

Finance – Ordinary Level

a) *Explain the term leasing and give one advantage of leasing.* (10 m) (LCOL 2005)

Marks: 5 marks each for

- explanation
- one advantage

b) *Outline **three** reasons why a business would prepare a cash-flow forecast.* (15 m)(LCOL 2005)

Marks: 5 marks for each reason

c) *List **two** items of financial information a bank would request in an application for a business loan.* (10 m) (LCOL 2005)

Marks: 5 marks for each item of **financial** information, which a **business** would supply.

No marks would be given for:

- non-financial information (e.g. name, address, type of business)
- or
- **personal/household** information (e.g. occupation, salary)

Finance – Higher Level

Discuss, using examples, the factors a manager should consider when selecting sources of finance for expansion. (20m) (LCHL 2005)

The Marks:

Four factors needed, at 5 marks each.

Each factor earns 3 marks for stating it plus another 2 marks for an example or illustration.

A SAMPLE ANSWER:

First the business must consider the **use** to which the finance will be put and choose:

- a short-term source (e.g. overdraft) for a short-term use (e.g. more working capital)
- a medium-term source (e.g. leasing) for a medium term use (e.g. more vans)
- a long-term source (e.g. retained earnings) for a long-term use (e.g. the premises)

Then within each of the categories of source, the manager must consider:

- **Cost:** Interest must be paid on an **overdraft**; there is no charge for using **trade credit**.
- **Control:** e.g. issuing **extra shares** gives these shareholders votes at General Meetings, giving them some control over the company, whereas using **retained earnings** gives nobody any extra control; it just uses money the company had already saved.
- **Collateral:** a **long-term loan** must be secured by collateral (e.g. deeds of premises) while a **grant** needs no security.
- **Convenience:** a **long-term loan** may be easily arranged, while a **sale and leaseback** deal is complicated and has implications as regards the use of the premises.