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## GCSE Business Studies

### Bank Loans and Overdrafts

- ▶ A **bank overdraft** is a limit on borrowing on a bank current account. With an overdraft the amount of borrowing may vary on a daily basis.
- ▶ A **bank loan** is a fixed amount for a fixed term with regular fixed repayments. The interest on a loan tends to be lower than an overdraft.

Example of a loan:

A business borrows £12,000 from a bank over 3 years at an interest rate of 5%. The approximate repayments on this loan would be £392 a month for 36 months (£14,112).

A fixed term means how many months or years before the loan has to be repaid in full.

Normally a fixed term loan will be for a greater amount than an overdraft.

	Overdrafts	Loans
Advantages	Flexibility – can change the amount borrowed within limits Interest is only paid on amounts borrowed	Larger amounts can be borrowed Lower interest rates than overdrafts Regular repayments help plan cash flow
Disadvantages	Cannot be used for large borrowing Rates of interest higher than loans Bank can change limit at any time or ask for money to be paid back sooner than expected	Less flexible than an overdraft Have to pay back in stated time or risk further financial problems

### Debentures

A debenture is a **long term loan** which is usually **secured** against a specific asset (e.g. the factory) or the overall assets of a business. A debenture is **repayable** at a fixed date and has a **fixed rate of interest**.

Debentures are different from ordinary shares because:

- ▶ The lender has no voting rights in the company.
- ▶ The loan attracts interests – whereas holders of ordinary shares get dividends.
- ▶ The providers of loans are paid out before ordinary shareholders in the event that the business fails (assuming there is some cash left).

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