

Knockout.Economics by Kru P'Eve & Kru P'Da

# IGCSE -Business studies

## The need for business finance 🔍

- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A\* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



# Overviews

## 1. The main reasons why businesses need finance



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The main reasons why  
businesses need finance



```
graph TD; A[The main reasons why businesses need finance] --> B[1. To start up business: (start up capital is finance needed by a new business to pay for fixed and current assets)]; A --> C[2. To expanding an existing business: e.g. expanding shops in other areas]; A --> D[3. To increase working capital/ revenue expenditure: (is finance for paying day-to-day activities: such as wages, raw materials, and electricity bills)]; A --> E[4. To pay capital expenditure (is money spent on fixed assets which will last for more than one year such e.g. building)];
```

**1. To start up business:**  
(start up capital is finance needed by a new business to pay for fixed and current assets)

**2. To expanding an existing business:** e.g. expanding shops in other areas

**4. To pay capital expenditure** (is money spent on fixed assets which will last for more than one year such e.g. building)

**3. To increase working capital/ revenue expenditure:**  
(is finance for paying day-to-day activities: such as wages, raw materials, and electricity bills)

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# IGCSE -Business studies

## Internal and external source of finance 🔍

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# Overviews

## 1. Internal and external source of finance

### 1.1 Internal source of finance

### 1.2 External source of finance



# 1. Internal and external source of finance

## Sources of finance

### Internal finance

: is obtained from within the business itself.

1. Retained profit

2. Sales of existing assets

3. Sales of inventories

4. Owner's saving

### External finance

: is obtained from sources outside of and separate from the business.

1. Issue of shares

2. Bank loan

3. Selling debentures

4. Factoring of debts

5. Grants/subsidies form outside agencies

6. Micro-finance

# 1.1 Internal source of finance

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6. Micro-finance

# 1.1 Internal source of finance

## 1. Retained profit

: Profit kept in business after the owners have taken their share of the profits.

### Advantages of retained profit

1. It does ***not have to be repaid*** like loan.
2. It is a cheap source of fund as there is ***no interest payment***.
3. It is ***easy and quick*** to get the fund for the business.

### Disadvantages of retained profit

1. A ***new start up business will not have*** any retained profit.
2. Some small firms might have ***low retained profit*** to finance the business expansion.
3. Using retained profits for business expansion ***reduces dividend paid to owners/*** shareholders.

# 1.1 Internal source of finance

## 2. Sales of existing assets

: e.g. unnecessary building or surplus equipment.

### Advantages of sales of existing assets

1. It is **better use of capital** and it reduces money tied up in surplus equipment.
2. It **does not increase the debts** of the business.

### Disadvantages of sales of existing assets

1. New businesses **may not have a surplus equipment** for sell.
2. It may **take time** to sell assets.
3. It can raise a **limited amount of fund** which may not enough for investment.

## 1.1 Internal source of finance

### 3. Sales of inventories

: to reduce inventory level e.g. finished goods

#### Advantages of sales of inventories

1. It **reduces storage cost** of high inventory.
2. It **reduces opportunity cost** from the money tied up in high inventory.

#### Disadvantages of sales of inventories

1. If inventories are not enough for customer demand, it may dissatisfy customers.

## 1.1 Internal source of finance

### 4. Owner's saving

: Sole trader and partners can put their saving into the businesses.

#### Advantages of owner's saving

1. It is **easy and quick** to get the fund for business.
2. It is a cheap source of fund as there is **no interest payment**.

#### Disadvantages of owner's saving

1. Owners may have **limited saving** which is not enough for investment.
2. Owners may have **higher risk of investment**.

## 1.2 External source of finance

### Sources of finance

#### Internal finance

: is obtained from within the business itself.

1. Retained profit

2. Sales of existing assets

3. Sales of inventories to reduce inventory level

4. Owner's saving

#### External finance

: is obtained from sources outside of and separate from the business.

1. Issue of shares

2. Bank loan

3. Selling debentures

4. Factoring of debts

5. Grants/subsidies form outside agencies

6. Micro-finance

## 1.2 External source of finance

### 1. Issue of shares

: Only possible for limited companies

#### Advantages of issue of shares

1. It is **a permanent** source of finance which does not have to be repaid to shareholders.
2. There is **no interest payment** like bank loan.

