4th Worksheet:

STARTING A BUSINESS – SOURCES OF CAPITAL

I. Vocabulary

trader – a person whose occupation is to buy and sell goods with his own money and make his own profit

enter business – to start to produce goods or provide services

supply – the amount of goods that will be offered for sale in the market at a certain price and time; to provide something which is needed

set price – to determine price

capital – accumulated wealth or property used in the production of further wealth

bulk – a large mass, volume, quantity

premises – a building and the land on which it is built

cash – money in the form of coins and banknotes

reserve fund – a portion of the earnings which has been set aside to take care of any possible losses in the conduct of the business

discount – a deduction from the stated or list price of something

borrowing – money advanced to a borrower usually to be repaid with interest

dealer – a person who at his own risk buys commodities to sell at a profit to consumers

competitor – a rival in business

staff – the employees collectively of a business or other organization

cost – the price paid for something; in a retail business the price paid to a supplier; to have a price

initial capital – the amount of capital to start business with

savings – sums of money saved not spent but put aside for future use and in the meanwhile invested or held in cash

loan – something lent, esp. money on condition that interest will be paid at an agreed rate and that the amount lent will be repaid at an agreed time

mortgage – a contract which allows somebody to borrow money from e.g. a bank especially in order to buy a house/flat, giving the lender an interest in the house/flat as security for the loan

credit – act of allowing a person immediate use of goods or services with payment deferred until an agreed future date; any arrangement with a bank by which the bank will accept and pay bills of exchange for the customer

overdraft – a bank loan to a customer in which the customer's account is permitted to go into debit

current assets – items which are always changing like stock, cash, debts

cheque – a written order on a bank for the payment of money to a stated person

interest – payment by the bank for use of a depositor's money

asset – anything owned by a business or by an individual which has commercial or exchange value

debt – an amount owed by one party to another for money, goods and services

yield profit – to get, to gain profit

II. Vocabulary Practice

1. Choose one of the words in the box to complete each sentence:

Interest	discount
Debtor	profit
Loan	credit
Current	fixed
Cheque	leasing

1. A person or organisation that owes money is a ....
2. The assets including cash, debtors and stocks used in a company's trading, available at the present moment are its .... assets.
3. The sum of money paid by a borrower to a lender for the use of lender's money is the .... on loan.
4. .... assets comprise those items used in the business such as land, buildings, machines.
5. If you haven't got enough money to start a business you can take a .... from the bank.
6. If you place a bulk order, you can get .... on price.

7. The difference between selling price and all costs is ....
8. A method of using machinery and equipment without buying is ....
9. In case you haven't got enough money with you, you can pay by ....
10. If you buy a car and pay for it after a certain time, you buy on ....

III. Reading: Starting a business – Sources of capital

A prospective trader should have appropriate experience in the line of business he is entering. Even if he employs skilled people, he should know enough about the trade to make correct decisions about buying supplies and setting prices.

Not only must he have enough capital, but he should use it wisely. Thus it would be unwise to sink the bulk of his capital into premises and fittings, as he would then be unable to buy necessary supplies. Nor should he buy materials to the full extent of his capital or he will not have enough ready cash. He should try to keep a reserve fund to take advantage of any special discounts and must plan ahead for any future needs for borrowing, e.g. from a bank.

Location will depend on the trade. It would be unwise to set up as a jeweller in a poor area, or as a second-hand dealer in a rich one.

The trader must examine his competitors and their methods to ensure that he is offering something different or better – otherwise there is no point in starting to trade.

It is important to ensure that suitable staff are employed and only the number actually required. Wages and salaries, and the associated costs of employing people form the largest cost for most businesses.

Advertising is also a very important factor. Without advertising, it may not be possible to sell sufficient goods or services, to pay staff etc.

Most small traders raise the bulk of their initial capital from their own savings or by arranging personal loans. These loans will generally be arranged through banks, who will need guarantees for the money, often in the form of a second mortgage on the trader's house or on premises. Larger firms will have more sources of capital available.

The raising of additional capital will depend on many factors, such as the state of business, the state of the national economy, government and banking policies on credit. What are the sources of short-term capital? **Bank overdrafts** are normally used to pay for current assets such as stock or materials. An overdraft is the amount by which cheques *or* demands for payment on a bank exceed the amount of the credit against which they are drawn.

