Financing Business Growth

Complete the following questions in the time allowed by your teacher.

1. Identify up to three factors that a business should consider when choosing one source of finance over another (one mark for each valid point)
   A. 
   B. 
   C. 
   D. 
   E. 
   F. 
   G. 

2. List up to three points that help describe what a bank overdraft is (one mark for each valid point)
   A. 
   B. 
   C. 
   D. 
   E. 
   F. 
   G.
3. Define and explain what is meant by "retained profit".

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4. Briefly outline the key features of a bank loan (one mark for each valid point listed - max four marks)

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5. Outline three ways in which a business could raise finance by managing working capital more effectively (one mark for each valid point)
   A. __________________________________________
   B. __________________________________________
   C. __________________________________________
   D. __________________________________________
   E. __________________________________________
6. List three advantages to a business of raising finance through a stock market flotation (one mark per valid point)
   A. 
   B. 
   C. 
   D. 
   E. 
   F. 
   G. 

7. Outline the main features of a venture capitalist as a source of finance for growth (one mark for each valid point listed - max four marks)

   
   
   
   
   
   
   

TRUE / FALSE QUIZ

Indicate whether each of the following statements is true or false:

8. Venture capital is a form of debt finance
   ○ A. True ○ B. False

9. Trade credit is finance provided by suppliers to a business
   ○ A. True ○ B. False
10. A bank overdraft is best suited as a long-term source of finance
   O A. True   O B. False

11. Tax is payable on retained profit
    O A. True   O B. False

12. A business will normally be required to provide security for a bank loan
    O A. True   O B. False

13. Bank overdrafts normally have a higher interest rate than a bank loan
    O A. True   O B. False

14. The shares of a public company (plc) have to be offered for sale on a stock exchange
    O A. True   O B. False

15. Equity is another term for the share capital of a company
    O A. True   O B. False

16. A private company cannot raise finance by issuing new shares
    O A. True   O B. False

17. A dividend is a cost of finance for a company
    O A. True   O B. False
Financing Business Growth

Complete the following questions in the time allowed by your teacher

1. Identify up to three factors that a business should consider when choosing one source of finance over another (one mark for each valid point)
   A. The purpose of the finance
   B. The period over which finance is required
   C. The cost of the finance (e.g. interest rate)
   D. The flexibility of the finance (e.g. early repayment)
   E. The impact of new finance on gearing
   F. The business structure (e.g. sole trader v ltd company)
   G. The effect on the existing ownership structure

2. List up to three points that help describe what a bank overdraft is (one mark for each valid point)
   A. A finance facility provided by a bank
   B. The facility is only used when it is needed
   C. The overdraft will normally have a high, variable interest rate
   D. It is repayable on demand by the bank
   E. Suitable as a short-term source of finance
   F. Normally un-secured
   G. Good for handling seasonal changes in cash flow
3. Define and explain what is meant by "retained profit"

Retained profit is the profit that is kept in a business once interest payments to
lenders, tax owed to government and dividends owed to shareholders have been
accounted for.

Retained profit is kept in the business - either as cash balances or as non-current
assets and current assets

Retained profit is an internal source of finance - it arises from the trading activities
of the business.

4. Briefly outline the key features of a bank loan (one mark for each valid point listed -
max four marks)

A loan provided over fixed period

Best suited for medium-term or long-term finance

Rate of interest can be variable, but is often fixed

Timing and amount of repayments are set at start of loan

Bank will usually require some kind of security

Good for financing investment in fixed assets

Generally at a lower rate of interest that a bank overdraft

Not as flexible as a bank overdraft

5. Outline three ways in which a business could raise finance by managing working
capital more effectively (one mark for each valid point)

A. Reduce trade debtors

B. Extend payment period with suppliers

C. Reduce inventories

D. Dispose of surplus current assets

E. Request payments in advance from customers
List three advantages to a business of raising finance through a stock market flotation (one mark per valid point)

A. Access to a wider shareholder base
B. Increased public profile
C. Higher investor & lender confidence
D. Allows existing shareholders to realise some of their investment
E. Use of share issue for staff incentive schemes
F. Enables a business to finance a takeover
G. Capable of raising significant new capital

Outline the main features of a venture capitalist as a source of finance for growth (one mark for each valid point listed - max four marks)

Specialist investors in private companies
Often back management buy-outs (MBOs)
They manage investment funds designed to achieve high rates of returns
Tend to focus on larger investments (>£1m) than business angels
Will seek a large share of the share capital (equity) + representation on the Board
Look to sell ("exit") their investment in the medium-term (e.g. 5-7 years)

TRUE / FALSE QUIZ

Indicate whether each of the following statements is true or false:

Venture capital is a form of debt finance

A. True  
B. False

Trade credit is finance provided by suppliers to a business

A. True  
B. False
10. A bank overdraft is best suited as a long-term source of finance
   O A. True
   O B. False

11. Tax is payable on retained profit
    O A. True
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