#### Disadvantages of issue of shares

1. **Profits are shared** in terms of dividends to shareholders.
2. **Dividends are paid after tax** whereas interest on loan is paid before tax is deducted. So **it cannot lower the overall amount of taxes** owed by a business.
3. The **existing owners may lose control** when many shares are sold.

## 1.2 External source of finance

### 2. Bank loan

: is a money obtained from a bank which must be repaid and on which interest is payable.

#### Advantages of bank loan

1. It can be **long term borrowing**.
2. Large companies are reliable so they can get **low interest rate** on bank loan.
3. It is generally **quick to get fund**.

#### Disadvantages of bank loan

1. Even businesses make a loss, they **needs to pay bank loans and interest**.
2. It **requires security or collateral** to back up loan. If businesses cannot repay debt, the collateral will be held.

## 1.2 External source of finance

### 3. Selling debentures

: There are long-term loan certificates issued by limited companies.

#### Advantages of Selling debentures

1. It can raise **a long-term finance** for 25 years.



**CPALL**  
บริษัท ซีพี ออลล์ จำกัด (มหาชน)  
เสนอขายหุ้นกู้ครั้งที่ 2/2564  
ชนิดระบุชื่อผู้ถือ ประเภทไม่ด้อยสิทธิ  
ไม่มีประกัน และมีผู้แทนผู้ถือหุ้นกู้

หุ้นกู้อายุ 5 ปี	หุ้นกู้อายุ 7 ปี	หุ้นกู้อายุ 10 ปี
อัตราดอกเบี้ยคงที่ 3.00% ต่อปี	อัตราดอกเบี้ยคงที่ 3.40% ต่อปี	อัตราดอกเบี้ยคงที่ 3.90% ต่อปี

ชำระดอกเบี้ยทุก 6 เดือน

**TRIS RATING**  
ระดับความน่าเชื่อถือของหุ้นกู้และบริษัท **A+** Stable  
28 เมษายน 2564

- เสนอขายหน่วยละ 1,000 บาท จดชื่อใน冊 100,000 บาท และรหัสหุ้นกู้คือ 100,000 บาท
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- คาดว่าจะปิดจองชื่อเสนอขายในวันพุธที่ 15 พฤษภาคม 2564 ระหว่างวันที่ 11 และ 14-15 พฤษภาคม 2564

สอบถามข้อมูลเพิ่มเติมได้ที่  
ธนาคารยูโอบี ทุกสาขา หรือโทร. 0 2343 4500

ทำด้วย: ทำความเข้าใจข้อมูลสินค้า ก่อนใช้เพื่อลดความเสียหายที่เกิดจากความผิดพลาด  
หมายเลข: อยู่ระหว่างสำนักงาน ก.ล.ด. พิจารณา

**UOB**

Reference: [prachachat.net](http://prachachat.net)

#### Disadvantages of Selling debentures

1. Businesses have to **repay loan and interest.**
2. **Only limited companies can raise fund by debenture**, small firms cannot make it.

## 1.2 External source of finance

### 4. Factoring of debts

: A debtor is a customer who owes a firm money for goods bought. Debt factors are specialist agencies that “ buy” the claims on debtors of firms for immediate cash.

#### Advantages of factoring of debts

1. Business can **get immediate cash.**
2. The **risk of collecting the debt is owned by the factor.** So the business will no longer concern about customers default.

#### Disadvantages of factoring of debts

1. Businesses **do not receive the full value of their debt.** They may get cash only 80% of total amount of debt.

## 1.2 External source of finance

### 5. Grants and subsidies from outside agencies

: is money paid by government to producers in order to help them to reduce cost of production.

#### Advantages of grants and subsidies

1. Grants and subsidies provided by government usually **do not have to be repaid.**

#### Disadvantages of grants and subsidies

1. Grants and subsidies **might have conditions attached**; for example, only businesses located in the areas with high unemployment are granted.

## 1.2 External source of finance

### 6. Micro-finance

: is providing financial services -including small loans to poor people who cannot borrow money from traditional banks.

#### Advantages of micro-finance

1. Poor people can ***borrow small amount of money*** from micro finance. While commercial banks do not normally provide small loans as they cannot make profit.
2. It enables poor businesses to borrow money even they ***do not have assets/collateral*** which is required by general banks.

#### Disadvantages of micro-finance

1. Only ***poor customers/businesses can get these services.***

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# IGCSE -Business studies

## Short term and Long term finance 🔍

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# Overviews

1. Short-term and long-term sources
  - 1.1 Short-term source of finance
  - 1.2 Long-term source of finance



# 1. Short-term and long-term sources

Time period required  
for finance

## Short-term finance

: it provides working capital used for running day-to-day operations.

