I-Short term finance.

Short term finance is defined as money raised for a period of less than one year. Short term capital is required for meting the day to day expenses of business such as payment of wages, gas, electricity bills, unforeseen expenses, seasonal peaks of business etc.

Sources of raising short term finance.

The best known and most popular sources of raising short term finance are as under.

(i) **Trade credit or open book account.** Trade credit is the least expensive method of raising capital. In all the developing and developed countries of the world, most of the sale and purchase of goods is carried on an open book account. Under his arrangement, a firm buys material, equipment etc from a supplier on a promise on pay the bill at a later date which usually ranges form 7 to 90 days. Although, trade credit is not thought of a loan, yet the fact is that the seller is financing the buyer for the period of time between the receipt of goods and the payment of he bill. Trade credit is credit is granted on the basis of financial standing and good will of the purchaser in the market.

(ii) **Advance.** Advance is a part payment of the full part payment of the full price. The remaining amount is paid by the buyer on the supply of he commodity. There are some businesses whose products have wide demand in the market. These businesses, get advance payments form their customers and agents. These advances are not loan, yet they are a source of finance for the business and help in minimizing their investment in working capital. They also indirectly help in reducing the burden of loan of the business.

(iii) **Installment credit.** Sometimes, the business purchases goods on installments. The possession of the goods is taken bus the payments made in installments over a specified period of time. The business by not paying the full price is able to get some funds to meet the short term needs of the business. It is a kind of financial assistance provided in kind.

(iv) **Bank overdraft**. Bank overdraft is the best known and most popular source of raising short term funds. An overdraft is an agreement with the bank by which the customer may draw more than his deposit in current account upto a certain limit and for a specified period. Interest is charged daily on the outstanding amount. The overdraft facility is given against the security of an asset.

(v) **Cash credit**. It is the most favourite method of short term borrowing by the industrial and commercial concerns. The bank allows a business unit to borrow money upto a certain limit by pledging the goods with it. The goods are released in full or in parts on getting payment. The interest is charged on the amount of money actually withdrawn and not on the entire amount of the sanctioned loan. Cash credit is a borrowing on a comparatively long tem and on regular basis.

(vi) **Discounting of bills**. Bank may give short term credit to its trusted customers by discounting their bills of exchange. The bank purchases the bill of exchange and credits the customers account with the amount of the bill less discount. The bank gets back the money on maturity of the bill.

(vii) **Bill of lading**. A bill of lading is a receipt issued by a shipping company for the gods to be transported form the seller to the purchaser. The purchaser can get short term loan from the bank by offering bill of lading as security for the loan.

(viii) **Accounts receivable**. Some of the foreign financial institutions in Pakistan have started giving short term loans by assigning the accounts receivable of the well reputed business concerns. It is a safe method of short term financing.