

5.1 Business finance: needs and sources

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

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

Objective

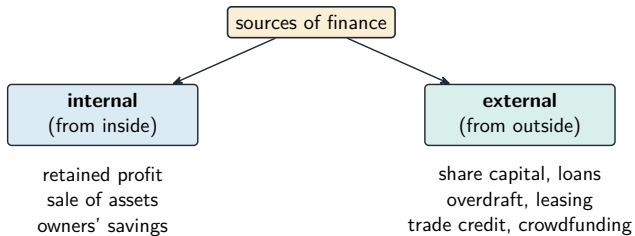
Build the skills to answer exam questions on **business finance: needs and sources** – why businesses need finance, and the **internal and external**, **short- and long-term** sources.

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]
