Journal of Accounting Research, Utility Finance and Digital Assets

SOURCES OF LONG TERM FUNDING

Adinda Purnama Sari[1], Fitria Lestari Pujiastuti[2], Harry Setiawan[3], Indrayani[4], Damsar[5], Muammar Khaddafi[6]

[1,2,3,4]Faculty of Economics and Business, Universitas Batam
[5]Faculty of Economics and Business, Universitas Andalas
[6]Faculty of Economics and Business, Universitas Malikussaleh
Corresponding Email: khaddafi@unimal.ac.id

Abstract

Long-term funding is loan funds that have a tenor of more than one year. So companies that take long-term funding have more than one year to pay it off. Generally long-term repayment of funding ranges from 5 to 20 years. For companies, this type of funding is considered suitable as capital to start a business, or as a solution when large costs are needed in a short time. Sources of long-term funds are very useful for ensuring the survival of the company, through the capital market. Formation of capital and accumulation of funds aimed at increasing public participation in mobilizing funds to support national development financing. The existence of this institution is not only as a vehicle for sources of financing, but as an investment involving all potential public funds, both available domestically and abroad. For example, a company that wants to develop a business such as wanting to buy fixed assets in the form of land

Keywords: ***Funding, Sources of Funds***

INTRODUCTION

Sources of long-term funds are very useful for ensuring the survival of the company, through the capital market. Formation of capital and accumulation of funds aimed at increasing public participation in mobilizing funds to support national development financing. The existence of this institution is not only as a vehicle for sources of financing, but as an investment involving all potential public funds, both available domestically and abroad. So this investment vehicle is not only local investors, but also foreign investors, both private and government. The capital markets in Indonesia, namely the Jakarta Stock Exchange and the Surabaya Stock Exchange, or what is now known as the Indonesia Stock Exchange (IDX) can become media meetings between investors and industry. Through the capital market, capital owners can easily channel their funds into productive sectors. Viewed from a macroeconomic perspective of the capital market serves as a tool for optimally allocating economic resources, namely increasing income, creating employment opportunities and more equitable distribution of development outcomes.

For companies wishing to enter the capital market, they need to pay attention to the conditions issued by Bapepam as the capital market regulator. In addition, the company must also be able to increase the value of the company so that there is an increase in the sale of its shares in the capital market. If it is assumed that the investor is a rational person, then the investor will definitely pay close attention to fundamental aspects to assess the expected returns that will be obtained. Therefore, at least an investor must know the existence of a productive and profitable company so that it is truly a profitable investment. To find out whether or not the existence of a company is good, an investor can assess it through financial reports. Financial statements are important information for investors in making investment decisions. The benefits of these financial statements are optimal for investors if investors can analyze further through financial ratio analysis. The use of financial statement analysis with this ratio is used to obtain detailed information about the performance achieved by the company and the situation and financial condition of a company.

Definition of Long Term Sources of Funds

Sources of long-term funding are funding to meet the needs of companies whose returns are in the long term and the benefits will be felt for a long time as well.

Types of Long Term Funding Sources

1. Sources of Funds From Capital

Long-term funding from capital is an alternative to debt-financed funding. So there will be no interest in this funding scheme. The source of funds from capital can affect the company's capital structure. Examples of sources of funds from capital are the issuance of shares and retained earnings.

- Issuance of Shares

Shares are securities or securities which are equity participation in a company. The company could issue stock, then Generally around 5 to 10 year period.

The reasons a company's financial management requires long-term funding are:

- The need for large amounts of funds needed for company investment.
- The company's retained earnings are insufficient or non-existent to meet the company's funding needs.

For example a company that wantsdo development business likewishing to purchase fixed assets in the form of land, machinery or the construction of a new factory will require additional fresh fundslarge amount. Funding period short sure won't ableovercome them because of their relatively small number. So a long-term source of funds is needed long to fill it.the shares are purchased by investors,the buyer will automatically become part of the owner company. Sales proceeds These shares will later become the source of the company's finances. An increase in company owners means that the company's capital structure will also change. The company's capital structure will change according to the percentage of share ownership, either the new owner or the old owner. Issuance of shares means inviting other people to "join" doing business with the company. No debt. So there is no company obligation to pay off and pay interest like funding from debt. Due to this joint venture, the profits generated will be distributed to shareholders fairly through the distribution of dividends (if distributed). Shareholders are entitledget a share profitcompany. In addition, shareholders can sell these shares back to the capital market and hope to get capital gains or the difference in the selling price which is higher than the purchase price of the shares.

- Retained earning

Retained earnings can be an alternative option in obtaining a company's long-term funding sources. Retained earnings are a source of long-term funds originating from internal companies.Retained earnings are part or all of the profits generated by the company in the previous period which are used again to finance the company's needs. Retained earnings can be chosen if management and shareholders do not want the company to enter into debt or add new shares. Large amounts of retained earnings can be used for the company's long-term investment activities. Or at least retained earnings can reduce the funds needed to carry out the company's long-term activities. So that the need for funds from other funding sources is not too large.

