

HSC Business Studies

Topic 2 – Financial Planning and Management

UNIT 2.3 – MANAGEMENT OF FUNDS

(Pages 102 – 120)

Unit Test

- (1)
 - (a) Define the Term Funds (1 mark).
 - (b) List two major sources of business funds (2 marks).
- (2) What does the management of funds refer to? (1 Mark)
- (3)
 - (a) A lease is a contract between the owner of an asset (called the lessor) and a business, which wants to use that asset (called the Lessee). (1 mark)
 - (b) Explain the two basic types of leases available to businesses (2 marks).
- (4) What is meant by a business's capital structure? (1 mark)
- (5) Explain the term that financial risk means when managing funds. (1 mark)
- (6)
 - (a) How can the gearing of a business be increased? (1 mark)
 - (b) How can the gearing of a business be decreased? (1 mark)

Answers to the questions...

(1)

(a) Define the term Funds (1 mark).

- Funds refer to the money a business uses to finance its assets.

(b) List two major sources of business funds (2 marks).

- Internally – From within the business in the form of Owner's Equity
- Externally – From people / institutions other than the owners called debt finance

(2) What does the management of funds refer to? (1 Mark)

- The **Management of funds** is concerned with choosing the most appropriate source of funds for a particular purpose, matching the terms and the source of finance to the business purpose and structure and a comparison of debt and equity finance.

(3)

(a) A lease is a contract between the owner of an asset (called the lessor) and a business, which wants to use that asset (called the Lessee). (1 mark)

(b) Explain the two basic types of leases available to businesses (2 marks).

- Operating Leases
 - Ø Contracts where periodic payments are made over about 5 or fewer years.
- Finance Leases
 - Ø Contract between the owner of an asset and a business that wants the use of that asset in return for periodic payments.

(4) What is meant by a business's capital structure? (1 mark)

- A business' **Capital Structure** refers to the mix of long-term debt and equity to finance a business' assets.

(5) Explain the term that financial risk means when managing funds. (1 mark)

- The risk of insolvency by not being able to repay the debt.

(6)

(a) How can the gearing of a business be increased? (1 mark)

- The higher the level of borrowings, the higher the gearing ratio (comparing to equity finance).
- Therefore, an increase in borrows will increase the level of gearing.

(b) How can the gearing of a business be decreased? (1 mark)

- A decrease in the level of borrowings will decrease a business' gearing ratio.