3.8 Choosing the Right Source of Finance for a Business Scenario: 30-minute Pack

Total Marks

AQA 8132 · Calculators not allowed · about 30 minutes

Name: _____ Date: ____ / ____ / _____

Answer ALL questions. Use the information in each question's prompt. Short answers may be given in single phrases unless the question asks for full sentences. The final 9-mark question requires a justified recommendation in full sentences.

1 Which one of the following is most likely to dilute ownership in a private limited company seeking expansion capital?

- ☐ A) A bank overdraft
- ☐ B) Retained profit
- ☐ C) Issuing new shares
- ☐ D) Leasing equipment

(Total for Question 1 is 1 mark)

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2 Which one of the following is most suitable for a start-up seeking to test market demand and raise funds from many small contributors online, without giving up equity?

- ☐ A) Venture capital
- ☐ B) Crowdfunding (reward or donation-based)
- ☐ C) Bank loan
- ☐ D) Hire purchase

(Total for Question 2 is 1 mark)

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3 Which one of the following sources is most appropriate for an established business that wants to avoid selling assets or diluting ownership but needs a flexible, short-term borrowing facility?

- ☐ A) Overdraft
- ☐ B) Issuing new shares
- ☐ C) Venture capital
- ☐ D) Crowdfunding

(Total for Question 3 is 1 mark)

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4 Noah runs 'BrightWorks Ltd', a private limited company expanding into a new region and needing £120,000 for shop fit-outs. Identify two suitable sources of finance that avoid increasing bank debt but dilute ownership.

(Total for Question 4 is 2 marks)

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5 Callum runs a small engineering partnership that expects a normally profitable month but faces a short-term cash gap of £15,000 until several large customers pay their invoices. Identify two suitable short-term sources of finance the partnership could use to bridge this gap.

(Total for Question 5 is 2 marks)

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6 Priya is a sole trader starting a small online clothing brand and has saved £3,000 herself. Explain in two developed points why personal savings are a suitable source of start-up finance for Priya in this scenario.

(Total for Question 6 is 4 marks)

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7 A partnership of landscapers wants to buy a new tractor for £18,000 but does not want a large upfront cost. Explain in two developed points why hire purchase or leasing would suit this equipment purchase for the partnership.

(Total for Question 7 is 4 marks)

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8 BrightWorks Ltd needs £120,000 for shop fit-outs. Recommend which source of finance BrightWorks Ltd should use: (1) issuing new shares to raise the full £120,000, or (2) taking a bank loan of £120,000. Justify your answer using the business context and by weighing the pros and cons of both options. Use the figures and the fact BrightWorks Ltd is a private limited company expanding into a new region in your explanation.

(Total for Question 8 is 9 marks)

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Mark scheme · 3.8 Choosing the Right Source of Finance for a Business Scenario: 30-minute Pack

Question 1

C cao **B1**

Answer: C

Question 2

B cao **B1**

Answer: B

Question 3

A cao **B1**

Answer: A

Question 4

issuing new shares, cao **B1**

or crowdfunding (if shares/equity crowdfunding named) cao **B1**

Answer: Issuing new shares, for example a private share issue.

Question 5

an overdraft, cao **B1**

or invoice financing/factoring or trade credit if specified and suitable **B1**

Answer: A bank overdraft, or invoice financing/factoring; for example a short-term overdraft.

Question 6

identifies a reason, e.g. no interest or repayment obligations **B1**

develops the point, e.g. keeps early costs lower and reduces risk of cash-flow problems **B1**

identifies a second reason, e.g. quick access and full control retained **B1**

develops the second point, e.g. enables fast decisions and avoids sharing future profits **B1**

Answer: No interest or repayment obligations, so start-up costs stay lower and the business is less likely to face early cash-flow strain; and quick access to her savings means Priya can act fast while keeping full control and not sharing profits.

Question 7

identifies a reason, e.g. spreads the cost into manageable payments **B1**

develops the point, e.g. preserves working capital and helps cash-flow planning with predictable monthly payments **B1**

identifies a second reason, e.g. avoids a large initial cash outlay and may include maintenance **B1**

develops the second point, e.g. leasing can include service packages and means the partnership can upgrade equipment later **B1**

Answer: Hire purchase or leasing spreads the cost into manageable payments, preserving working capital and making cash flow easier to predict; leasing may also include maintenance or allow upgrading later, avoiding a large initial outlay and reducing disruption to the partnership's cash resources.

Question 8

Level 1 Makes simple, undeveloped comments about the two options, with little or no use of the scenario's figures and no clear recommendation. **1-3**

Level 2 Gives a developed argument for one option, using some of the scenario's figures and recognising key trade-offs, but does not fully weigh both sides or reach a strongly justified recommendation. **4-6**

Level 3 Weighs the evidence for and against issuing shares and taking a bank loan, uses the £120,000 figure and the private limited company context, and reaches a justified recommendation supported by analysis. **7-9**

Indicative content:

- For issuing shares: raises £120,000 without creating debt or fixed interest repayments, improving cash flow during expansion and avoiding immediate financial risk from repayments.
- For issuing shares: ownership dilution is a major cost for existing owners, reducing control and sharing future profits permanently, which may be unacceptable to current shareholders.
- For a bank loan: keeps ownership and control with existing shareholders, allowing them to retain future profits, but creates a fixed repayment and interest burden that could strain cash flow if expansion costs or revenues are higher or slower than expected.
- For a bank loan: interest costs increase the overall cost of expansion and the loan may require security, but loans can be repaid over an agreed term and do not dilute ownership.
- Other considerations: the company's current profitability, access to lenders, ability to offer collateral, and strategic desire to keep control or to bring in investors who add expertise should influence the decision.
- Judgement: a recommendation should balance BrightWorks Ltds desire for control against its ability to service debt. If keeping ownership is critical and the business can meet repayments, a bank loan is preferable; if avoiding debt and preserving cash flow is more important, issuing shares is justified despite dilution, especially if new shareholders add useful expertise or networks.

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