2. Source of Funds From Debt

- Investment Credit

Investment credit is investment credit provided by banks, and is still widely used by entrepreneurs.

Investment credit is an alternative source of long-term funds facilitated by banking institutions. There are several things that will be considered by banks as creditors in deciding whether to accept an investment credit application or not.

a. The feasibility of the investment to be carried out
b. Investment cash flow to be executed
c. Loan period
d. Nominal loan payments in each period
e. Interest rate
f. Additional costs or fines if you pay late or pay early

- Mortgage

A mortgage or mortgage is a form of long-term debt collateralized by immovable assets (land, buildings). Funds borrowed in large amounts, generally worth 70 to 90% of the market value of the fixed assets guaranteed by the company. In the credit agreement in the mortgage document, it is clearly stated what assets are used as collateral. In the event of liquidation the creditor will be paid in advance from the proceeds from the sale of fixed assets used as collateral. If the proceeds from the active sale that are pledged as collateral are insufficient, then the remainder becomes general creditors, just like the bond owner.

- Bond

We know that when interest rates rise, bond prices will fall (bond buyers lose), and when interest rates fall bond prices will rise (bond issuers lose). We know that when interest rates rise, bond prices will fall (bond buyers lose), and when interest rates fall bond prices will rise (bond issuers lose). Because of this, bonds were offered with floating interest rates. For example, it is determined that the bond interest rate is equal to the average interest rate on six-month time deposits at certain banks plus 1%. Another way to reduce risk for corporate bond issuers is to include a call price. The call price shows the price that will be paid by the bond issuer, when the right to buy back the bonds is exercised by the bond issuer. This is one of the benefits of long-term funding with bonds.

- Convertible Bonds

Convertible bonds are convertible bonds, which are bonds that can be converted into common stock. Owners of convertible bonds (convertible bonds-CB) actually owns the bonds and call options on the company's stock. The following are examples of convertible bonds: PT KAS Network issues convertible bonds that can be converted into ordinary shares in the next five years. Each convertible bond can be converted into 100 shares of common stock. Convertible bonds with a nominal value of Rp 1,000,000 per share offers a coupon rate of 14% per year. How does the issuance of convertible bonds affect earnings per share? This example shows that if at the end of the fifth year the price per share of common stock reaches more than Rp. 10,000, parabond holders willconvert it into common stock. If the stock price is below Rp 10,000 of them will choose to cash the bond. The example also shows that the conversion ratio of bonds to shares is 100, and the conversion price is IDR 10,000.

- Preferred Stock

Preference shares are stocks that pay dividends of a fixed value. The advantages of preferred stock for investors are:The amount of dividends is not affected byprofit obtained by the company. Meanwhile, the weakness of preferred stock is that preferred stock dividend payments cannot be used as a tax deduction. In other words, stock dividend payments preference is exercised against profitafter tax.

CONCLUSION

Sources of long-term funding infinancial management Companies can be grouped into own capital and loan capital. However, it is sometimes difficult to group a funding instrument into one of these types, for example convertible bonds. Which includes long-term funding in the form of debt can be in the form of investment credit, mortgages, and bonds and their various variations. Bonds can provide floating interest rates. Bonds can also have a call price. Call price is the price determined by the company if a bond will be repaid before maturity. In addition, bonds may only pay interest when the company makes a profit. These bonds are referred to as income bonds. If a new bond is repaid in a liquidation event when the more senior bond has been repaid, then this bond is referred to as a subordinated debenture. Sometimes the issuance of bonds is also accompanied by warrants. Warrant is the right to buy shares at a certain price at a certain time. In addition to common stock, companies can also issue preference shares. Preference shares will provide a fixed income (in the form of dividends). To the owner, even though there is a lot of profit or even a loss. To save on the cost of issuing securities and/or avoid distributing wealth to outsiders, companies issue rights. After the issuance of rights, the share price usually decreases, although shareholder wealth can increase. This increase in wealth occurs when the funds obtained from the rights issue can be used and provide a positive NPV.

REFERENCES

Bustani, B., Khaddafi, M. ., & Nur Ilham, R. (2022). REGIONAL FINANCIAL MANAGEMENT SYSTEM OF REGENCY/CITY REGIONAL ORIGINAL INCOME IN ACEH PROVINCE PERIOD YEAR 2016-2020. International Journal of Educational Review, Law And Social Sciences (IJERLAS), 2(3), 459–468. https://doi.org/10.54443/ijerlas.v2i3.277.

