

Name:

**Learning Outcome D - Select and Evaluate Different Sources of Business Finance**

**Activity 1 – Internal Sources of Finance**

As we go through each source of internal finance take down what that source of finance is and, in the table, write the advantages and disadvantages of using that source of finance.

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| **Internal source of finance** | **Explain the source** | **Advantages** | **Disadvantages** |
| Retained Profit |  |  |  |
| Net Current Assets |  |  |  |
| Sale of Assets |  |  |  |

**Activity 2 – Internal Source Scenario**

Ross has decided to buy a van at a cost of £18,000. He has decided to use an internal source of finance to fund this purchase. His business has made £36,000 in profit this year.

**Evaluate whether using retained profits would be a good source of finance for his business.**

**Activity 3 – Knowledge Check Internal Sources of Finance**

Outline two advantages of using retained profits as a source of finance

Explain what retained profits are

Suggest two disadvantages of using net current assets as a source of finance

Explain a benefit of selling assets to finance a business

Describe how net current assets can be used as a source of finance

**Activity 4 - External Sources of Finance**

From research or knowledge of external sources of finance complete the spider diagram with as many external sources as you can. We will go over these in more detail next.

**Activity 5 - External Sources**

As we go through the types of external sources of finance fill out the description of each one along with the advantages and disadvantages of using that source of finance.

**Owner’s capital**

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| --- |
| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Loans**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Crowd funding**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Activity 6 – Key Questions**

Complete the questions below from memory. If you don’t know the answer look it up in your booklet or via internet research and ***put your answer in a different colour.***

Explain what a loan is

Compare using owner’s capital as a source of finance with acquiring a loan

Discuss crowd funding as a source of finance

**Activity 7 - External Sources Continued**

**Mortgages**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Venture capital**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Debt factoring**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Activity 8 – Advantages & Disadvantages**

These advantages and disadvantages match with either a mortgage, venture capital or debt factoring. Answer the correct source of finance for each advantage or disadvantage.

1. **Improves the businesses cash flow**
2. **Loss of ownership and control**
3. **Reduces risk of default on payments**
4. **Interest charged on amount borrowed**
5. **Conflict may occur over the direction of the business**
6. **Large amounts of finance can be acquired**
7. **Only receive a percentage of the amount the business is owed**
8. **Secured against asset that could be seized**
9. **Finance is made available along with advice and mentoring**
10. **Not a Suitable short-term form of finance**

**Activity 9 - External Sources Continued**

**Hire purchase**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Leasing**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Trade credit**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Activity 10 – Hire Purchase, Leasing, Trade Credit Fill in the Blank**

Complete the sentences by filling in the blanks for the content we have just covered for hire purchase, leasing and trade credit.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is used to purchase an asset, such as a delivery van or piece of equipment. A \_\_\_\_\_\_\_\_\_ is paid and the remaining amount for the asset is paid in monthly instalments over a set period of time. The business does not own the \_\_\_\_\_\_\_ until all \_\_\_\_\_\_\_\_\_\_\_\_ are made. An advantage of this method is that the business makes \_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_ which is good for \_\_\_\_\_\_\_\_\_\_, however it is only suitable for \_\_\_\_\_\_\_\_ cost items.

This source of finance is when you \_\_\_\_\_ an asset that the business requires, such as a coffee machine. Unlike hire purchase the item is not \_\_\_\_\_\_\_\_ at the end of the payments by the business. One advantage of \_\_\_\_\_\_\_\_\_\_\_\_\_ is that all maintenance and repairs are the responsibility of the supplier. However, a disadvantage of this method is that it is likely to cost \_\_\_\_\_ than \_\_\_\_\_\_\_\_ the item outright.

This source of finance allows a business to obtain raw materials and stock but pay for them at a later date. This method is called \_\_\_\_\_\_\_\_\_\_\_\_. The business may lose discounts for paying in cash this is a \_\_\_\_\_\_\_\_\_\_\_\_ for the business. Despite this it may improve their \_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_. One thing that the business does not lose from using this source of finance is \_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_. This method is mainly used as a \_\_\_\_\_\_\_ term source of finance.

**Activity 11 – External Sources Continued**

**Grants**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Donations**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Peer to Peer Lending**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Invoice discounting**

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| **Description of source of finance:** |
| **Advantages** | **Disadvantages** |
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**Activity 13 – Sources Scenario 1**

Holly has just completed a business qualification and has decided to set up a small business buying and selling limited edition trainers. She knows that there is a wide range of finance sources available to her but finds it very complicated. She has £750 saved up in her bank account but has come to you for advice on which 3 sources of finance you would recommend.

