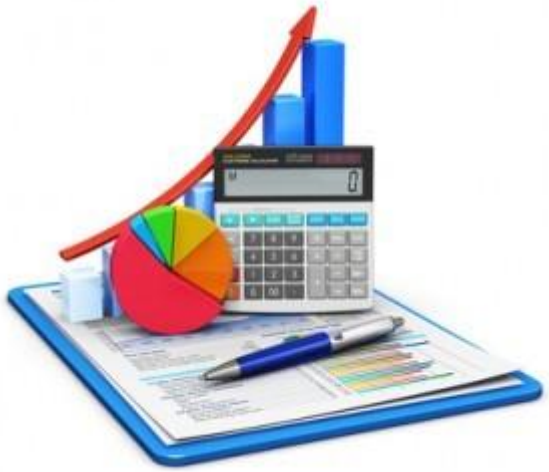
UNIT 2
MANAGING FINANCIAL RESOURCES AND DECISIONS



Unit Code: /601/0548

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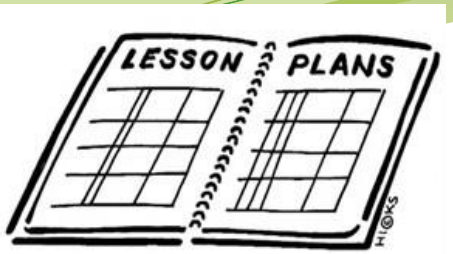
MANAGING FINANCIAL RESOURCES AND DECISIONS

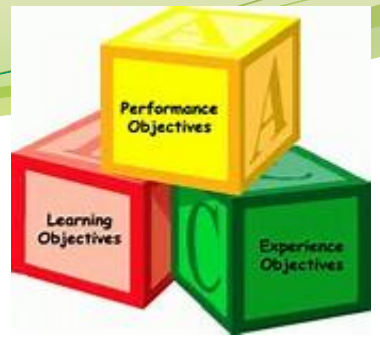
- **LO 2: Understand the implications of finance as a resource within a business**



THE BASIC SYLLABUS

- Understand the sources of finance available to business.
- Understand the implications of finance as a resource within a business
- Be able to make financial decision's based on financial information
- Be able to evaluate the financial performance of a business.

LEARNING OBJECTIVE



- At the end of the class students should be able to:

- AC 2.1: Analyse the costs of different sources of finance

OVERVIEW

- The primary meaning of cost of capital is simply the cost an entity must pay to raise funds. The term can refer, for instance, to the financing cost (interest rate) a company pays when securing a loan. The cost of raising funds, however, is measured in several other ways, as well, most of which carry a name including "Cost of."

INTEREST

- Interest is the price paid for using someone else's money. It is thus the fee for the privilege of borrowing money. The fee represents the price a person pays for the ability to spend / consume in the present instead of having to wait for the future to do so. You pay for the opportunity to use money today that would otherwise take time to accumulate.

DIVIDENDS

- A taxable payment declared by a company's board of directors and given to its shareholders out of the company's current or retained earnings, usually quarterly. Dividends are usually given as cash (cash dividend), but they can also take the form of stock (stock dividend) or other property. Dividends provide an incentive to own stock in stable companies even if they are not experiencing much growth. Companies are not required to pay dividends. The companies that offer dividends are most often companies that have progressed beyond the growth phase, and no longer benefit sufficiently by reinvesting their profits, so they usually choose to pay them out to their shareholders.

OPPORTUNITY COSTS

- Economics is all about making choices, and to make good choices we must compare the benefit of something to its cost. Opportunity cost incorporates the notion of scarcity: No matter what we do, there is always a trade-off. We must trade off one thing for another because resources are limited and can be used in different ways. By acquiring something, we use up resources that could have been used to acquire something else. The notion of opportunity cost allows us to measure this trade-off.

TAX EFFECT

- An income tax is a tax that governments impose on financial income generated by all entities within their jurisdiction. By law, businesses and individuals must file an income tax return every year to determine whether they owe any taxes or are eligible for a tax refund. Income tax is a key source of funds that the government uses to fund its activities and serve the public.

REFERENCES

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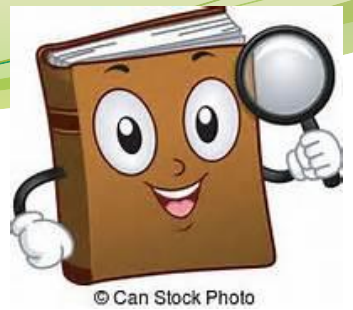

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