

Aabshar-e-Ilm Tutoring Agency

(2) FINANCIAL NEEDS OF BUSINESS

Every business needs capital, Capital is required at the time of starting a business. It is also needed when the business is in operation. As an enterprise grows in size and expands, its need for finance increases. The capital requirement for business is classified under two main heads.

(a) Fixed capital

(b) Working capital

(a) Fixed Capital

No business can be started without an adequate amount of fixed capital, fixed capital as the name signifies is the amount of capital invested in various fixed or permanent assets, which are necessary for conducting the operation of a business. These fixed assets are land, building machinery, equipment. The fixed assets normally do not change their form and cannot be withdrawn from the business at a short notice. They can, however, be disposed of, Fixed capital thus are the funds required for the purchase of those assets that are to be used over and over for a long period such as land, building, machinery, etc.

Investment in noncurrent assets such as goodwill, patent rights, copyright, long term receivables etc also form a part of fixed assets. The amount of capital required for investment in fixed assets varies with the nature of a business, size of business unit and technique of production. Large-scale industries, like railways, oil drilling operations, hydro and thermal electricity project etc. require more fixed capital. "Summing up fixed capital comprises of fixed assets and other non-current assets.

Importance of fixed capital. The importance of fixed capital can be judged from the fact that business cannot be made operative without it. Right from the very beginning i.e. conceiving an idea of business, purchase of land, construction of building, purchase of machinery etc, capital is needed. Further, for the expansion and modernization of machinery also, it is essential to have an adequate amount of fixed capital in an enterprise.

(7) Mode of acquiring of fixed assets. If a business purchases fixed assets from the market, it requires more capital than a business which acquires them on lease basis.