

BTEC LEVEL 3 BUSINESS

UNIT 3: PERSONAL & BUSINESS FINANCE

STUDENT BOOK: LEARNING OUTCOME D



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.

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

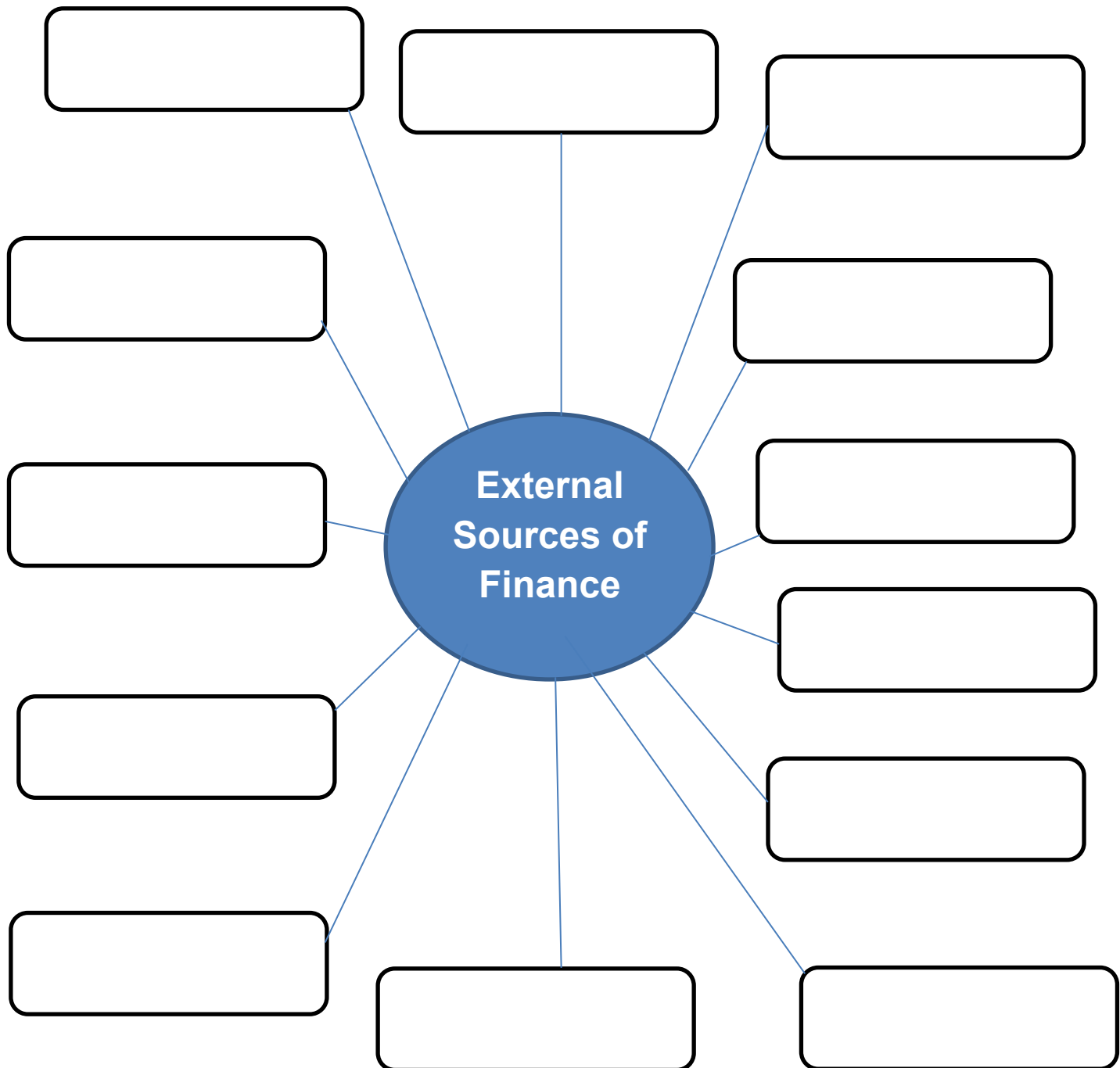
Suggest two disadvantages of using net current assets as a source of finance