Bank loans are more expensive than overdrafts because interest is charged on the whole amount, whether it is used or not. They are therefore used for purchasing specific assets such as machinery.

Leasing is a method of using machinery and equipment without buying. The leasing company provides the equipment which the firm needs at a fixed price for a fixed term. At the end of that lease, a lease is agreed on new equipment or the firm may have an option to buy the old equipment at a low price.

Factoring is a method of getting quick payment of debts. A factoring company will buy or "factor" the debts, i.e. will pay the firm the debt, less a percentage, and take on the job of collecting the debt from the customer. The trader gets immediate cash for his firm and also gets rid of the problems of debt collection, in return for a slight reduction in payment.

Ploughing back profits is the best source of short-term capital as it does not bring an outsider into the business. Profits made are just put straight back into the firm, rather than being paid to the owners.

Trade credit is also very commonly used, both for small and large firms. Most suppliers will offer credit terms of some sort, most likely a monthly account. Buying on credit gives extra flexibility in capital use. Capital is the lifeblood of industry, the cash is converted into different kinds of assets. The fixed assets provide the framework, in which the current assets of business can increase to yield the profit to the owner.

IV. Comprehension Check

2. State whether each sentence is true or false:

1. It is reasonable to put the bulk of the company's capital into premises and fittings.
2. It is necessary for a trader to keep a reserve fund.
3. If the trader borrows money from the bank, he needs to give a guarantee in the form of a second mortgage.
4. Bank overdrafts are a source of long-term capital.
5. Current assets comprise those items in the business such as land, buildings, machines.
6. Bank loans are not so expensive because interest is not charged on the whole amount.
7. Initial capital of small traders is raised from their profit.
8. A trader needn't be afraid of his competitors, because there is a fixed price on the market.
9. A mortgage on a house or premises is a guarantee for receiving the loan from the bank.
10. A trader uses the whole amount of profit for his own personal use.

3. Answer the following questions:

1. How does the trader use his capital?
2. Why must he consider his competitors in business?
3. What is the main source of capital for the small trader?
4. What is used as a guarantee for loans from the bank?
5. For what type of assets is a bank overdraft used?
6. For what type of assets is a bank loan used?
7. Describe the method of leasing.
8. What is factoring?
9. How is profit used in business?
10. What is the difference between leasing and factoring?

4. Composition:

Describe the process of starting a business. How can you obtain capital for it?

5. Matching. Find the words in the right-hand column that match the words closest in meaning in the left-hand column:

1. employees	a) current assets
2. offices	b) cost
3. reduction in price	c) profit
4. trader	d) staff
5. expense	e) discount
6. borrowing	f) interest

7. material, stocks	g) dealer
8. charge for loans	h) premises
9. surplus	i) loan

6. Translate the phrases into English:

1. rezervní fond 2. počáteční kapitál 3. stanovit cenu 4. dlouhodobá půjčka 5. poskytnout úvěr 6. přečerpání na běžném účtu 7. hotové peníze 8. vystavit šek 9. poskytnout slevu 10. běžná aktiva 11. hypotekární půjčka 12. dosáhnout zisku 13. silný konkurent 14. úspory

7. Choose the appropriate expression:

1. If you want to pay for current assets such as stock or materials, you usually take (mortgage, factoring, bank overdraft).
2. The method of using machinery and equipment without buying is (trade credit, discount, leasing).
3. If the price of the goods is not up to the quality you can ask for (loan, credit, discount).
4. If the bank allows a customer to overdraw his account it is called (bank overdraft, bulk, discount).
5. If the bank uses depositor's money it has to pay (mortgage, interest, borrowing).

8. Express in another way:

1. He received a **deduction from price** for these goods.
2. He borrowed a lot of money from the bank and he had to pay **a certain sum** for this loan.
3. He has made a **lot of money** from his business.
4. If you want to start a business you must have a **large amount of money.**
5. It is necessary for a trader to **keep some money aside.**

V. Supplementary Reading

Legal forms of business companies

There are six different legal forms of business companies which can be set up in the Czech Republic, i.e. **a joint-stock company or public limited company, limited liability company, general partnership, limited partnership, European Company** and **European Economic Interest Grouping**.

The legal regulations are primarily set forth in the Commercial Code.

