Unit 3.1
Sources of Finance

Task 1 – Classification of assets and liabilities

Category	Asset	Liability	Expense	Revenue
Bank interest receivable	✓			✓
Bank loans		✓		✓
Bank overdrafts		✓		✓
Debentures		✓		✓
Insurance premiums		✓	✓	
Motor vehicles	✓		✓	
Rent accruals		✓	✓	

Task 2 – Vocab Quiz

Key Term
Venture capital
Revenue expenditure
Ordinary shares
Mortgage
Internal sources of finance
Initial Public Offer
Hire purchase
Debentures
Capital expenditure
Business angels

Task 3 – Outline the differences between…

a. **Capital expenditure (investment) is spending on fixed assets for the long term, e.g. buildings and machinery. By contrast, revenue expenditure is spending on items needed for the daily running of a business, e.g. raw materials and wages.**

b. **Short term finance (e.g. an overdraft) is needed to pay for the daily running of a business, i.e. to fund revenue expenditure. It is paid back within 12 months, so short term finance represents less risk for lenders. Long term finance (e.g. a mortgage) is generally used for spending on fixed assets and investments that pay back over a longer period of time, e.g. 10 years. Hence, this represents more risk.**

c. **An overdraft is a short term source of finance whereas bank loans are medium to long term; Overdrafts are technically repayable 'on demand'; Customers have to bank with the particular organization to qualify for an overdraft but customers do not have to be a bank customer to qualify for its loans; The interest rate charged on bank loans tends to be lower, although collateral (security) is often required.**

d. **A mortgage is backed by security (collateral) to the lender in case the borrower defaults on the loan. As this reduces the risk to the lender, mortgage interest rates are generally lower that those charged for loans.**

e. **Owners of ordinary shares have voting rights, whereas debenture holders do not; Shareholders are the owners of a company, whereas debenture holders are not (debentures are a form of long term loan); Debenture holders are guaranteed their return (interest payments) whereas shareholders are not; Share capital is an internal source of finance for companies whereas debentures is an external source of finance.**

f. **Debt finance (e.g. bank loans or debentures) refers to interest-bearing external sources of finance that increase the borrower's level of gearing. Equity finance (share capital) is an internal source of permanent capital that does not bear any interest.**

g. **Owners' capital comes from internal stakeholders, including shareholders' funds. By contrast, loan capital comes from external sources, thereby increasing a firm's level of gearing and also bears interest.**

Task 4 – True or False?

	True / False
a.	F
b.	T
c.	F
d.	T
e.	F
f.	T
g.	T
h.	T
i.	T
j.	F
k.	F

Task 5 – Multiple Choice

1. C. **There is no interest obligation**
2. D. **Initial public offering**
3. B. **Greater choice of finance**

4. B. **Lower level of gearing**
5. C. **There is insufficient retained profit**
6. C. **Retained profits**
7. C. **Control of the company is diluted**
8. D. **The value of liabilities increases**
9. C. **Receive payments from companies before any shareholders**
10. C. **Long term loan with a fixed interest rate**
11. D. **Impact on the company's working capital**
12. C. **Brand recognition**
13. D. **Differs from leasing in that ownership occurs with the last instalment**
14. B. **Sale and leaseback**
15. B. **The value of fixed assets remains unchanged since the firm keeps use of the asset**
16. B. **Non-recourse factoring**
17. C. **15%**
18. D. **Debentures**
19. A. **Working capital**
20. A. **It is cheaper in the long run to buy capital equipment**

Unit 3.2
Costs and Revenues

Task 1 – Vocab Quiz

Key Term
Direct costs
Fixed costs
Indirect costs
Price
Revenue
Revenue stream
Semi-variable costs
Total costs
Unit costs
Variable costs

Task 2 – Calculations

a. i. (15 × 250) + 500 = **$4250**
ii. ($35 × 250) – $4250 = **$4500**
iii. (150 × $15) + $500 = $2750 / 150 = $18.33
(250 × $15) + $500 = $4250 / 250 = $17.00
Sales are higher at 200 units so the fixed costs are spread over more units (hence AC fall from $18.33 to just **$17**). This means that the firm has experienced economies of scale, i.e. falling AC as output increases.

b. **i.** [($2 * 3000) + $3000] / 3000 = **$3**