2.3 Sources of Finance: Share Capital, Loan Capital and Venture Capital: 10-minute Pack

Total Marks

AQA 7132 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Show your working for any calculation. Use the data and figures given in each question's prompt; no prior knowledge beyond what is specified is required. Where a question asks you to apply to the case, use the figures and balance sheet extracts provided in that question's prompt.

1 Which one of the following best describes 'ordinary share capital' for a private limited company seeking growth finance?

- ☐ A) A short-term loan from a bank repaid within one year
- ☐ B) Capital raised by issuing shares that give owners voting rights and a residual claim on profits
- ☐ C) A form of grant that must be repaid only if the business makes a profit
- ☐ D) A fixed interest bond secured against company assets

(Total for Question 1 is 1 mark)

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2 State two features that typically distinguish venture capital funding from a bank loan for an early stage growth business.

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(Total for Question 2 is 2 marks)

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3 Identify one reason an early stage biotech company might prefer business angel funding over venture capital.

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(Total for Question 3 is 1 mark)

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4 GreenGrow plc, a medium sized agri-tech firm, is considering issuing a 5 year debenture to raise £500,000 at a fixed interest rate of 6% per year. Calculate the total interest the company will pay over the 5 years. Show your working.

(Total for Question 4 is 2 marks)

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5 State one control-related advantage or one control-related disadvantage of BrightBrew Ltd accepting venture capital rather than issuing new ordinary shares to existing owners.

(Total for Question 5 is 1 mark)

6 Identify one cost-related factor a management team should consider when choosing between issuing debentures and selling ordinary shares to raise 2 million pounds.

(Total for Question 6 is 1 mark)

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Mark scheme · 2.3 Sources of Finance: Share Capital, Loan Capital and Venture Capital: 10-minute Pack

Question 1

B cao **B1**

Answer: B

Question 2

VC provides equity in exchange for ownership and often active management involvement **B1**

VC accepts higher risk and expects higher returns and an exit via sale or IPO, unlike bank loans which require fixed interest repayments **B1**

Answer: Any two, e.g. VCs take equity and often join the board; VCs accept higher risk and expect an exit and high returns, while bank loans require interest and repayment.

Question 3

one valid reason, e.g. individual may offer mentoring and industry contacts suited to early stage needs, or smaller, more flexible investments than VCs **B1**

Answer: An angel can provide mentoring and useful industry contacts suited to early stage biotech needs.

Question 4

500,000 x 0.06 seen (= £30,000 per year) **M1**

£150,000 cao (total interest over 5 years) **A1**

Answer: £150,000.

Question 5

either an advantage, e.g. VC may bring professional governance that improves strategic decision-making, or a disadvantage, e.g. VC will take equity and expect influence, reducing founder control **B1**

Answer: Either advantage: a VC can bring professional governance and strategic support; or disadvantage: the VC will take equity and likely demand board influence, reducing founder control.

Question 6

compare fixed interest cost of debentures with potentially higher long-term cost of equity via dividends and diluted profits **B1**

Answer: They should compare the fixed interest cost of debentures with the potential long-term cost of equity in terms of dividends and diluted profit per share.

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