BUS.FI2 Sources of finance

AQA 8132 · Calculator allowed · about 65 minutes

Total Marks

Name: ________________________________ Date: ____ / ____ / ______

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

1 Which one of the following is an example of an INTERNAL source of finance?

- ☐ A) A bank loan
- ☐ B) Retained profit
- ☐ C) Trade credit
- ☐ D) An overdraft

(Total for Question 1 is 1 mark)

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2 Which one of the following is an example of an EXTERNAL source of finance?

- ☐ A) An owner's personal savings
- ☐ B) Retained profit
- ☐ C) The sale of unused business assets
- ☐ D) A bank loan

(Total for Question 2 is 1 mark)

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3 State two examples of internal sources of finance available to a business.

(Total for Question 3 is 2 marks)

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4 State two examples of external sources of finance available to a business.

(Total for Question 4 is 2 marks)

5 Explain one advantage to a business of using retained profit, rather than a bank loan, to fund a purchase.

(Total for Question 5 is 3 marks)

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6 Explain one disadvantage to a business of relying on retained profit to fund a purchase.

(Total for Question 6 is 3 marks)

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7 Harlow Print Co, a fictional small printing business, wants to buy a new printing press costing 8,000 pounds. Priya, the owner, takes out a bank loan for the full amount, to be repaid over 2 years at a simple interest rate of 6% per year.
Calculate the total amount of interest Priya will pay over the 2 years. Show your working.

(Total for Question 7 is 3 marks)

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8 Using your answer to question 7, calculate the total amount Priya will repay in total (the loan plus interest) over the 2 years. Show your working.

(Total for Question 8 is 2 marks)

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9 State two pieces of information a bank would want to know before agreeing to lend money to Harlow Print Co.

(Total for Question 9 is 2 marks)

10 As an alternative to a bank loan, Priya considers hire purchase (HP) for the printing press. Under the HP agreement she would pay a deposit of 1,600 pounds followed by 24 monthly instalments of 320 pounds each.

(a) Calculate the total amount Priya would pay in monthly instalments over the 24 months. Show your working. **(2)**

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(b) Using your answer to part a, calculate the total cost of buying the printing press through hire purchase (the deposit plus the instalments). Show your working. **(2)**

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(Total for Question 10 is 4 marks)

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11 Using your answers to questions 8 and 10b, calculate how much cheaper the bank loan option is than the hire purchase option, in total. Show your working.

(Total for Question 11 is 2 marks)

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12 State two advantages of hire purchase over a bank loan for a business like Harlow Print Co, even though it works out 320 pounds more expensive overall (question 11).

(Total for Question 12 is 2 marks)

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13 Trade credit lets Harlow Print Co buy ink and paper supplies now and pay the supplier later (e.g. after 30 days). Explain one benefit to Harlow Print Co's cash flow of using trade credit.

(Total for Question 13 is 3 marks)

14 Which of the following is the most suitable source of finance for a private limited company (Ltd) wanting to raise a large amount of long-term capital without taking on more debt?

- ☐ A) An overdraft
- ☐ B) Trade credit
- ☐ C) Issuing new shares
- ☐ D) Hire purchase

(Total for Question 14 is 1 mark)

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15 Harlow Print Co is registered as a private limited company.

(a) Priya decides to issue 4,000 new shares privately to a group of investors at 2.50 pounds per share. Calculate the total amount of capital this share issue would raise. Show your working. **(2)**

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(b) State two drawbacks to Priya of raising finance by issuing new shares to outside investors. **(2)**

(Total for Question 15 is 4 marks)

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16 Harlow Print Co needs 8,000 pounds to buy the new printing press (question 7). Priya is deciding between (1) taking out the 2-year bank loan, costing 8,960 pounds in total (question 8), or (2) issuing 4,000 shares to outside investors, which would raise 10,000 pounds (question 15a), more than enough to cover the 8,000 pounds cost.
Recommend which source of finance Priya should use to fund the printing press. Justify your answer using the figures given in this pack.

