A-LEVEL BUSINESS • EXERCISE SHEET

# 5.2 Sources of finance

Name: ____________ Class: ________ Date: __________ **Total: 29 marks**

**KEY WORDS** sources of finance 融资来源 • retained profit 留存利润 • trade credit 商业信用 • share capital 股本 • leasing 租赁

## Objective

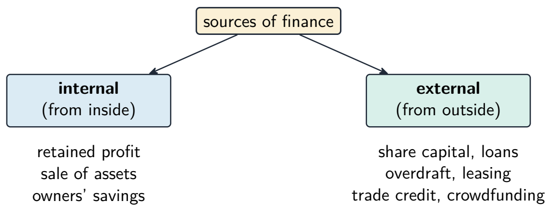
Build the skills to answer exam questions on **sources of finance** 融资来源 — **internal and external** 内部和外部 sources, **short- and long-term** 短期和长期 finance, and how a business chooses the right source.

**You must be able to:**

- classify sources as internal/external and short/long-term
- describe the main sources (retained profit, share capital, loans, overdraft, trade credit, leasing)
- analyse and evaluate the best source for a given need

## 1 Worked examples

### ■ Where finance comes from




*Internal: retained profit, sale of assets. External: shares, loans, overdraft, leasing, trade credit*

- **Internal:** retained profit, sale of assets — no interest, no loss of control, but limited.
- **External:** share capital and loans (long-term), overdraft and trade credit (short-term).
- **Choice depends on:** the **amount**, the **purpose** (match long-term assets to long-term finance), the **cost** (interest), the legal structure (only a company sells shares), and **collateral**.



**Answer shapes:** AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

## 2 Practice

**2.1** Define the term *retained profit*. [2]

**2.2** State two **external** sources of finance. [2]

**2.3** State the difference between a *loan* and an *overdraft*. [2]

## 3 Exam-style questions

**3.1** Explain one benefit to a business of using **retained profit** to finance growth. [3]

**3.2** Analyse two factors a business should consider when choosing a source of finance. [8]

**3.3** A growing private limited company needs $2 million to build a new factory. Evaluate whether it should raise this money by a **bank loan** or by **selling more shares**. [12]



## Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

**2.1** profit kept in the business (not paid out to owners) and used to finance the firm (2 for a clear definition; 1 for a partial idea).

**2.2** any two of: share capital; bank loan; debenture; overdraft; leasing; hire purchase; trade credit; venture capital; crowdfunding (1 + 1).

**2.3** a loan is a fixed sum borrowed and repaid with interest over a set time; an overdraft lets the bank account go below zero for a short time, for smaller, short-term needs (2 for a clear difference; 1 for a partial idea).

**3.1** *[3]* **AO1** 1 — name a benefit (no interest; no loss of control; no repayment date). **AO2** up to 2 — develop it, e.g. retained profit costs no interest → cheaper than a loan → more of the return stays in the business (2 developed / 1 limited).

**3.2** *[8]* For **each** of two factors: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *purpose/term*: a long-term asset → financed by long-term finance → repayments matched to the income the asset earns. *Cost*: a high-interest source → raises costs → lowers profit, so a cheaper source is better if available. Maximum 4 per factor, 8 total.

**3.3** *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **Loan:** keeps ownership and control, interest is tax-deductible — but it must be repaid with interest and needs collateral, raising risk. **Shares:** no repayment and no interest — but ownership and control are diluted, dividends are expected, and an Ltd can only sell shares privately. Judgement: a stable firm confident of repaying may prefer a loan to keep control; one wanting to avoid fixed repayments may prefer shares — it depends on its existing debt, profits and the owners' wish to keep control.