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

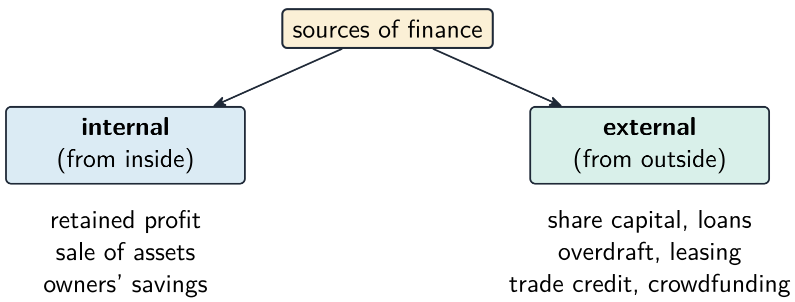
Build the skills to answer exam questions on **sources of finance 融资来源** — **internal and external 内部和外部** sources, **short- and long-term 短期和长期** finance, and how a business chooses the right source.

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]