



UNIT 3

UNIT 3.2 SOURCES OF FINANCE

**10TH GRADES IB
DP DEPARTMENT**

**BUSINESS
MANAGEMENT
LESSON
HOMEWORKS**

UNIT 3.2 - SOURCES OF FINANCE

Exam Practice Question



Venturing in the beauty industry

According to Forbes, the the global hair wigs and extensions market size has been valued at \$5.8 billion in 2021 and it expected to skyrocket to reach \$13.3 billion by 2026. The readily available supply of high-quality wigs and the growth in average disposable incomes, as well as the increase in hair loss rates and the popularity of personal grooming and beauty products, have driven growth in the industry.

The growth prospects for the industry has attracted a large number of business angels to invest in the market for the long-term. According to data from the Centre for Venture Research at the University of New Hampshire, the number of female angel investors has increased nearly eightfold, from over 11,000 to almost 94,000 in 2019.



- a) Define the term market size.
[2 marks]
- b) Calculate the forecasted percentage increase in the value of the global hair wigs market.
[2 marks]
- c) Define the term business angels.
[2 marks]
- d) Explain one reason for and one reason against the use business angels to generate long-term investment in the beauty industry.
[4 mark]

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Exam Practice Question



Venturing in the beauty industry

ANSWER

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Exam Practice Question



Cash crisis at London Zoo

During the global coronavirus pandemic in 2020, London Zoo had to close twice (March and November) during the two rounds of national lockdowns (when all 'non-essential' businesses had to close their doors to customers in an attempt to control the COVID-19 virus. Non-profit organizations like the Zoological Society of London (ZSL), which runs London Zoo, rely on admissions tickets for their sources of finance, but the lockdown proved devastating for its cash flow position. Whilst some businesses could reduce their operational costs by being closed, London Zoo had to continue feeding more than 19,000 animals, which the ZSL reported to be around £1,000,000 (\$1.344m) per month. The organization had put off its plans for capital expenditure.

During the first national lockdown in the UK, the zoo was forced to close for an unprecedented three months due to the pandemic. London Zoo says a loss of income from ticket sales has put a “huge financial pressure” on its operation. The zoo usually welcomes 1,25 million of visitors and tourists each year (that's more than 3,400 paying customers each day).

In early November 2020, as London Zoo had been looking forward to welcoming guests for the December holiday season, the zoo's website stated "While we understand this national action is necessary to curb the spread of Coronavirus, it adds a huge burden to an incredibly tough year for us. Our focus throughout has always been keeping our animals happy and well cared for, and knowing we would be able to share the joy of the zoo with visitors again."

Dominic Jermy, ZSL director general, said: “The impact of coronavirus on ZSL cannot be understated. Lockdown saw us closed for longer than any time in our history with fixed costs of more than £1 million a month just on food and care for our animals, let alone our conservation and science and almost no income. This has been catastrophic for us and we are seeking funding from a range of places.”

To prevent possible collapse of London Zoo, which first opened in April 1828, celebrities including Sir David Attenborough, Jonathan Ross, and Catherine Tate have fronted videos aiming to raise funds for the Zoological Society of London.

- a) Define the term capital expenditure. [2 marks]
- b) Define the term fixed costs. [2 marks]
- c) Apart from admissions tickets, explain two other appropriate sources of finance for ZSL. [4 marks]

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Cash crisis at London Zoo

ANSWER

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Answer the following true or false questions.



1. A business angel provides finance and expertise to small business start-ups, such as organizing networking opportunities.

2. Spending money on a new cybersecurity system is an example of capital expenditure.

3. Business angels are investors who provide grant to businesses approved by the government.

4. Spending money on wages and salaries is an example of revenue expenditure.

5. A disadvantage of leasing is that at the end of the lease contract the hirer has to return the goods.

6. An advantage of using retained profit as an internal source of finance is the lack of interest charges.

7. An example of short-term finance is bank overdrafts.

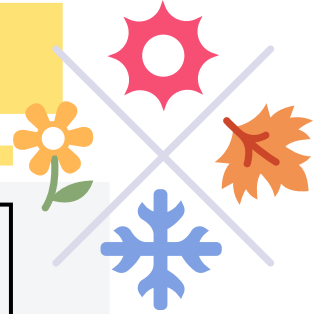
8. Share capital is an example of an internal source of finance.

9. Issuing of shares as a source of finance is not available to a sole trader or ordinary partnership.

10. A rise in the exchange rate would directly affect the amount of interest paid by a business on a bank loan.

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Answer the following true or false questions.



11. A disadvantage of a bank loan as a source of finance is that interest repayments must be made even if the business is making a loss.