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

Description of source of finance:	
Advantages	Disadvantages

Loans

Description of source of finance:	
Advantages	Disadvantages

Crowd funding

Description of source of finance:	
Advantages	Disadvantages

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

Description of source of finance:	
Advantages	Disadvantages

Venture capital

Description of source of finance:	
Advantages	Disadvantages

Debt factoring

Description of source of finance:	
Advantages	Disadvantages

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

Description of source of finance:	
Advantages	Disadvantages

Leasing

Description of source of finance:	
Advantages	Disadvantages

Trade credit

Description of source of finance:	
Advantages	Disadvantages

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

Description of source of finance:	
Advantages	Disadvantages

Donations

Description of source of finance:	
Advantages	Disadvantages

Peer to Peer Lending

Description of source of finance:	
Advantages	Disadvantages

Invoice discounting

Description of source of finance:	
Advantages	Disadvantages

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

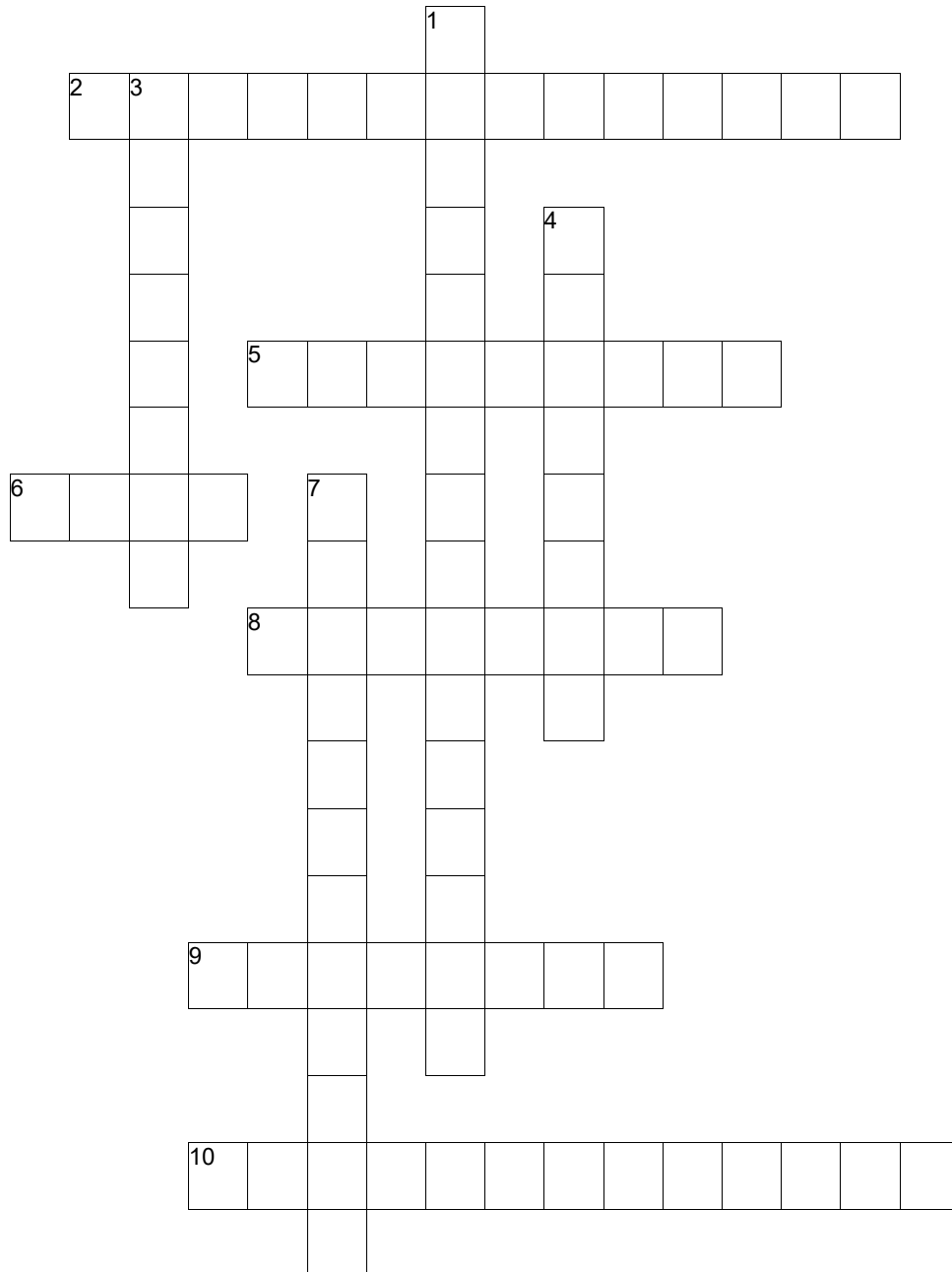
1. OSUCERS FO NCFINAE _____
2. NATINELR SRUOESC _____
3. XRALNETE ESCOSUR _____
4. NCVIEIO IIDCUOTGNNS _____
5. DOONIATSN _____
6. PEER OT EEPR DLNNGIE _____
7. DREAT ECRITD _____
8. EHRI ECHSRPAU _____
9. ERENTUV ICPLAAT _____
10. TDRNEIAE TOISPFR _____
11. ESAL OF ASESST _____
12. TNE ENRTUCR ESTSAS _____

Activity 18 – Word Search Learning Outcome D

C G W W Q H T K O I K E G A G T R O M W X Q V O
 I C M Y K E X N C D M T R A D E C R E D I T D D
 V A C I L I K W L A T I P A C E R U T N E V T D
 T M S N G Z D E B T F A C T O R I N G R E O S A
 Z X U V F E K C B S E C R U O S L A N R E T N I
 N W P O A R W Y Y R B A Y V A T Y G T W X M L Y
 K W G I Q J M N Z O V F R L N H P M C Y H B P B
 F H P C Y K D H P M C V E G U F R Z P L P P D X
 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
 H W H I O O F V P A E S A H C R U P E R I H M V
 D W U S G D N S S I H X W J Z U F M T Y K P I K
 R W I C C H N S Q K R A V R U M E T M C F Q V R
 Q H A O M N E T C U R R E N T A S S E T S J H N
 U Z O U K T A D C Z K W L X M W D L I Z R G H W
 B F W N S J O F D C L A K Q Y X M U M S I N K A
 C B V T F H F S E C R U O S L A N R E T X E Z F
 I U G I P A G X W O E I T S M F B P Y C V Z B W
 P W D N F L C T E C X C D E O Q R D J D I U R S
 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
 U M I O T O Z B S G M L H M D F H Y U R V M Y N

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



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.

Down

1. Current assets minus current liabilities.

3. _____ sources of finance refer to money that comes from outside a business.

- 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.
- 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

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		