

Chapter 18: Worksheet mark scheme (27 marks)

- 1 List **three** internal sources of finance. (3)
- retained profits
 - sale of assets
 - reduction in working capital
- 2 List **two** forms of long-term external finance. (2)
- share issue
 - debentures
 - long-term loans
 - grants
- 3 List **two** forms of medium-term external finance. (2)
- leasing
 - hire purchase
 - medium-term loans
- 4 List **three** forms of short-term external finance. (3)
- overdraft
 - short-term loan
 - delay paying creditors
 - factoring
- 5 What is debt factoring? (2)
- The business's claims on debtors are sold to debt factoring companies at a discount and the business receives cash. The business receives less than the full value of the debt.
- 6 What is the difference between leasing and hire purchase? (4)
- Leasing is when a monthly rental is paid for an asset and ownership stays with the leasing company, whereas in hire purchase, ownership passes to the company at the start of the contract and repayments are made over an agreed time period.
- 7 Businesses often have to give 'security' to the bank when they take out a long-term loan. What is security? (1)
- The right to sell an asset is legally given to the bank, so if the business does not repay the loan the bank can claim the asset and sell it to try to repay the loan.
- 8 List **two** advantages and **one** disadvantage of a rights issue. (3)
- Advantages:
- the ownership of a company does not change
 - no share promotion is necessary, so costs are limited

Disadvantage:

- there are more shares and so the share price may fall

9 Give **two** advantages and **one** disadvantage of raising finance by issuing shares. **(3)**

Advantages:

- finance raised does not need to be repaid
- dividends are discretionary

Disadvantage:

- dividends are paid after tax so the tax bill may be higher than when using loan finance (loan interest is paid before tax)

10 List **four** factors that will influence which sort of finance a business uses. **(4)**

- legal structure of the business
- desire to keep control of the business
- amount needed
- what the money is needed for
- over what period the business can repay the amount
- size of existing borrowing