(Total for Question 16 is 9 marks)

Mark scheme · BUS.FI2 Sources of finance

Question 1

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

Question 2

- **B1** D cao
- **Answer: D**

Question 3

- **B1** the owner's personal savings/capital
- **B1** retained profit, or the sale of unused business assets
- **Answer: Any two, e.g. owner's savings/capital; retained profit; sale of unused assets.**

Question 4

- **B1** a bank loan
- **B1** an overdraft, trade credit, a share issue, crowdfunding, venture capital, hire purchase, or a government grant (any one)
- **Answer: Any two, e.g. bank loan; overdraft; trade credit; share issue; crowdfunding.**

Question 5

- **B1** identifies an advantage, e.g. no interest has to be paid
- **B1** develops the point, e.g. this means the full cost of the purchase does not increase over time, unlike with a loan
- **B1** links clearly to an outcome, e.g. this keeps the business's costs lower and protects its profit margin
- **Answer: No interest has to be paid, so the cost of the purchase does not increase over time, keeping the business's costs lower and protecting its profit margin.**

Question 6

- **B1** identifies a disadvantage, e.g. the business may not have built up enough retained profit to cover the full cost
- **B1** develops the point, e.g. this means the purchase may have to be delayed until enough profit has accumulated
- **B1** links clearly to an outcome, e.g. the business could miss a time-sensitive opportunity, such as a growth opportunity a competitor moves on first
- **Answer: The business may not have enough retained profit to cover the full cost, so the purchase may be delayed, risking a missed time-sensitive opportunity.**

Question 7

- **M1** 8,000 x 0.06 seen (= 480 pounds per year)
- **M1** 480 x 2 seen
- **A1** 960 pounds cao
- **Answer: 960 pounds.**

Question 8

- **M1** 8,000 + 960 seen (ft from question 7)
- **A1** 8,960 pounds cao
- **Answer: 8,960 pounds.**

Question 9

- **B1** how the business intends to use and repay the loan, e.g. a business plan/cash-flow forecast
- **B1** the business's trading/credit history, or what security/collateral is available
- **Answer: Any two, e.g. how the loan will be used and repaid (business plan); the business's credit history or available security.**

Question 10

- (a) **M1** 24 x 320 seen
- (a) **A1** 7,680 pounds cao
- **(a) Answer: 7,680 pounds.**
- (b) **M1** 1,600 + 7,680 seen (ft from part a)
- (b) **A1** 9,280 pounds cao
- **(b) Answer: 9,280 pounds.**

Question 11

- **M1** 9,280 - 8,960 seen (ft from questions 8 and 10b)
- **A1** 320 pounds cao
- **Answer: 320 pounds.**

Question 12

- **B1** it may be easier to arrange without offering other collateral, since the asset itself (the press) can be repossessed if payments are missed
- **B1** fixed, equal monthly instalments make cash-flow planning/budgeting easier
- **Answer: Any two, e.g. easier to arrange without extra collateral; predictable fixed monthly payments help cash-flow planning.**

Question 13

- **B1** identifies the benefit, e.g. Harlow Print Co receives the supplies before it has to pay for them
- **B1** develops the point, e.g. cash stays in the business for longer, up to 30 days
- **B1** links clearly to an outcome, e.g. this gives Harlow Print Co more time to sell printed goods and collect cash from its own customers before its supplier payment is due, easing pressure on its cash flow
- **Answer: Harlow Print Co gets supplies before paying for them, keeping cash in the business for up to 30 days longer, giving it time to collect cash from its own customers first.**

Question 14

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

Question 15

- (a) **M1** 4,000 x 2.50 seen
- (a) **A1** 10,000 pounds cao
- **(a) Answer: 10,000 pounds.**
- (b) **B1** Priya's percentage ownership and control of the business is diluted
- (b) **B1** future profits must now be shared with the new shareholders (dividends)
- **(b) Answer: Any two, e.g. ownership/control is diluted; profits must be shared with new shareholders as dividends.**

Question 16

- **Level 1** (1-3): Makes simple, undeveloped comments about the two sources of finance, 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 one option, 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 both sources of finance, using the loan and share-issue figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
  - For the loan: the total repayable (8,960 pounds) is close to the 8,000 pounds cost and is a known, fixed, one-off obligation that ends after 2 years, and Priya keeps full ownership and control of Harlow Print Co.
  - Against the loan: Priya must find 8,960 pounds of repayments from cash flow even if trade is quiet, which could strain a small business.
  - For the share issue: it raises 10,000 pounds, more than the 8,000 pounds needed, giving extra working-capital headroom, and there is no fixed repayment obligation regardless of how trade performs.
  - Against the share issue: Priya gives up part ownership and control of Harlow Print Co to outside investors, and must share future profits (dividends) with them indefinitely, unlike the loan, which ends after 2 years.
  - Judgement: since Harlow Print Co only needs 8,000 pounds and the bank loan's total cost (8,960 pounds) is close to that figure with no loss of control, the loan is the more proportionate choice, unless Priya specifically wants the extra headroom the share issue provides and is willing to give up some ownership for it.