BUS.FI1 Why businesses need finance

AQA 8132 · Calculator allowed · about 55 minutes

Total Marks

Name: ________________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Show your working for any calculation. Silverwood Furniture, used throughout this pack, is a fictional business.

1 Which one of the following is an example of start-up capital needed by a new business?

- ☐ A) Weekly staff wages
- ☐ B) Monthly business rates
- ☐ C) Initial machinery and equipment
- ☐ D) A monthly electricity bill

(Total for Question 1 is 1 mark)

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2 Which one of the following best describes 'working capital'?

- ☐ A) Money used to buy a business's very first premises
- ☐ B) Money needed to fund the day-to-day running costs of a business
- ☐ C) Money paid out to shareholders as dividends
- ☐ D) Money owed to a business by its customers

(Total for Question 2 is 1 mark)

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3 State two reasons why a brand new business needs finance before it starts trading.

(Total for Question 3 is 2 marks)

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4 Silverwood Furniture is a fictional new furniture-making business. State two examples of start-up costs Silverwood Furniture might have to pay before it opens.

(Total for Question 4 is 2 marks)

5 Amara, the owner of Silverwood Furniture, lists her start-up costs: workshop deposit 3,000 pounds, tools and machinery 5,500 pounds, initial stock of timber 1,200 pounds, shop-fit and signage 800 pounds, and website design 500 pounds.

Calculate her total start-up capital required. Show your working.

(Total for Question 5 is 2 marks)

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6 Amara has personal savings of 6,500 pounds to put into the business. Using your answer to question 5, calculate the finance shortfall she must raise from other sources. Show your working.

(Total for Question 6 is 2 marks)

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7 State two functions performed by the finance function (finance department) of a business.

(Total for Question 7 is 2 marks)

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8 Explain one reason why accurate financial record-keeping is important for a new business like Silverwood Furniture.

(Total for Question 8 is 3 marks)

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9 Other than start-up capital, state two other reasons why an established, profitable business might need extra finance.

(Total for Question 9 is 2 marks)

10 Silverwood Furniture's monthly working capital needs (rent, wages, materials and utilities) are 2,400 pounds. It holds cash reserves of 4,800 pounds.

(a) Calculate how many months Silverwood Furniture could cover its working capital needs using its cash reserves alone, assuming it receives no further income. Show your working. **(2)**

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(b) State one reason why a business would want a safety margin of cash reserves beyond the bare minimum found in part a. **(1)**

(Total for Question 10 is 3 marks)

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11 Which one of the following is LEAST likely to be a consequence of a business being unable to raise enough finance when it needs it?

- ☐ A) The business may be unable to pay its suppliers on time
- ☐ B) The business may have to turn down a profitable growth opportunity
- ☐ C) The business's profit margin automatically increases
- ☐ D) The business risks running out of cash (insolvency)

(Total for Question 11 is 1 mark)

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12 State two possible consequences to a business of failing to raise enough finance when it needs it.

(Total for Question 12 is 2 marks)

13 Silverwood Furniture wants to expand by renting a second workshop unit. The expansion requires: workshop deposit 4,000 pounds, new machinery 6,000 pounds, and extra stock 1,500 pounds.

(a) Calculate the total finance required for the expansion. Show your working. **(2)**

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(b) Silverwood Furniture can fund 5,500 pounds of this from retained profit. Using your answer to part a, calculate the extra finance needed from an external source. Show your working. **(2)**

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(Total for Question 13 is 4 marks)

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14 State two reasons why funding as much of the expansion as possible from retained profit, rather than from 100% external finance, might benefit Silverwood Furniture.

(Total for Question 14 is 2 marks)

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15 Silverwood Furniture has been offered a large new contract that would require the 11,500 pounds of expansion finance calculated in question 13a immediately. Amara can fund 5,500 pounds from retained profit (question 13b) but would need to borrow the remaining 6,000 pounds from a bank.
Recommend whether Amara should go ahead and borrow the 6,000 pounds to fund the expansion. Justify your answer using the figures given in this pack.

