



VARZA SCHOOL · THE FOUNDATIONAL 100

How Businesses Get Paid and Funded: Banking, Payments, Credit, Loans, and Investor Capital

Chapter 18 · Track 2 — Starting and Understanding a Business

THE QUESTION IT ANSWERS

How should a business design payment and funding channels so that convenience, cost, control, liquidity, ownership, and risk remain balanced?

CONCEPTS DEFINED

Payment method · Trade credit · Loan · Investor capital · Capital · Cash flow · Credit risk · Counterparty risk

Edition 2026.1 · Reviewed through 2026-08-31

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track moves from personal decisions to an operating business. A business is examined as a repeatable system that creates value, coordinates people and resources, accepts risk, collects evidence, and converts activity into cash and durable capability.

Central question: How should a business design payment and funding channels so that convenience, cost, control, liquidity, ownership, and risk remain balanced?

Money entering a business can be customer settlement, borrowing, owner contribution, investor capital, deposit, or transfer; each has a different economic and accounting meaning. Funding should match purpose, duration, risk, and cash-generation pattern.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish payment method in plain and professional language.
- Define and distinguish trade credit in plain and professional language.
- Define and distinguish loan in plain and professional language.
- Define and distinguish investor capital in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Payment method

Working definition. Payment method is the mechanism by which value is transferred or a monetary obligation is settled.

Each method has different fees, timing, reversibility, fraud risk, evidence, reconciliation, and regulatory requirements. In Varza language, the concept becomes useful when it changes a decision.

Simple example. Cash, bank transfer, card, cheque, mobile wallet, and crypto transfer require different controls.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Trade credit

Working definition. Trade credit is permission from a supplier to pay after goods or services are received, or from a seller allowing a customer to pay after delivery.

Trade credit finances operations but creates pricing, collection, concentration, and default risk. The stated due date is part of the commercial offer. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. A supplier ships inventory on net-30 terms rather than requiring immediate payment.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Loan

Working definition. Loan is a financing arrangement under which a borrower receives funds or value and undertakes to repay principal, usually with interest and contractual conditions.

Analyze total cost, schedule, security, covenants, currency, prepayment, default consequences, and alignment with the asset or purpose funded. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A three-year equipment loan is repaid monthly and secured by the purchased machine.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Investor capital

Working definition. Investor capital is resources supplied in exchange for an ownership, participation, convertible, or return-linked interest rather than a simple fixed repayment claim.

Investor money can reduce near-term repayment pressure but changes ownership, governance, information rights, and future value distribution. The concept should be measured at the smallest level that still supports a real action.

Simple example. An investor provides CU 500,000 for 15% of a startup subject to shareholder terms.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Capital

Working definition. Capital is resources committed to support productive activity and absorb risk, commonly supplied as equity, debt, retained earnings, or other financing.

Capital has a provider, cost, priority, duration, conditions, and expected return. The cash received is only the visible beginning of that relationship. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. Owners contribute CU 100,000 of equity while a bank provides a CU 60,000 term loan.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Cash flow

Working definition. Cash flow is the movement of cash and cash equivalents into and out of a person, project, or organization.

Profit measures performance under accounting rules; cash flow measures liquidity movement. This is where operational activity and financial reporting meet.

Simple example. Collecting an old invoice creates cash inflow without creating current-period revenue.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Credit risk

Working definition. Credit risk is the possibility that a borrower or customer will not pay in full and on time.

Control it through limits, evidence, pricing, collateral, diversification, monitoring, and collection discipline. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A customer with overdue invoices may require a reduced credit limit.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Counterparty risk

Working definition. Counterparty risk is the possibility that another party to a financial or commercial arrangement fails to perform its obligation.

Assess legal claim, collateral, settlement structure, concentration, wrong-way risk, jurisdiction, and recovery—not only current reputation. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. An exchange failure can prevent access to assets even when the underlying token still exists.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Payment method, Trade credit, Loan, Investor capital, Capital, Cash flow, Credit risk, and Counterparty risk describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Net settlement

Net settlement = Gross customer collections – Fees – Refunds – Chargebacks ± Timing adjustments

The bridge reconciles commercial sales to cash reaching the bank.

Boundary: Revenue, receivable, tax, and processor balances must be analyzed separately.