Falahuddin, F., Fuadi, . F., Munandar, M., Juanda, R. ., & Nur Ilham, R. . (2022). INCREASING BUSINESS SUPPORTING CAPACITY IN MSMES BUSINESS GROUP TEMPE BUNGONG NANGGROE KERUPUK IN SYAMTALIRA ARON DISTRICT, UTARA ACEH REGENCY. IRPITAGE JOURNAL, 2(2), 65–68. https://doi.org/10.54443/irpitage.v2i2.313.

Geovani, I. ., Nurkhotijah, S. ., Kurniawan, H. ., Milanie, F., & Nur Ilham, R. . (2021). JURIDICAL ANALYSIS OF VICTIMS OF THE ECONOMIC EXPLOITATION OF CHILDREN UNDER THE AGE TO REALIZE LEGAL PROTECTION FROM HUMAN RIGHTS ASPECTS: RESEARCH STUDY AT THE OFFICE OF SOCIAL AND COMMUNITY EMPOWERMENT IN BATAM CITY. International Journal of Educational Review, Law And Social Sciences (IJERLAS), 1(1), 45–52. https://doi.org/10.54443/ijerlas.v1i1.10.

Ilham, Rico Nur. et all (2019). Comparative of the Supply Chain and Block Chains to Increase the Country Revenues via Virtual Tax Transactions and Replacing Future of Money. International Journal of Suplly Management.Volume 8 No.5 August 2019.

Ilham, Rico Nur. et all (2019). Investigation of the Bitcoin Effects on the Country Revenues via Virtual Tax Transactions for Purchasing Management. International Journal of Suplly Management.Volume 8 No.6 December 2019.

Lasta Irawan, A. ., Briggs, D. ., Muhammad Azami, T. ., & Nurfaliza, N. (2021). THE EFFECT OF POSITION PROMOTION ON EMPLOYEE SATISFACTION WITH COMPENSATION AS INTERVENING VARIABLES: (Case Study on Harvesting Employees of PT. Karya Hevea Indonesia). International Journal of Social Science, Educational, Economics, Agriculture Research, and Technology (IJSET), 1(1), 11–20. https://doi.org/10.54443/ijset.v1i1.2.

Likdanawati, likdanawati, Yanita, Y., Hamdiah, H., Nur Ilham, R., & Sinta, I. (2022). EFFECT OF ORGANIZATIONAL COMMITMENT, WORK MOTIVATION AND LEADERSHIP STYLE ON EMPLOYEE PERFORMANCE OF PT. ACEH DISTRIBUS INDO RAYA. International Journal of Social Science, Educational, Economics, Agriculture Research, and Technology (IJSET), 1(8), 377–382. https://doi.org/10.54443/ijset.v1i8.41.

Mahfud et all (2020). Developing a Problem-Based Learning Model through E-Learning for Historical Subjects to Enhance Students Learning Outcomes at SMA Negeri 1 Rogojampi. IOP Conf. Series: Earth and Environmental Science 485 (2020) 012014 doi:10.1088/1755-1315/485/1/012014.

Mahfud et all (2021). PEMANFAATAN TRADISI RESIK LAWON SUKU USING SEBAGAI SUMBER BELAJAR SEJARAH LOKAL PADA SMA DI BANYUWANGI. Media Bina Ilmiah Vol.16 No.3 Oktober 2021. http://ejurnal.binawakya.or.id/index.php/MBI/article/view/1294/pdf.

Mahfud, M., Yudiana, I. K., & Sariyanto, S. (2022). HISTORY OF BANYUWANGI KALIKLATAK PLANTATION AND ITS IMPACT ON SURROUNDING COMMUNITIES. International Journal of Educational Review, Law And Social Sciences (IJERLAS), 3(1), 91–104. https://doi.org/10.54443/ijerlas.v3i1.492.

Majied Sumatrani Saragih, M. ., Hikmah Saragih, U. ., & Nur Ilham, R. . (2021). RELATIONSHIP BETWEEN MOTIVATION AND EXTRINSIC MOTIVATION TO ICREASING ENTREPRENEURSHIP IMPLEMENTATION FROM SPP AL-FALAH GROUP AT BLOK 10 VILLAGE DOLOK MASIHUL. MORFAI JOURNAL, 1(1), 1–12. https://doi.org/10.54443/morfai.v1i1.11.

Nur Ilham, R. ., Arliansyah, A., Juanda, R., Multazam, M. ., & Saifanur, A. . (2021). RELATHIONSIP BETWEEN MONEY VELOCITY AND INFLATION TO INCREASING STOCK INVESTMENT RETURN: EFFECTIVE STRATEGIC BY JAKARTA AUTOMATED TRADING SYSTEM NEXT GENERATION (JATS-NG) PLATFORM. International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS), 1(1), 87–92. https://doi.org/10.54443/ijebas.v1i1.27.