**Evaluate 3 sources of finance and suggest the best one for her situation.**

**Activity 14 – Sources Scenario 2**

One year ago, Aman started a high street premium burger restaurant which allows customers to customise their burger to their exact specification. It has been incredibly successful, and Aman is now looking to open a second restaurant in a nearby town. However, he is unsure which is the best way to source finance for this expansion. He is considering using retained profits, venture capital or crowdfunding.

**Make clear comparisons between the options Aman is considering and then support this with justified recommendations of which he should choose for this burger restaurant expansion.**

**Activity 15 – Sources Scenario 3**

Alister is currently running a successful business but needs to purchase 5 new company cars for his sales team. He currently has enough money in retained profit in the business to buy the cars outright but is wanting to investigate getting a bank loan or leasing the vehicles.

**Discuss all three options that Alister is considering and provide him with a clear recommendation.**

**Activity 17 – Word Scramble Learning Outcome D**

1. OSUCERS FO NCFINAE \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. NATINELR SRUOESC \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

3. XRALNETE ESCOSUR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

4. NCVIEIO IIDCUOTGNNS \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

5. DOONIATSN \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

6. PEER OT EEPR DLNNGIE \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

7. DREAT ECRITD \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

8. EHRI ECHSRPAU \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

9. ERENTUV ICPLAAT \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

10. TDRNEIAE TOISPFR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

11. ESAL OF ASESST \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

12. TNE ENRTUCR ESTSAS \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Activity 18 – Word Search Learning Outcome D**

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| V | M | N | E | P | O | H | Q | E | S | N | O | S | G | A | X | Y | D | C | Z | Z | J | Y | M |
| O | H | O | D | U | I | O | R | R | Y | F | H | K | X | F | V | S | E | K | A | C | V | R | J |
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| Y | P | W | G | G | R | V | E | C | N | A | N | I | F | F | O | S | E | C | R | U | O | S | I |
| J | E | Y | E | C | H | V | S | M | M | A | O | W | G | A | F | P | B | O | H | U | R | Q | Z |
| H | M | D | M | N | R | E | T | A | I | N | E | D | P | R | O | F | I | T | S | Z | X | V | X |
| R | Q | W | R | I | B | M | G | J | F | T | V | P | Y | D | R | B | N | M | A | X | P | P | W |
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   net current assets       sale of assets       retained profits       venture capital       hire purchase       trade credit       debt factoring       mortgage       invoice discounting       external sources       internal sources       sources of finance

**Activity 19 – Crossword Learning Outcome D**

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| **Across****2.** Money invested by an individual or group that is willing to take the risk of funding a new business in exchange for an agreed share of the profits.**5.** This type of finance is paid back within one year.**6.** This source of finance is money lent to an individual or business that is paid off with interest over an agreed period of time. Usually this rate of interest is fixed.**8.** A sum of money borrowed from the bank that is secured against a property, usually over 25 years.**9.** This type of finance is paid back over a period more than a year.**10.** This source of external finance is from the owner’s personal finances and is used to finance the business. | **Down****1.** Current assets minus current liabilities.**3.** \_\_\_\_\_\_\_\_\_\_ sources of finance refer to money that comes from outside a business.**4.** \_\_\_\_\_\_\_\_\_\_\_ sources of finance come from within the business. **7.** A large number of people investing small amounts of money in a business, usually online. |

**Activity 20 – Personal and Business Finance Learning Outcome D**

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| **Unit 3: Personal and Business Finance Checklist** |
| **Learning Outcome D: Select and Evaluate Different Sources of Business Finance** |
| **Topic** | **Your explanation of the terminology** | **Exam ready?** |
| **D1 – Sources of Finance** |  |
| **Internal Sources** |  |  |
| Retained profit |  |  |
| Net current assets |  |  |
| Sale of assets |  |  |
| **External Sources** |  |  |
| Owner’s capital |  |  |
| Loans |  |  |
| Crowd-funding |  |  |
| Mortgages |  |  |
| Venture capital |  |  |
| Debt factoring |  |  |
| Hire purchase |  |  |
| Leasing |  |  |
| Trade credit |  |  |
| Grants |  |  |
| Donations |  |  |
| Peer to peer lending |  |  |
| Invoice discounting |  |  |