**CORPORATE FINANCE**

**Learning Outcome 2: ACTIVITY 2**

## **Sources of finance**

#### Retained profit is a type of equity finance. The retention of profit (rather than distribution in the form of dividends) is, in effect, a way to raise finance. Working capital is another source of finance and comprises inventories, receivables, cash and payables.

The amount of cash held by a business needs to be considered with great care: the marginal value of holding such as a liquid asset as a cash balance declines as the amount of cash held increases.

#### Required: in small groups

Using your chosen business from previous Activities, where relevant:

1. Discuss if retained profits are a ‘free’ source of finance.
2. Explain how shareholders might feel if a business consistently uses retained profit as a source of finance, rather than distributed to shareholders in the form of a dividend?
3. Identify the industries in which working capital might represent a significant proportion of a business’s net asset base?
4. Identify and discuss the costs of holding (a) too little cash and (b) too much cash.
5. Consider the level of cash held by your chosen business. Assess the level of cash that is held using the results of your discussion in (4).
6. Prepare a short presentation on your findings.