1. Overdraft

2. Trade credit

3. Factoring of debt

## Long-term finance

: it is available for more than one year. The money is used to buy machines and expand a business.

1. Bank loans

2. Hire purchase

3. Leasing

4. Issue of share

5. Debenture

# 1.1 Short-term finance

Time period required for finance

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5. Debenture

## 1.1 Short-term finance

### 1. Overdraft

: Spend more money than is currently in the account.

#### Advantages of Overdraft

1. Businesses can use this finance to pay salaries or raw material ***immediately***.
2. Overdraft is a ***flexible*** because it can vary each month.
3. ***Interest will be charged only on the amount overdrawn*** in the account.
4. Overdrafts can be ***cheaper than loans*** in the short term.

#### Disadvantages of Overdraft

1. ***Interest rate is likely to be high*** and it is variable, unlike most loans which have fixed interest rates.
2. ***Bank can ask for repayment*** on the overdraft at very short notice.

# 1.1 Short-term finance

## 2. Trade credit

: Business delays paying its suppliers, which leaves the business in a better cash position.

### Advantages of Trade credit

1. Business can **delay payment of raw materials to suppliers** to improve its liquidity.
2. It is almost **free of charge on loan** to the business for period that payment of raw material is delayed.

### Disadvantages of Trade credit

1. The **supplier may not give discounts or refuse to supply** raw materials if payment is delayed.

## 1.1 Short-term finance

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## 1.2 long-term finance

Time period required  
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## 1.2 long-term finance

### 2. Hire purchase

: This allows a business to buy fixed assets over a long period of time with monthly payments which include an interest charge.

#### Advantages of Hire purchase

1. Businesses ***do not have to use huge budget to purchase the fixed asset.***

#### Disadvantages of Hire purchase

1. It may ***required a cash payment at the start*** of the period.
2. ***Interest rates charged*** on hire purchase maybe high.

## 1.2 long-term finance

### 3. Leasing

: Leasing an asset allows the firm to use an asset but it does not have to purchase it. Monthly leasing payments are made.

#### Advantages of Leasing

1. Businesses ***do not have to use a large cash to purchase the asset.***
2. The leasing company is responsible for the maintenance of the asset. Businesses ***do not have to pay for maintenance cost.***

#### Disadvantages of Leasing

1. The total ***cost of the leasing*** for long time will finally be ***higher than purchasing the asset.***

## 1.2 long-term finance

### 4. Issue of shares

: Only possible for limited companies

#### Advantages of issue of shares

1. It is a permanent source of finance which does **not have to be repaid** to shareholders.
2. There is **no interest payment** like bank loan.

#### Disadvantages of issue of shares

1. **Profits need to be shared** among shareholders in terms of dividends.
2. **Dividends are paid after tax** whereas interest on loan is paid before tax is deducted. Issue of shares **cannot lower the overall amount of taxes** owed by a business.
3. The **existing owners may lose control** when many shares are sold.

# 1.2 long-term finance

## 5. Selling debentures

: There are long-term loan certificates issued by limited companies.

### Advantages of debentures

1. It can raise a **long-term finance** for 25 years.

Advertisement for CPALL debentures. The ad features the CPALL logo and the text 'บริษัท ซีพี ออลล์ จำกัด (มหาชน)'. It lists three terms: 5-year term with a 3.00% interest rate, 7-year term with a 3.40% interest rate, and 10-year term with a 3.90% interest rate. It also includes a TRIS RATING logo with a 'A+' rating and a QR code. The UOB logo is at the bottom.

Reference: prachachat.net

### Disadvantages of debentures

1. Businesses have to **repay loan and interest.**
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# Short-term and long-term sources

Time period required  
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**The main factors considered in making  
the financial choice**



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# Overviews

1. The main factors considered in making the financial choice
2. Factors for banks to consider before lending money to a business
3. Factors for shareholders to consider before investing money into a business



# 1. The main factors considered in making the financial choice

## 1. Purpose and time period

: If the use is **long term** e.g. buying machines, it should be **long term source of finance**.

: If the use is **short term** e.g. buying inventories, it should be **short term source of finance**.

## 2. Amount needed

: If **a public limited company** would like raise huge funding, it should be done by **issuing shares**.

## 3. Legal form and size

: **Public limited companies** have more choices of sources of finance such as **issuing shares and selling debentures**,  
While **sole traders and partnerships cannot** make it.

