3.6 · FINANCE

# Lesson 1: Internal sources of finance

KNOWLEDGE ORGANISER



## 🎯 Learning goals

- ✓ Explain what internal finance means
- ✓ Describe retained profit, sale of assets and owner's capital
- ✓ Give advantages and drawbacks of each
- ✓ Recommend an internal source for a situation

## 🔑 Key words

**Internal finance** Money raised from within the business itself.

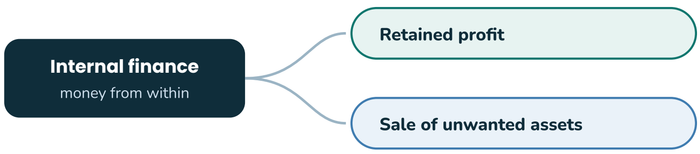
**Retained profit** Profit kept in the business rather than paid to owners.

**Sale of assets** Selling items the business owns to raise cash.

**Owner's capital** The owner's own savings put into the business.

**Asset** Something the business owns, e.g. tools, vehicles or stock.

## 📘 What you need to know




*Internal finance comes from within the business itself.*

### 1. What "internal" means

Internal finance is money raised **from within the business itself** — not borrowed from outside. The three main internal sources are **retained profit**, **sale of assets**, and **owner's capital**.

### 2. The three internal sources

Retained profit is profit **kept back** in the business rather than taken by the owners. It is "free" (no interest) and adds no debt, but it can only be used if the business is actually making a profit. Sale of assets means **selling things the business owns** but no longer needs (e.g. an old van) to raise cash — quick, but you can only sell what you own and you lose that asset. Owner's capital is the **owner's own savings** put in — no interest and full control kept, but it risks the owner's personal money.

> *"Internal finance uses the firm's own money — no interest, but limited by what the business has."*

### 3. Advantages and drawbacks

Internal finance has a big advantage: **no interest and no loss of control**. The drawback is that it is **limited** — a new or struggling business may have little retained profit, few assets to sell, or limited owner savings — so it often has to look outside.

## ✅ Test yourself

*Cover the answers below, answer Q1–Q6, then check.*

**Q1** What are internal sources of finance?

**Q2** Give three internal sources of finance.

**Q3** What is retained profit?

**Q4** Give one advantage of using retained profit.

**Q5** What is sale of assets?

**Q6** Give one drawback of selling assets.

**ANSWERS**

**A1** Money raised from within the business itself.

**A2** Retained profit, sale of assets, and owner's capital.

**A3** Profit kept in the business rather than paid out to owners.

**A4** It is free (no interest) and does not increase debt.

**A5** Selling items the business owns but no longer needs to raise cash.

**A6** The business loses an asset it may need, and can only sell what it owns.