# 2.3 Sources of Finance: Share Capital, Loan Capital and Venture Capital: Test Pack

Total Marks

AQA 7132 · Calculators not allowed · about 15 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** Match terms to definitions for an incorporated business, using the letters A to E.

**(Total for Question 1 is 1 mark)**

**2** Which one of the following is a typical feature of a debenture used by a medium sized manufacturing firm?

- ☐ A) It gives holders voting rights in general meetings
- ☐ B) It is a form of equity that increases founder control
- ☐ C) It is a secured loan instrument with fixed interest payable to holders
- ☐ D) It requires no contractual repayment date

**(Total for Question 2 is 1 mark)**

**3** Identify one control implication for a founder if they accept ordinary share capital from outside investors such as venture capitalists, in the context of a private limited company seeking growth funding.

**(Total for Question 3 is 1 mark)**

**4** State two differences between crowdfunding that offers rewards/pre-orders and equity crowdfunding for a small consumer product business.

**(Total for Question 4 is 2 marks)**


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**5** State one reason a founder might accept venture capital despite the likely loss of some ownership.

**(Total for Question 5 is 1 mark)**

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**6** Explain one advantage and one disadvantage of ordinary share capital for LumiWear Ltd, a private limited company that wants to raise 1.5 million pounds to expand overseas and is concerned about keeping founder control. Use application to LumiWear Ltd in your answer.

**(Total for Question 6 is 6 marks)**


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# Mark scheme · 2.3 Sources of Finance: Share Capital, Loan Capital and Venture Capital: Test Pack

## Question 1

1-E, 2-A, 3-C, 4-D, 5-B cao **B1**

**Answer: 1 E; 2 A; 3 C; 4 D; 5 B.**

## Question 2

C cao **B1**

**Answer: C**

## Question 3

founder may lose some control or decision-making power because new shareholders gain voting rights or board seats **B1**

**Answer: The founder may lose some control because new investors gain voting rights or board representation.**

## Question 4

reward/pre-order crowdfunding gives backers products or rewards, not ownership **B1**

equity crowdfunding gives contributors shares, diluting ownership and creating ongoing obligations like dividends or reporting **B1**

**Answer: Reward crowdfunding gives backers products or perks not ownership; equity crowdfunding gives shares, diluting ownership and creating ongoing obligations.**

## Question 5

one valid reason, e.g. access to large sums of growth capital, or industry expertise/contacts that can accelerate growth **B1**

**Answer: For access to large sums of growth capital that would otherwise be hard to raise.**

## Question 6

identifies an advantage, e.g. raises large sums without interest repayments **B1**

develops the advantage, e.g. selling shares can provide the full 1.5 million without adding debt service costs that would strain cash flow while expanding overseas **B1**

applies the advantage to LumiWear Ltd, e.g. this frees cash for marketing, distribution setup and currency contingencies during expansion **B1**

identifies a disadvantage, e.g. dilution of ownership and potential loss of founder control **B1**

develops the disadvantage, e.g. new shareholders may demand board seats or strategic changes that constrain founders **B1**

applies the disadvantage to LumiWear Ltd, e.g. if founders give up significant equity to raise 1.5 million they could lose decision-making power over overseas strategy **B1**

**Answer: Advantage: issuing shares can raise 1.5 million without interest repayments, preserving cash for overseas marketing and distribution. Disadvantage: it dilutes founder ownership and may lead to loss of control if new shareholders take board seats or influence strategy, which is a real risk for LumiWear Ltd if large equity stakes are sold.**


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