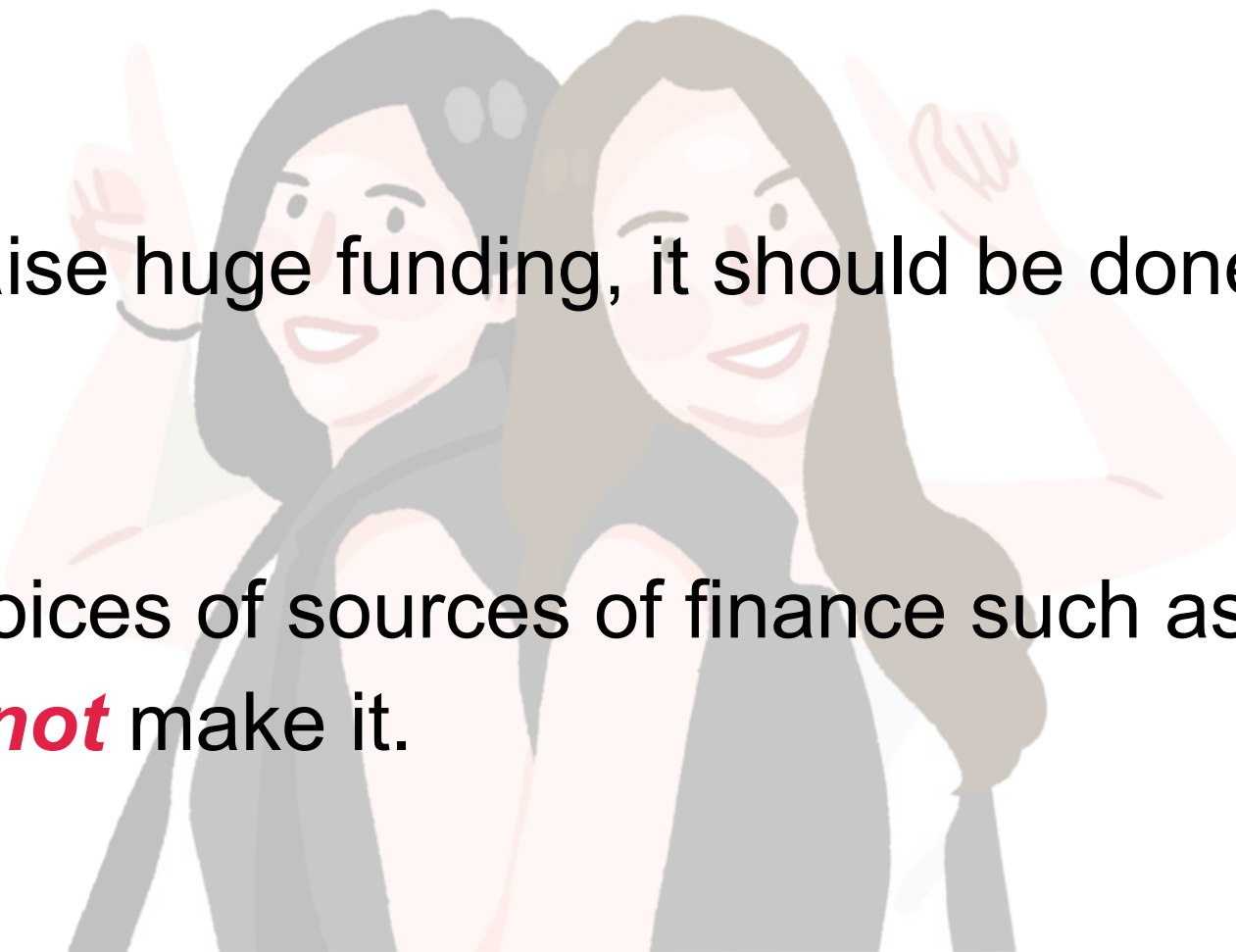
## 4. Control

: **Issuing share** can cause existing owners to **lose control** over their businesses.

## 5. Risk and gearing

: **Gearing of a business** measures the proportion of total capital raised from long-term loans.

If it is greater than 50%, the business is said to be **highly risky**.



## 2. Factors for banks to consider before lending money to a business

1. ***A cash flow forecast*** : shows why the fund is needed and it will be used for.
2. ***An income statement for the last time period and a forecast one*** : shows the possibility of the business to make profit in future.
3. ***Information of existing loans and sources of finance being used.***
4. ***Security or collateral available*** is to back up loan issued by a bank.
5. ***A business plan*** which explains clearly what are the business goals and why the finance is important to these plans.



