



BUSINESS FINANCE FUNDAMENTALS

The building blocks every funding conversation starts from
GUIDE 01

Every funding decision starts with knowing your numbers.

Whether you're applying for a loan, pitching to an angel investor, or writing a grant application, you'll be asked the same basic question first: do you understand your own finances? This guide covers the foundations — profit, cash flow, working capital, and the numbers every lender or investor expects you to know — before you get into the detail of which funding route suits you best.

GUIDE 01 | Business Lincolnshire Finance Accelerator

YOU'LL GET

- Plain-English explanations of the financial basics every funding conversation depends on
- Practical checklists to assess your own financial health before you apply
- A clear route into the rest of the Finance Accelerator guides, tools and workshops

START: Read this guide before exploring specific funding routes, and come back to it whenever you're preparing for a lender, investor or grant conversation.

ABOUT THIS GUIDE

Every funding conversation — with a bank, an investor, a grant panel or your own board — starts from the same place: your numbers. Lenders want to see you understand your cash flow. Investors want to see you know your margins. Grant panels want evidence you can manage the money you're asking for.

This guide sets out the core financial concepts, the numbers worth knowing, and a plain-English overview of the three broad routes to finance — debt, equity and grants — so you arrive at every other guide, tool and workshop in the Finance Accelerator with the groundwork already in place.

A note on where to start

If you already know your numbers cold, skip ahead to Funding Routes Overview (Guide 02) for a detailed comparison of routes, or go straight to the guide for the route you're already considering. This guide is here for when you want the foundations first — there's no need to work through it cover to cover before moving on.

SECTION 1 — PROFIT, CASH AND WORKING CAPITAL

Profit and cash are not the same thing — confusing them is one of the most common reasons growing businesses run into trouble. This section covers the core concepts.

PROFIT VS CASH FLOW

Profit

The difference between what you earn and what you spend, over a period of time. It's an accounting measure, not a bank balance.

Cash Flow

The actual money moving in and out of your business, day to day. You can be profitable on paper and still run out of cash to pay your bills.

The Cash Conversion Cycle

The time between paying for stock or work, and getting paid by your customer. The longer this gap, the more working capital you need to bridge it.

Fixed vs Variable Costs

Fixed costs (rent, salaries) stay the same regardless of sales. Variable costs (materials, commission) move with them — knowing the split helps you find your break-even point.

WHY PROFITABLE BUSINESSES STILL RUN INTO TROUBLE

Timing Gaps

A sale in January might not be paid until March, but wages and rent are due every month in between. This is the single biggest cause of cash flow problems.

Overtrading

Growing faster than your cash flow can support — taking on more orders than your working capital can fund — can sink an otherwise healthy business.

Seasonal Swings

Businesses with predictable quiet periods need to plan cash reserves for them well in advance, not react once they arrive.

Late Payment

Customers paying late — or not at all — is one of the most common pressures on small business cash flow. Build payment terms and credit control into your planning from the start.

SECTION 2 — READING YOUR OWN NUMBERS

You don't need to be an accountant — but every lender, investor or grant panel will expect you to be comfortable with these basics.

THE THREE FINANCIAL STATEMENTS

Profit & Loss Account

Shows your income, costs and resulting profit (or loss) over a set period — usually a month, quarter or year.

Balance Sheet

A snapshot of what your business owns (assets) and owes (liabilities) at a single point in time — the clearest picture of overall financial health.

Cash Flow Statement

Tracks cash moving in and out of the business over a period — the statement most lenders and investors look at first.

Management Accounts

Monthly or quarterly reports pulling all three together, giving you a current, decision-ready picture rather than waiting for year-end.

KEY NUMBERS WORTH KNOWING

Gross Margin

Revenue minus the direct cost of producing what you sell, as a percentage. Tells you how much each sale actually contributes.

Net Margin

What's left after all costs are deducted, including overheads — the real measure of overall profitability.

