# 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

**internal**
(from inside)

retained profit
sale of assets
owners' savings

**external**
(from outside)

share capital, loans
overdraft, leasing
trade credit,
crowdfunding

*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 + An 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.