### 3. Factors for shareholders to consider before investing money into a business

1. *An increase in the company's share price*
2. *A higher dividends or profits*
3. *Other companies' return on investment*
4. *A good reputation of the company and plans for future growth.*



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# IGCSE -Business studies

## Exercise: Business finance(needs and sources) 🔍

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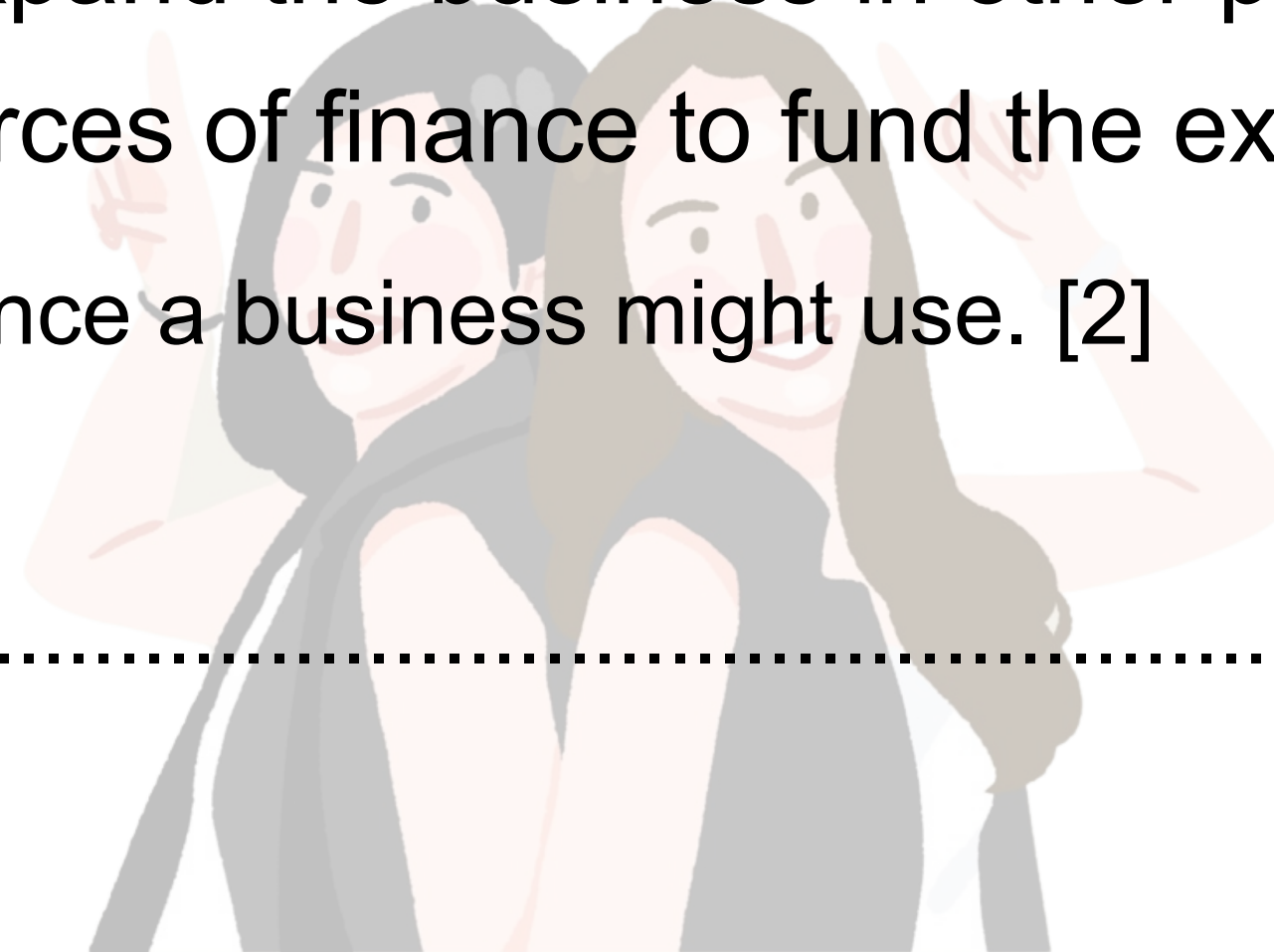
## Exercise

D&E produces women's shoes. The company sells the luxury shoes around the world. D&E is a public limited company which enables business to raise a lot of funds by issuing shares. The Managing Director is planning to expand the business in other product markets such as cloth. The Finance director is considering sources of finance to fund the expansion.

