

5.1 Business finance: needs and sources

Name: _____ Class: _____ Date: _____ Total: 20 marks

KEY WORDS finance • external • loan • long-term
• working capital

Objective

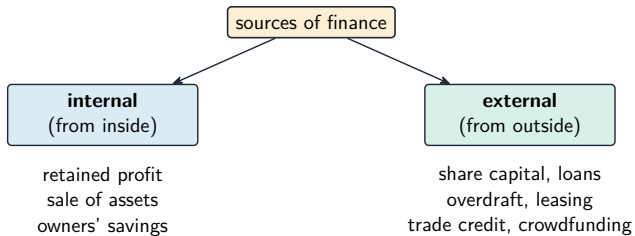
Build the skills to answer exam questions on **business finance: needs and sources** – why businesses need finance, and the **internal and external**, **short- and long-term** sources.

You must be able to:

- state why a business needs finance (start-up, expansion, working capital)
- classify sources as internal/external and short/long-term
- analyse and recommend a source of finance

1 Key knowledge and worked examples

■ Where finance comes from



The best source depends on the amount, the time, the cost and the risk

- **Needs:** start-up capital, expansion, working capital, surviving a cash-flow problem.
- **Internal** : retained profit, sale of assets, owners' savings.
- **External** : bank loan, overdraft (short-term), new shares (companies only), leasing, trade credit, grants.

Answer shapes: K + App + An + Ev (a justified judgement, for “do you think” questions).

2 Practice

2.1 State two reasons why a business needs finance. [2]

2.2 Identify two **internal** sources of finance. [2]

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

3 Exam-style questions

3.1 Identify two external sources of finance. [2]

3.2 Explain two factors a business should consider when choosing a source of finance. [6]

3.3 A sole trader needs a large amount of money to buy a new machine. Do you think a bank loan is the best source of finance for this? Justify your answer. [6]

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

- any **two** of: start up / expand / working capital / survive a cash-flow problem (K, K)

2.2

- any **two** of: retained profit / sale of assets / owners' savings (K, K)

2.3

- a **loan**: a fixed sum repaid with interest over time (K)
- an **overdraft**: the account can go below zero for short-term needs (K)

3.1

- any **two** of: bank loan / overdraft / new shares / leasing / hire purchase / trade credit / crowdfunding / grants (K, K)

3.2

- for **each** of two factors: K + An, max 3 each
- e.g. **amount and time**: a large, long-term need → a long-term loan, not an overdraft
- e.g. **cost**: high interest raises costs → a cheaper source is better if available

3.3

- **for a loan**: large sum, repaid over the machine's life, owner keeps control
- **against**: interest, repayments even in a bad year, unlimited liability
- **judgement (Ev)**: a loan suits a large long-term purchase if repayments are affordable; leasing if cash is tight