12. Funds raised from a bank loan is an example of external finance.

13. The finance that a business needs for its day-to-day running is known as working capital.

14. An overdraft allows businesses to spend more than they have in their bank account so can help in settling short-term debts.

15. Long-term finance refers to loans which will be paid off over a duration of more than ten years.

16. Money that may be drawn from a bank account up to an agreed limit is known as an overdraft.

17. An advantage of share capital as a source of finance is that it is a permanent source of finance for a limited liability company.

18. A bank loan from HSBC, a publicly held company, is an example of a source of finance obtained from the public sector.

19. Crowdfunding raises finance for a business project by getting small amounts of money from a large number of people, usually through online platforms.

20. Suppliers who allow a business to receive goods and services before payment for them are known as trade debtors.

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1. Which of the options shows a source of owners capital?
 - A. Bank loans
 - B. Selling non-current assets
 - C. Personal savings
 - D. Interest-bearing loans

- 2.. What is retained profit?
 - A. Money borrowed from a bank
 - B. Selling non-current assets
 - C. Money reinvested from business profits
 - D. Money obtained from family and friends

3. When a business sells products it owns, what source of finance is used?
 - A. Trade credit
 - B. Retained profits
 - C. Bank loans
 - D. Selling assets

4. Where do external sources of finance come from?
 - A. Owners capital
 - B. Personal savings
 - C. Selling assets
 - D. Bank loans

5. What is an overdraft?
 - A. Money borrowed from family and friends
 - B. Reinvesting business profits
 - C. Using more money than available in a bank account
 - D. Selling business assets

6. What is a potential drawback of using overdrafts?
 - A. Expensive due to high interest rates
 - B. Only available to low income groups
 - C. Reduces the value of a firm's profits
 - D. Paid back with dividends

7. Under what category of finance does trade credit fit?
 - A. Selling assets
 - B. Internal sources
 - C. External sources
 - D. Non-interesting bearing

UNIT 3.2 - SOURCES OF FINANCE



8. Which source of finance is most likely to involve low or zero interest?
- A. Overdrafts
 - B. Funds raised from family and friends
 - C. Non-current liabilities
 - D. Loans borrowed from a commercial bank
9. What does a share issue involve?
- A. Issuing shares to raise capital
 - B. Obtaining goods on credit
 - C. Reinvesting business profit
 - D. Selling non-current assets
10. What is the primary motivation for business angels to invest in a new or growing business?
- A. To reduce risks of conducting business
 - B. Share of ownership and profits
 - C. To invest in a business without having any direct input
 - D. Corporate social responsibilities
11. Which option is an external source of finance?
- A. Owner's capital
 - B. Selling non-current assets
 - C. Selling current assets
 - D. Business angels
12. When a partnership business brings in new partners, how does this affect the organization in terms of financing?
- A. Obtaining money from family and friends
 - B. Bringing in additional funds from new owners of the firm
 - C. Reinvesting business profits rather than distributing the funds to the owners
 - D. Changes to the deed of partnership
13. What right does buying shares through a share issue grant to the purchaser?
- A. Right to reinvest business profits
 - B. Right to vote on changes to or proposals by the business
 - C. Right to obtain bank loans with prior approval
 - D. Right to sell business assets to raise finance

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14. What is the main advantage of trade credit as a source of finance?
- A. Input into how a business is run
 - B. Ownership of leased assets
 - C. No interest payments
 - D. Quick and convenient access to finance
15. What is a characteristic of hire purchase (an augmented form of leasing) as a source of finance?
- A. The lessee is responsible for repairs and maintenance of the asset
 - B. There is a large upfront deposit required
 - C. The borrower pays a fixed amount of money back to the government in monthly payments
 - D. Ownership of the item only occurs after all payments are made
16. Which source of finance is most suitable for a start-up business in order to spread its costs?
- A. Share issue
 - B. Overdraft
 - C. Leasing and hire purchase
 - D. Retained profit
17. What type of finance is suggested for businesses with cash flow problems to gain temporary finance?
- A. Sale of non-current assets
 - B. Trade credit
 - C. Overdraft
 - D. Bank loan
18. What is a suitable source of finance for an expanding business looking to raise finance by selling a part of the business?
- A. Sale of non-current assets
 - B. Leasing and hire purchase
 - C. Retained profits
 - D. Business angels
19. In which situation would the sale of assets be considered a suitable source of finance?
- A. Cash flow crisis
 - B. Start-up enterprise
 - C. Expansion
 - D. Market development
20. What source of finance is most suitable for a growing and profitable business seeking further expansion?
- A. New partners B. Retained profits C. Share issue D. Bank loans