1) Identify **two** sources of internal finance a business might use. [2]

Source 1: .....

Source 2: .....

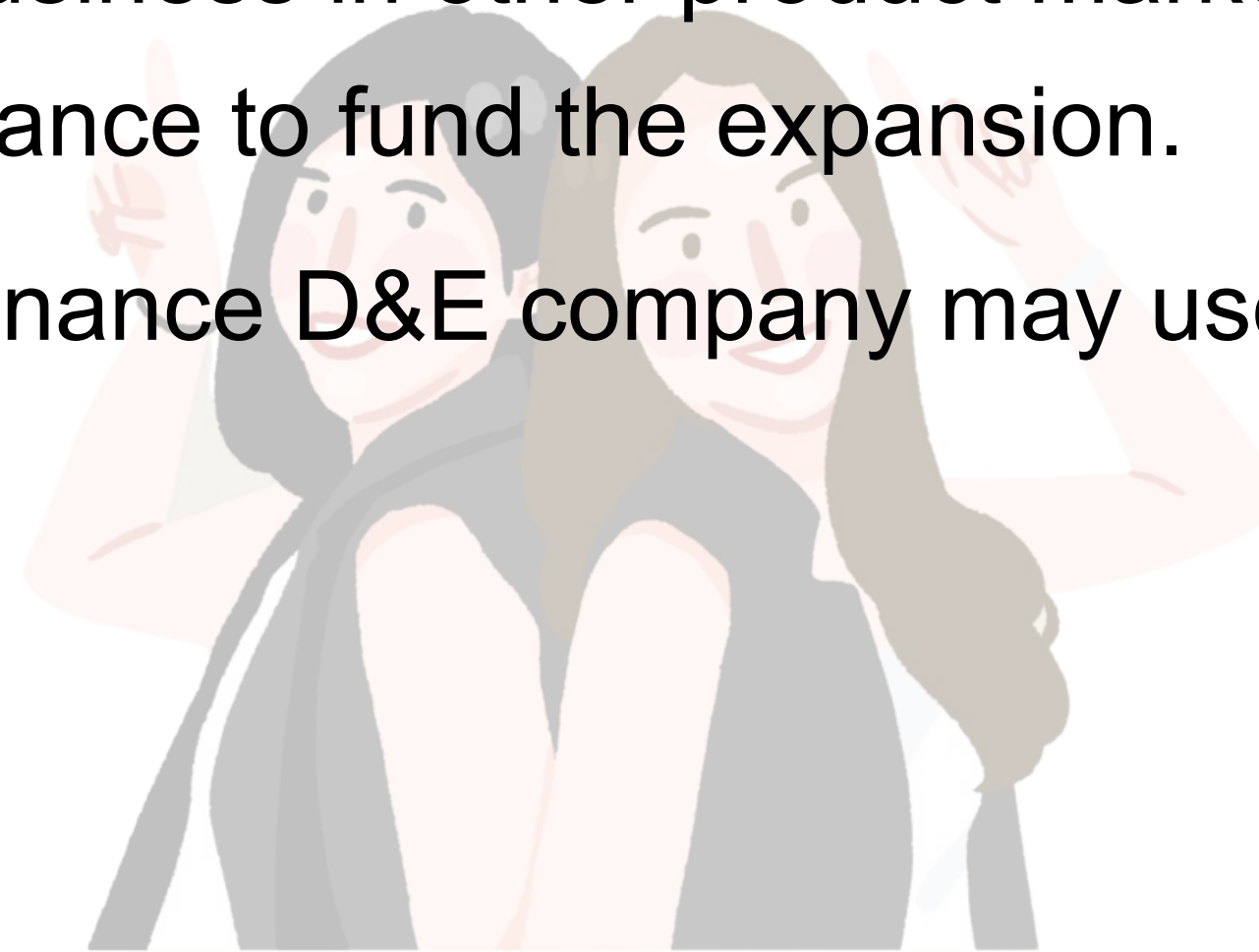


## Exercise

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1) Identify **two** sources of internal finance D&E company may use. [2]

- ▶ Retained profit
- ▶ Sale of existing assets
- ▶ Sale of inventories
- ▶ Owner's savings
- ▶ Reducing trade receivables



# Exercise

D&E produces women's shoes. The company sells the luxury shoes around the world. D&E is a public limited company which enables business to raise a lot of funds by issuing shares. The Managing Director is planning to expand the business in other product markets such as cloth. The Finance director is considering sources of finance to fund the expansion.

