

Unit 2 – Business resources

Which Source of Finance?

Instructions and answers for Teachers

These instructions should accompany the OCR resource 'Which Source of Finance', which supports OCR Level 3 Cambridge Technical Certificate in Business Unit 2 – Business resources



Associated Files:
Which Source of Finance?

Expected Duration:
Approx 1 hour per scenario

Learners should review the scenario and write their responses.

For each of the following scenarios decide which source(s) of finance you would recommend and explain why.

Scenario 1

Ann Chovie is the owner of a small local pizza delivery business. She needs to replace her motorbike with a small van to transport more pizzas. The business is a private limited company.

Sample answer:

Ann Chovie needs to acquire fixed assets, and as such should be looking at medium to long term sources of finance. Since the assets required are vehicles, leasing may be the best option. Although this means the business won't actually own the vehicles, it is a good way of ensuring that the vehicles are kept up to date and are reliable, which is important as the business depends on them.



Scenario 2

Knead Dough Ltd is a successful Bakery that supplies bread to supermarkets in the North of England. It wants to expand into other areas of the country, but it needs finance to build a new factory so that it can increase production sufficiently.

Sample answer:

Knead Dough Ltd is looking to acquire property and as such should be looking at a long-term source of finance. The new factory could be financed through share capital, or it could use a commercial mortgage.

Scenario 3

Adam Upp is a partnership run by five accountants. Their computer system is slow and out-of-date. They need ten new computers (one each, and five for administration staff) as well as a new server. They also want to install the latest accounting software.

Sample answer:

Adam Upp wants to buy computer equipment and software, which is likely to need updating on a regular basis. As a partnership they are unable to use share capital, but could spread the cost of the computers and software by using hire purchase. This would allow them to use the equipment immediately but pay for them over time.

Scenario 4

Doug Over runs a small garden business. Although he is a sole trader, he decides to take on an employee to help with the bigger landscaping jobs. However, this means that Doug will need an additional set of tools, and he would also like to invest in a mini-digger for the large jobs.

Sample answer:

Doug Over has two different requirements. It may be possible to use retained profits to buy the extra set of tools. However, the mini-digger will cost considerably more money and so he may better off obtaining a loan from his bank in order to spread the cost over a longer time period

Scenario 5

Ray Deator and Sue Ridge run their plumbing business as a partnership. They have just won a big contract to do some work for the local council. However, the council will only pay once the job is complete. Ray and Sue need finance to pay for the materials that they will need in order to complete the work for the council

Sample answer:

Ray Deator and Sue Ridge only need to raise the money for the raw materials over the short-term, since they will be paid as soon as the job is complete. Assuming that they don't have enough retained profit, an overdraft may be suitable since they would be able to pay it off once the job is complete.



This activity offers an opportunity for English skills development.

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