(Total for Question 15 is 9 marks)

Mark scheme · BUS.FI1 Why businesses need finance

Question 1

- **B1** C cao
- **Answer: C**

Question 2

- **B1** B cao
- **Answer: B**

Question 3

- **B1** to buy start-up assets/premises/equipment before the business can open
- **B1** to cover initial running costs until enough sales revenue is coming in (a cash-flow gap at the start)
- **Answer: Any two, e.g. to buy start-up assets/premises/equipment; to cover running costs until enough sales revenue comes in.**

Question 4

- **B1** one acceptable start-up cost, e.g. a deposit on the workshop
- **B1** a second acceptable start-up cost, e.g. tools and machinery, initial stock of timber, shop-fit and signage, or website design
- **Answer: Any two, e.g. workshop deposit; tools and machinery; initial stock of timber; shop-fit and signage; website design.**

Question 5

- **M1** 3,000 + 5,500 + 1,200 + 800 + 500 seen
- **A1** 11,000 pounds cao
- **Answer: 11,000 pounds.**

Question 6

- **M1** 11,000 - 6,500 seen (ft from question 5)
- **A1** 4,500 pounds cao
- **Answer: 4,500 pounds.**

Question 7

- **B1** recording financial transactions and keeping accurate accounts
- **B1** providing financial information to help managers/owners make decisions, e.g. planning budgets, monitoring cash flow, paying wages and suppliers
- **Answer: Any two, e.g. recording transactions/keeping accounts; providing information for decision-making, budgeting or monitoring cash flow.**

Question 8

- **B1** identifies a reason, e.g. accurate records let Amara see exactly how much cash the business has
- **B1** develops the point, e.g. this means she can spot a cash-flow problem before it becomes serious
- **B1** links clearly to an outcome, e.g. this helps her avoid running out of money to pay suppliers or wages, protecting the survival of the business
- **Answer: Accurate records let Amara see exactly how much cash the business has, so she can spot a cash-flow problem early and avoid running out of money to pay suppliers or wages.**

Question 9

- **B1** to fund expansion/growth, e.g. new premises or more equipment
- **B1** to cover a temporary cash-flow gap, e.g. a seasonal dip in sales, or to replace worn-out equipment
- **Answer: Any two, e.g. to fund expansion/growth; to cover a temporary cash-flow gap or replace worn-out equipment.**

Question 10

- (a) **M1** 4,800 / 2,400 seen
- (a) **A1** 2 months cao
- **(a) Answer: 2 months.**
- (b) **B1** to cope with an unexpected fall in sales, or an unexpected bill/cost, without running out of cash
- **(b) Answer: To cope with an unexpected fall in sales or an unexpected cost without running out of cash.**

Question 11

- **B1** C cao
- **Answer: C**

Question 12

- **B1** a missed growth opportunity, e.g. unable to expand or take on a new contract
- **B1** a risk of cash-flow problems/insolvency, e.g. unable to pay debts as they fall due
- **Answer: Any two, e.g. missed growth opportunity; risk of cash-flow problems/insolvency.**

Question 13

- (a) **M1** 4,000 + 6,000 + 1,500 seen
- (a) **A1** 11,500 pounds cao
- **(a) Answer: 11,500 pounds.**
- (b) **M1** 11,500 - 5,500 seen (ft from part a)
- (b) **A1** 6,000 pounds cao
- **(b) Answer: 6,000 pounds.**

Question 14

- **B1** no interest has to be paid / no extra debt is taken on
- **B1** it does not dilute Amara's ownership/control of the business, e.g. no new shareholders or partners are needed
- **Answer: Any two, e.g. no interest/extra debt; does not dilute Amara's ownership or control of the business.**

Question 15

- **Level 1** (1-3): Makes simple, undeveloped comments about the loan, with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for or against borrowing, using some of the pack's figures, but does not fully weigh both sides or reach a clearly justified recommendation.
- **Level 3** (7-9): Weighs the evidence for and against borrowing, using the start-up, cash-reserve and expansion figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
  - For borrowing: the 6,000 pounds shortfall is a relatively small proportion of the total 11,500 pounds expansion cost, since retained profit already covers 5,500 pounds of it (question 13).
  - For borrowing: the new contract could generate ongoing extra revenue that helps repay the loan, so the expansion may pay for itself over time.
  - Against borrowing: taking on a 6,000 pounds loan adds interest costs and a fixed repayment commitment, which could worsen cash flow if the new contract does not perform as expected.
  - Against borrowing: question 10 showed Silverwood Furniture's cash reserves currently cover only 2 months of its existing 2,400 pounds monthly working capital needs, so adding loan repayments on top increases the risk of running short of cash.
  - Judgement: a reasonable recommendation is to borrow the 6,000 pounds, since it is a manageable share of a fully-costed expansion, provided Amara first confirms the new contract's monthly revenue comfortably covers the extra loan repayment alongside the existing 2,400 pounds working capital needs.