

Exercise walk-through

Business finance: needs and sources ■ 5.1

eXercise

You must be able to

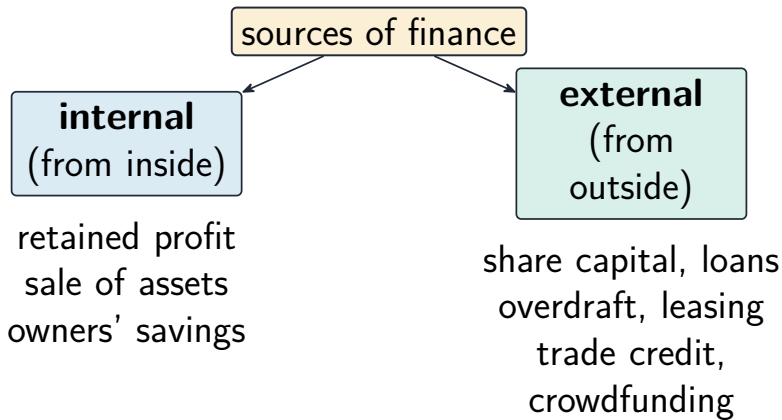
- state why a business needs finance (start-up, expansion, working capital)
- classify sources as internal/external and short/long-term
- analyse and recommend a source of finance

Method — Where finance comes from

- **Needs:** **start-up capital** 启动资金, **expansion** 扩张, **working capital** 营运资金, surviving a **cash-flow** 现金流 problem.
- **Internal** 内部: **retained profit** 留存利润, sale of **assets** 资产, owners' savings.
- **External** 外部: bank **loan** 贷款, **overdraft** 透支 (short-term), new **shares** 股份 (companies only), **leasing** 租赁, **trade credit** 贸易信贷, grants.

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

Method — Where finance comes from



Sources of finance come from inside (internal) or outside (external) the business

Practice 2.1 ■ 2 marks

State two reasons why a business needs finance.

Solution 2.1

Method: Where finance comes from

Worked steps

any two of: to start up; to expand/grow; for working capital (day-to-day running); to survive a cash-flow problem ($1 + 1$).

Practice 2.2 ■ 2 marks

Identify two **internal** sources of finance.

Solution 2.2

Method: Where finance comes from

Worked steps

any two of: retained profit; sale of assets; owners' savings ($1 + 1$).

Practice 2.3 ■ 2 marks

State the difference between a bank *loan* and an *overdraft*.

Solution 2.3

Method: Where finance comes from

Worked steps

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

Exam-style 3.1 ■ 2 marks

Identify two external sources of finance.

Solution 3.1

Method: Where finance comes from

Worked steps

any two of: bank loan; overdraft; new shares; leasing; hire purchase; trade credit; crowdfunding; grants (1 + 1).

Exam-style 3.2 ■ 6 marks

Explain two factors a business should consider when choosing a source of finance.

Solution 3.2

Method: Where finance comes from

Worked steps

[6] For **each** of two factors: $K_1 + A_n$ up to 2 — e.g. *amount and time*: a large, long-term need → a long-term loan, not a short-term overdraft. *Cost*: a high-interest source raises costs → a cheaper source is better if available. Maximum 3 each.

Exam-style 3.3 ■ 6 marks

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.

Solution 3.3

Method: Where finance comes from

Worked steps

[6] Both sides + judgement. **For a loan:** it provides a large sum, is repaid over time matching the machine's life, and the owner keeps full control. **Against:** interest must be paid, the loan needs repaying even in a bad year, and a sole trader has unlimited liability. **Judgement (Ev):** a loan suits a large, long-term purchase like a machine, but the owner should check they can afford the repayments — it depends on the firm's expected income; leasing could be an alternative if cash is tight.