2) Explain **two** factors the Finance director should consider when making decision on a source of finance for the expansion.

Factor1: .....

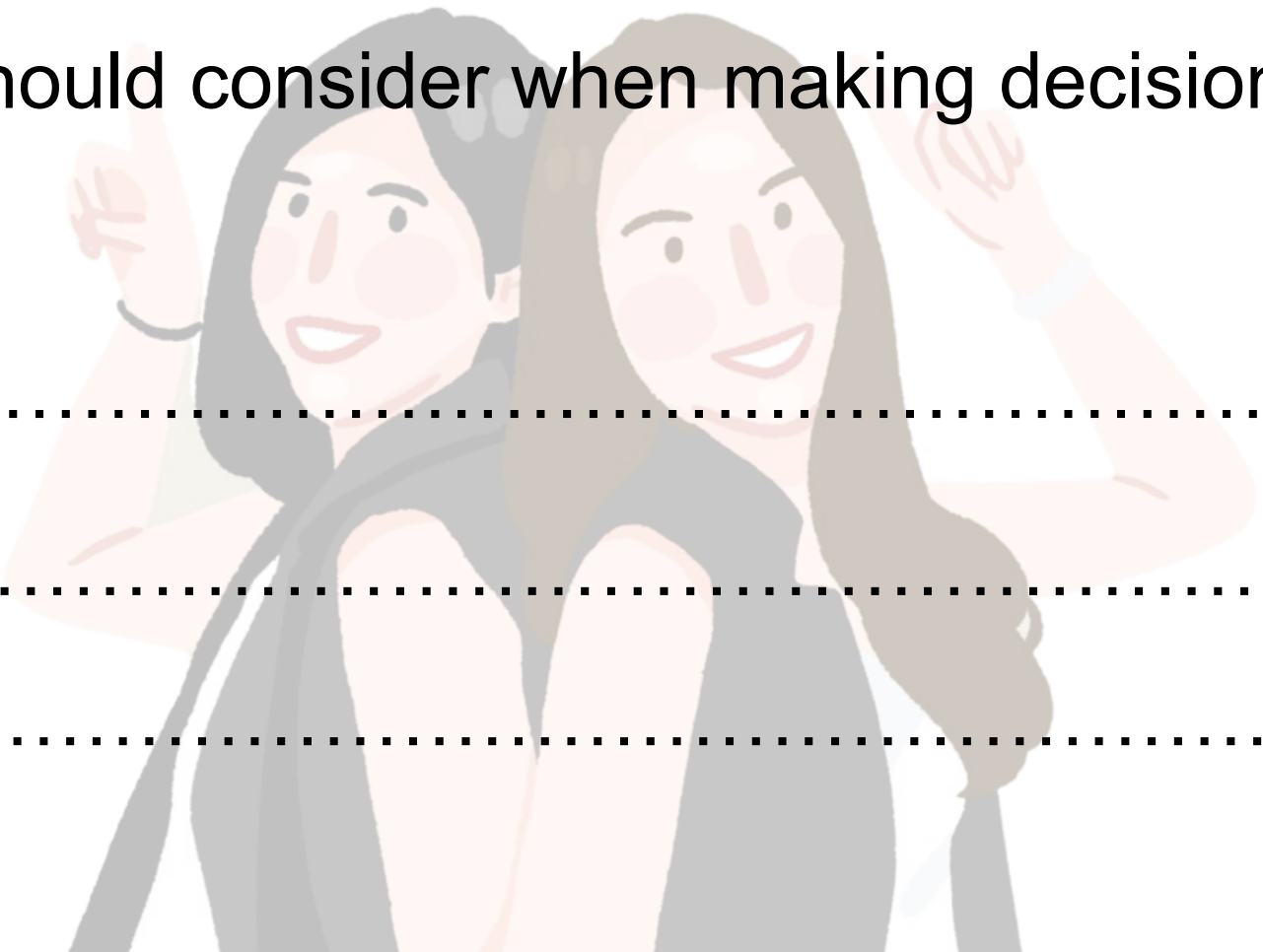
Explanation:.....

.....

Factor2: .....

