

3 Sources of Finance

Question 1

1

The person who applied for the loan should have prepared and presented to the bank a business plan.

A business plan sets out, in detail, how the future business will be run, identifies the market for the products or services of the business and describe how the business will gain an acceptable share of this market.

A business plan should also show the likely cash inflows and cash outflows of the business for the next three years and the likely profit in each of the next three years.

The person who applied for the loan should also:

- a be prepared to offer collateral (assets as security) to the bank to obtain the loan
- b have a positive attitude about the success of the business
- c be prepared to work long hours.

2

A bank will consider the following factors in assessing a small business loan application:

- a the quality of the business plan
- b the collateral available to secure the loan
- c the ability of the business to repay the loan.

Question 2

A bank overdraft would be a suitable source of finance to pay for the inventory.

A term loan would be a suitable source of finance to pay for the delivery vehicle and the computer.

Question 3

Below are suggested answers. Alternative answers may be equally correct.

Factors		Yes	No	Comment
1	Lack of planning	•		a and d
2	Poor presentation of how the operator is going to make the business happen	•		c
3	Lack of understanding of the market place or pricing	•		i
4	Lack of a realistic marketing plan	•		g
5	Lack of a detailed financial plan to take into account working capital requirements	•		j and k
6	Lack of financial management skills	•		h
7	Lack of experience in operating a business	•		e and f
8	Overspending on set up costs	•		b
9	Focus on product rather than how to sell it.			

I would not approve the \$310,000 loan to Henry Battler.

Question 4

1

Lucinda does not have enough collateral, such as, land, to borrow \$279,000 from a bank. Also Lucinda is not contributing enough of her own money to the business venture.

2

Lucinda could try and borrow the money from her family or start a partnership.

3

Which of the following is a short term source of finance?

b A bank overdraft.

4

A suitable source of finance to pay for inventory is a bank overdraft.