Break-Even Point

The level of sales at which your income exactly covers your costs. Below it you're making a loss; above it, a profit.

Cash Runway

How many months your business could keep trading on its current cash reserves if income stopped today — a number every founder should know off the top of their head.

SECTION 3 — DEBT FINANCE, THE BASICS

Borrowing is usually the first route business owners consider — and for many businesses, it remains the most straightforward.

WHAT DEBT FINANCE MEANS

The Basic Principle

You borrow a sum of money and repay it, with interest, over an agreed period. You keep full ownership and control of your business throughout.

How Lenders Decide

Lenders look at your ability to repay — historic and forecast cash flow, existing debt, and often security or a personal guarantee.

What It Costs

Interest rates depend on risk, security offered and market conditions — always compare the total cost of borrowing, not just the headline rate.

COMMON FORMS OF DEBT FINANCE

Term Loans

A lump sum repaid in fixed instalments over an agreed term — the most familiar form of business borrowing.

Overdrafts

Short-term, flexible borrowing against your bank account — useful for smoothing cash flow gaps, not for long-term investment.

Asset Finance

Borrowing secured against equipment or vehicles you're purchasing, spreading the cost over the asset's useful life.

Invoice Finance

Borrowing against unpaid invoices, releasing cash tied up in money you're already owed.

SECTION 4 — EQUITY AND GRANT FUNDING, THE BASICS

Not every business wants — or needs — to borrow. Equity and grant funding work very differently, with different trade-offs.

EQUITY FINANCE

The Basic Principle

You sell a share of your business — usually in the form of shares — to an investor, in exchange for capital you don't have to repay.

What You're Really Selling

Alongside a stake in future value, investors typically expect a say in decisions, regular reporting, and a plan for how they'll eventually see a return.

What Investors Look For

Growth potential, a credible team, and a clear route to a future exit or return — equity investors back growth, not stability.

GRANTS AND NON-REPAYABLE FUNDING

The Basic Principle

Funding you don't repay, usually awarded for a specific purpose — innovation, research, training or a defined project — subject to conditions being met.

What's Usually Required

Grants typically require match funding, defined outcomes, and evidence of eligibility — the application itself can take real time and preparation.

Where This Fits Locally

The Midlands Engine Investment Fund II (MEIF II) offers loans and equity investment for smaller businesses across the Midlands, alongside a range of grant schemes — see Grants & Innovation Funding (Guide 07) and the MEIF II guide (Guide 08) for the detail.

SECTION 5 — CHOOSING YOUR NEXT STEP

There's no single right answer — the best route depends on your business, your stage, and what you're willing to trade for the money.

QUESTIONS TO ASK BEFORE YOU CHOOSE

Control

How much say are you willing to give another party in how your business is run?

Repayment Capacity

Can your cash flow support regular repayments, or do you need funding with no fixed repayment schedule?

Timescale

How quickly do you need the money? Debt and grants can often move faster than a full equity round.

Growth Stage

Early-stage, pre-revenue businesses often have more equity and grant options than debt options, and vice versa for established, profitable businesses.

WHERE TO GO NEXT IN THE FINANCE ACCELERATOR

Read Next

Funding Routes Overview (Guide 02) compares every route side by side in more detail.

Watch

Understanding Business Finance and Funding Routes, and the other seven recorded workshops, cover each topic in more depth.

Use the Tools

The Finance Accelerator Hub links to interactive calculators for cash flow, break-even and true cost of finance.

Talk to Us

Book a fully funded Funding Diagnostic Session — the quickest way to get a steer on which route fits your business.

START YOUR JOURNEY TODAY

Visit our website to learn more and access support

Ready to move forward?

The Business Lincolnshire Finance Accelerator gives you the knowledge, tools and expert support to understand your options and prepare to access funding at the right time, in the right way.

FIND OUT MORE

- Book a fully funded Funding Diagnostic Session
- Access Finance Accelerator tools and templates
- Speak to an experienced Business Lincolnshire adviser

FIND OUT MORE



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