have a bad relationship with shareholders

Mortgage (HH)
Usually 25 to 30 years
Secured on house
Household makes monthly repayments
Fixed or variable rate

Advantages
1. Interest rate is low
2. Allows a family to secure a home for life

Disadvantages
1. House can be repossessed if...
2. Hard to plan financially with variable interest rate

Debentures
Long-term loan
Secured on company assets
Interest paid each year
Loan itself repaid in lump sum at the end of the period

Disadvantages
1. Security is required, so assets are at risk
2. Increase in company's debt:equity ratio, making it more difficult to get other loans

Advantages
1. Interest is tax-deductible, reduces company's tax bill
2. Control not affected

Savings (HH)
Money a h.h doesn't spend

Advantages
1. No interest to repay
2. No security is needed

Disadvantages
1. Takes many years to build up savings

Grants (business only)
Given by government or state-run agencies
Enterprise Ireland (indigenous)
IDA (transnationals)

To start up or run a business
Permanent source of finance
Conditions must be met to receive grant

Advantages
1. No repayment, unless....
2. No security

Disadvantages
1. Conditions must be met to receive grants
2. Government usually only gives the company a percentage of the money needed