Weighted financing cost

Weighted cost = $\Sigma(\text{Source amount} \times \text{Source effective cost}) \div \text{Total funding}$

The relationship summarizes explicit financing cost.

Boundary: Equity cost is uncertain and governance rights cannot be reduced to one percentage.

Worked case — Funding the same machine in different ways

A business needs CU 200,000 for a machine expected to produce cash over five years.

Item	Amount or observation
Bank loan	CU 200,000; five years; secured; total expected payments CU 248,000
Supplier credit	CU 200,000; two years; total price CU 236,000
Investor	CU 200,000 for 12% ownership plus information rights
Current free cash	CU 80,000 only
Working-capital reserve required	CU 60,000

Calculation and reasoning

1. Paying entirely from cash is impossible without damaging the required reserve.
2. Supplier credit has lower simple total cash cost but much higher annual repayment pressure and possible supplier concentration.
3. The bank loan aligns more closely with useful life but creates security and covenant exposure.
4. Investor capital reduces fixed repayment but permanently shares future value and governance.
5. A blended solution may be rational, but each source must be classified and approved correctly.

What the result means

There is no financing source that is simply 'free.' The decision trades cash timing, explicit cost, ownership, flexibility, security, and risk.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step

to erase the record of the previous one.

2. **Map every collection and payment channel, fee, settlement delay, reversal risk, and evidence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Separate customer money, borrowed money, and owner or investor capital in records.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Match short-term working-capital needs with suitable short-term sources and long-lived assets with durable capital.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Compare financing under downside cash, covenant, ownership, and control scenarios.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes `bank_account`, `payment_channel`, `processor`, `customer_receipt`, `supplier_credit`, `loan_contract`, `capital_contribution`, `funding_plan`, `reconciliation`. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.
3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.

4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Begin with the real event, not the accounting label.
- Keep value, cash, profit, and ownership distinct until their relationship is proven.
- Attach every important number to a source, period, currency, entity, and responsible person.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Verified beneficiary and payer identity for material transfers.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Daily or frequent payment-channel reconciliation.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Board or owner approval for financing, security, guarantees, and new equity.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Posting net processor deposits directly as sales

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Financing permanent losses with short-term supplier delay

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Choosing equity because it has no installment while ignoring ownership cost

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Using restricted or customer-held money as ordinary operating cash

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain payment method in plain language and in professional terms?
- ☐ Can I explain trade credit in plain language and in professional terms?
- ☐ Can I explain loan in plain language and in professional terms?

- ☐ Can I explain investor capital in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Payment method to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Trade credit. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Loan could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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  "Trade credit: permission from a supplier to pay after goods or services are received, or from a seller allowing a customer to pay after delivery.",
  "Loan: a financing arrangement under which a borrower receives funds or value and undertakes to repay principal, usually with interest and contractual conditions.",
  "Investor capital: resources supplied in exchange for an ownership, participation, convertible, or return-linked interest rather than a simple fixed repayment claim.",
  "Capital: resources committed to support productive activity and absorb risk, commonly supplied as equity, debt, retained earnings, or other financing.",
  "Cash flow: the movement of cash and cash equivalents into and out of a person, project, or organization.",
  "Credit risk: the possibility that a borrower or customer will not pay in full and on time.",
  "Counterparty risk: the possibility that another party to a financial or commercial arrangement fails to perform its obligation."
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S003 — OECD-INFE, *Core Competencies Framework on Financial Literacy for MSMEs*.** 2018; accessed 2026-08-31. Financial capability for entrepreneurs and small-business managers. Source: https://www.oecd.org/en/publications/oecd-infe-core-competencies-framework-on-financial-literacy-for-msmes_220101c9-en.html
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- **S010 — World Bank, *SMEs Finance*.** accessed 2026-08-31. Working-capital access and modern SME finance channels. Source: <https://www.worldbank.org/ext/en/topic/competitiveness/small-and-medium-enterprises-smes-finance>
- **S011 — OECD, *Financing SMEs and Entrepreneurs 2026*.** 2026. Current SME-finance landscape and policy trends. Source: https://www.oecd.org/en/publications/financing-smes-and-entrepreneurs-2026_075d8058-en.html

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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