5 Why a business needs finance – Part 1 — Answers

Answers

5.1 (a) capital expenditure (a long-lasting fixed asset); (b) revenue expenditure (day-to-day running).

5.2 (a) internal; (b) external; (c) external.

5.3 It may have made a profit on paper, but the cash has not arrived yet (e.g. customers bought on credit and have not paid), so there is no cash to pay its own bills.

5.4 Internal: retained profit or sale of assets. External: share capital, a loan, or an overdraft. (One of each.)

5.5 It lets the firm's bank account go below zero for a short time, to cover a short cash gap.

5.6 It could collect payments faster — e.g. shorten the credit period so customers pay sooner — or arrange an overdraft or short-term loan to bridge the gap. These bring cash in (or cover it) *without* changing the selling price or costs, so the profit is unaffected.