A **limited partnership** is an entity where one or more partners are liable for the obligations of the company up to the amount of the unpaid parts of their contributions as registered in the Commercial Register (limited partners), and one or more partners are liable for the obligations of the company with all their property (general partners).

In a **joint-stock company**, the registered capital is divided into a certain number of shares with a specific nominal value. Shareholders of the company are not liable for the obligations of the company. The Board of Directors is the statutory body of the company, and it manages the company's business activities and acts on its behalf. A joint-stock company formed on the basis of a public offering of shares must have at least CZK 20,000,000 in registered capital. The amount of registered capital of a joint-stock company formed without a public offering must amount to at least CZK 2,000,000 (EUR 80,000).

The limited liability company is the most common legal form for a business entity in the Czech Republic. This company is a separate legal entity whose registered capital is made up of contributions paid by its shareholders. These shareholders are liable for the obligations of the company up to the amount of their unpaid contribution to the company capital as registered in the Commercial Register. It is founded by a Memorandum of Association or a Deed of Foundation, in the case of a sole founder. A limited liability company may have between one and 50 members. A limited liability company must have at least CZK 200,000 in registered capital, whereas the minimum contribution of each shareholder is CZK 20,000.These must both be concluded in the form of a notarial deed, which must contain the essentials as prescribed by law.

A **general partnership** is a separate legal entity in which at least two natural persons undertake business activity under a common business name and bear a joint liability for the obligations of the company with all their property.

As a result of the implementation of EU regulations, Czech law also permits certain European companies to be set up here (i.e. a European Company and European Economic Interest Grouping).

9. Answer the following questions:

1. Where would you find the regulations for business companies if you wanted to set up one?
2. What is the difference between limited partners and general partners?
3. What do we call the document stating how much capital each member brought to the company?
4. Are foreign companies allowed to be established on the territory of our country?

10. Translate:

1. Jestliže začnete podnikat, musíte použít kapitál na provozní místnost, vybavení a k nákupu materiálu. 2. Drobní podnikatelé získávají většinou počáteční kapitál z úspor a půjček. 3. Oběžné prostředky se obvykle financují přečerpáním z běžného účtu. 4. Bankovní půjčka je drahá, protože se z ní platí vysoký úrok. 5. Strojní vybavení si nemusí podnikatel kupovat, může si je opatřit na leasing. 6. Faktor přebírá vymáhání dluhu od podnikatele za stanovený poplatek. 7. Zisk je rozdíl mezi prodejní cenou a celkovými náklady a používá se jako zdroj kapitálu. 8. Prodej na úvěr pomáhá rozvoji podnikání. 9. Největší část nákladů na výrobu tvoří mzdy a platy. 10. Každý podnikatel musí udržovat reservní fond a mít dostatek peněz v hotovosti.

VI. English-Czech Vocabulary

amount	částka
assets	aktiva, jmění
bill	účet, faktura, směnka
borrowing	výpůjčka
borrow on mortgage	vypůjčit si na hypotéku
card-holder	držitel kreditní karty
cash	hotovost, hotové peníze
cost	cena, náklady, výdaje
credit	úvěr, připsat k dobru
credit card	kreditní karta
crossed cheque	křižovaný šek
current account	běžný účet
current assets	běžná aktiva
dealer	obchodník
debt	dluh
discount	sleva
endorse	podepsat na rubu, žirovat
enter business	začít podnikat
enter business	začít podnikat
cheque (US check)	šek
cheque book	šeková knížka
interest	úrok, úroky
leasing	pronájem
loan	půjčka, úvěr; půjčit
mortgage	hypotéka
mortgage loan	půjčka s hypotékou
overdraft	přečerpání na běžném účtu
outstanding	nezaplacený, dlužný
payment	platba

premises	provozní prostory
sales slip	účtenka, paragon
savings	úspory
set price	stanovit cenu
supply	zásoby; dodávat
joint-stock company	akciová společnost
public limited company	akciová společnost
limited liability company	společnost s ručením omezeným
general commercial partnership	veřejná obchodní společnost
limited partnership	komanditní společnost
European Company	Evropská společnost
European Economic Interest Grouping	Evropské hospodářské zájmové sdružení
Commercial Code	Obchodní zákoník
Commercial Register	Obchodní rejstřík