Revision Library
revisionlibrary.co.uk

GCSE · Finance

BUS.FI8 Choosing the Right Source of Finance for a Business Scenario

AQA 8132 · Calculators not allowed · about 40 minutes

Total Marks

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 the most suitable short-term source of finance for a sole trader needing to pay unexpected immediate supplier bills?

- ☐ A) A long-term bank loan
- ☐ B) Trade credit from the supplier
- ☐ C) Issuing new shares
- ☐ D) Venture capital

(Total for Question 1 is 1 mark)

2 Kwame runs 'GreenFork', a one-person street-food stall, and needs 1,200 pounds quickly to replace a broken fridge. Which one of the following is least suitable for immediate access to that small amount?

- ☐ A) Personal savings
- ☐ B) A bank overdraft
- ☐ C) A venture capital investor
- ☐ D) Borrowing from family or friends

(Total for Question 2 is 1 mark)

3 Amelia runs a partnership bakery and wants to buy a new commercial oven costing 6,000 pounds. Identify one suitable long-term source of finance for this purpose, given the partnership structure.

(Total for Question 3 is 2 marks)

4 Noah runs 'BrightWorks Ltd', a private limited company expanding into a new region and needing 120,000 pounds for shop fit-outs. Identify one suitable source of finance that avoids increasing bank debt but dilutes ownership.

(Total for Question 4 is 2 marks)

---

5 Priya is a sole trader starting a small online clothing brand and has saved 3,000 pounds 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 5 is 4 marks)

---

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

(Total for Question 6 is 2 marks)

---

7 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 7 is 1 mark)

8 BrightWorks Ltd needs 120,000 pounds for shop fit-outs. Explain in two developed points why issuing new shares would suit BrightWorks Ltd for this long-term expansion, despite diluting ownership.

(Total for Question 8 is 4 marks)

---

9 Sofia runs a small cafe and has an unused delivery van she could sell to raise cash quickly. Identify one advantage of using the sale of an asset to raise finance for the cafe's short-term working-capital needs.

(Total for Question 9 is 2 marks)

---

10 A partnership of landscapers wants to buy a new tractor for 18,000 pounds 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 10 is 4 marks)

---

11 State two reasons why a small sole trader might prefer borrowing from family or friends rather than taking a formal bank loan for a 2,000 pounds short-term need.

(Total for Question 11 is 2 marks)

12 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 12 is 1 mark)

---

13 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 13 is 1 mark)

---

14 BrightWorks Ltd needs 120,000 pounds for shop fit-outs. Recommend which source of finance BrightWorks Ltd should use: (1) issuing new shares to raise the full 120,000 pounds, or (2) taking a bank loan of 120,000 pounds. 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 14 is 9 marks)

Mark scheme · BUS.FI8 Choosing the Right Source of Finance for a Business Scenario

Question 1

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

Question 2

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

Question 3

- **B1** a bank loan, cao
- **B1** or hire purchase/leasing if named and suitable for equipment
- **Answer: Bank loan or hire purchase/leasing, for example a bank loan.**

Question 4

- **B1** issuing new shares, cao
- **B1** or crowdfunding (if shares/equity crowdfunding named) cao
- **Answer: Issuing new shares, for example a private share issue.**

Question 5

- **B1** 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
- **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 6

- **B1** an overdraft, cao
- **B1** or invoice financing/factoring or trade credit if specified and suitable
- **Answer: A bank overdraft, or invoice financing/factoring; for example a short-term overdraft.**

Question 7

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

Question 8

- **B1** identifies a reason, e.g. raises a large sum without increasing debt
- **B1** develops the point, e.g. avoids interest costs and fixed repayment obligations, improving cash flow for expansion
- **B1** identifies a second reason, e.g. investors may bring expertise or credibility
- **B1** develops the second point, e.g. new shareholders could help with contacts, further investment or confidence from other lenders
- **Answer: Issuing shares raises the large amount needed without adding bank debt, avoiding interest and fixed repayments which helps cash flow during expansion; new shareholders may also bring expertise, contacts or credibility that supports the regional expansion.**

Question 9

- **B1** quick access to cash without taking on debt, cao
- **B1** does not dilute ownership or require repayments, cao
- **Answer: It provides quick cash without taking on debt, and it does not dilute ownership or create repayment obligations.**

Question 10

- **B1** 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
- **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 11

- **B1** likely to be quicker and more flexible, cao
- **B1** may involve lower or no interest and more lenient repayment terms, cao
- **Answer: It is likely to be quicker and more flexible; and it may carry lower or no interest with more lenient repayment terms.**

Question 12

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

Question 13

- **B1** A cao
- **Answer: A**

Question 14

- **Level 1** (1-3): Makes simple, undeveloped comments about the two options, with little or no use of the scenario's figures and no clear recommendation.
- **Level 2** (4-6): 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.
- **Level 3** (7-9): Weighs the evidence for and against issuing shares and taking a bank loan, uses the 120,000 pounds figure and the private limited company context, and reaches a justified recommendation supported by analysis.
- **Indicative content:**
  - For issuing shares: raises 120,000 pounds 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.