Explanation: .....

.....



# Exercise

D&E produces women's shoes. The company sells the luxury shoes around the world. D&E is a public limited company which enables business to raise a lot of funds by issuing shares. The Managing Director is planning to expand the business in other product markets such as cloth. The Finance director is considering sources of finance to fund the expansion.

2) Explain **two** factors the Finance director should consider when making decision on a source of finance for the expansion.[4]

**Factor1: Length of time**

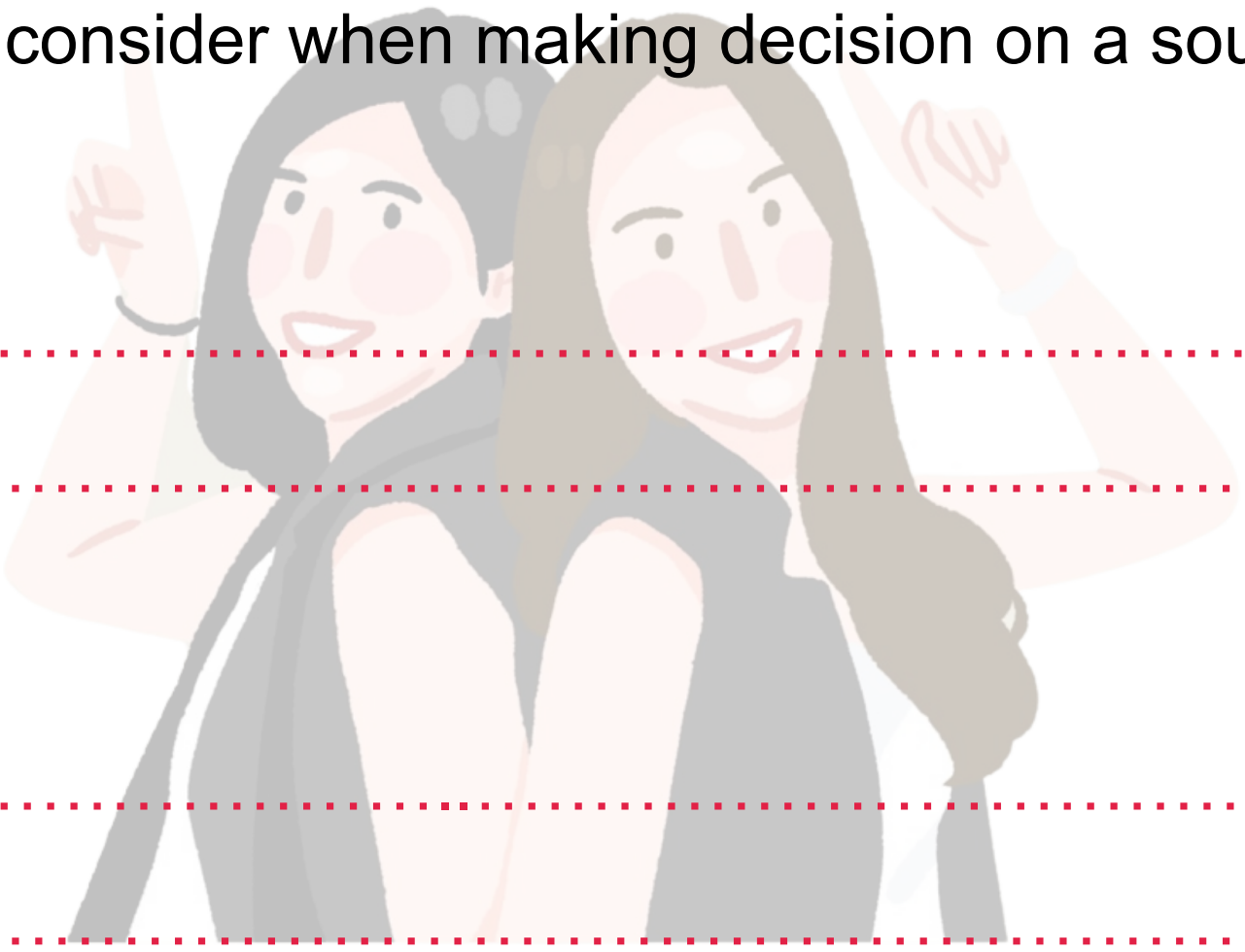
Explanation:.....  
.....

**Factor2: Amount of money required**

Explanation:.....  
.....

**Factor3: Type of business**

Explanation:.....  
.....



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