Nur Ilham, R., Heikal, M. ., Khaddafi, M. ., F, F., Ichsan, I., F, F., Abbas, D. ., Fauzul Hakim Hasibuan, A. ., Munandar, M., & Chalirafi, C. (2021). Survey of Leading Commodities Of Aceh Province As Academic

Effort To Join And Build The Country. IRPITAGE JOURNAL, 1(1), 13–18. https://doi.org/10.54443/irpitage.v1i1.19.

Nur Ilham, R., Arliansyah, A., Juanda, R. ., Sinta, I. ., Multazam, M. ., & Syahputri, L. . (2022). APPLICATION OF GOOD CORPORATE GOVERNANCE PRINCIPLES IN IMPROVING BENEFITS OF STATE-OWNED ENTERPRISES (An Emperical Evidence from Indonesian Stock Exchange at Moment of Covid-19). International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS), 2(5), 761–772. https://doi.org/10.54443/ijebas.v2i5.410.

Nur Ilham, R., Likdanawati, L., Hamdiah, H., Adnan, A., & Sinta, I. . (2022). COMMUNITY SERVICE ACTIVITIES “SOCIALIZATION AVOID STUDY INVESTMENT” TO THE STUDENT BOND OF SERDANG BEDAGAI. IRPITAGE JOURNAL, 2(2), 61–64. https://doi.org/10.54443/irpitage.v2i2.312.

Rahmaniar, R., Subhan, S., Saharuddin, S., Nur Ilham, R. ., & Anwar, K. . (2022). THE INFLUENCE OF ENTREPRENEURSHIP ASPECTS ON THE SUCCESS OF THE CHIPS INDUSTRY IN MATANG GLUMPANG DUA AND PANTON PUMP. International Journal of Social Science, Educational, Economics, Agriculture Research, and Technology (IJSET), 1(7), 337–348. https://doi.org/10.54443/ijset.v1i7.36.

Rico Nur Ilham, Irada Sinta, & Mangasi Sinurat. (2022). THE EFFECT OF TECHNICAL ANALYSIS ON CRYPTOCURRENCY INVESTMENT RETURNS WITH THE 5 (FIVE) HIGHEST MARKET CAPITALIZATIONS IN INDONESIA. Jurnal Ekonomi, 11(02), 1022–1035. Retrieved from http://ejournal.seaninstitute.or.id/index.php/Ekonomi/article/view/481.

Sandi, H. ., Afni Yunita, N. ., Heikal, M. ., Nur Ilham, R. ., & Sinta, I. . (2021). RELATIONSHIP BETWEEN BUDGET PARTICIPATION, JOB CHARACTERISTICS, EMOTIONAL INTELLIGENCE AND WORK MOTIVATION AS MEDIATOR VARIABLES TO STRENGTHENING USER POWER PERFORMANCE: AN EMPERICAL EVIDENCE FROM INDONESIA GOVERNMENT. MORFAI JOURNAL, 1(1), 36–48. https://doi.org/10.54443/morfai.v1i1.14.

Sinta, I., Nur Ilham, R. ., Authar ND, M. ., M. Subhan, & Amru Usman. (2022). UTILIZATION OF DIGITAL MEDIA IN MARKETING GAYO ARABICA COFFEE. IRPITAGE JOURNAL, 2(3), 103–108. https://doi.org/10.54443/irpitage.v2i3.467.

Sinurat, M. ., Heikal, M. ., Simanjuntak, A. ., Siahaan, R. ., & Nur Ilham, R. . (2021). PRODUCT QUALITY ON CONSUMER PURCHASE INTEREST WITH CUSTOMER SATISFACTION AS A VARIABLE INTERVENING IN BLACK ONLINE STORE HIGH CLICK MARKET: Case Study on Customers of the Tebing Tinggi Black Market Online Store. MORFAI JOURNAL, 1(1), 13–21. https://doi.org/10.54443/morfai.v1i1.12.

Wayan Mertha, I. ., & Mahfud, M. (2022). HISTORY LEARNING BASED ON WORDWALL APPLICATIONS TO IMPROVE STUDENT LEARNING RESULTS CLASS X IPS IN MA AS’ADIYAH KETAPANG. International Journal of Educational Review, Law And Social Sciences (IJERLAS), 2(5), 507–612. https://doi.org/10.54443/ijerlas.v2i5.369.

Yusuf Iis, E., Wahyuddin, W., Thoyib, A., Nur Ilham, R., & Sinta, I. (2022). THE EFFECT OF CAREER DEVELOPMENT AND WORK ENVIRONMENT ON EMPLOYEE PERFORMANCE WITH WORK MOTIVATION AS INTERVENING VARIABLE AT THE OFFICE OF AGRICULTURE AND LIVESTOCK IN ACEH. International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS), 2(2), 227–236. https://doi.org/10.54443/ijebas.v2i2.191.