

# SOURCES OF FINANCE EXERCISES

## KNOWLEDGE

1. Why do businesses need to raise finance?
2. State the internal sources of finance.
3. State the main advantage of using internal finance.
4. What is the difference between ordinary, preference and deferred shares?
5. Why would someone want to become a Business Angel?
6. State the advantages to a business of a bank overdraft compared with a bank loan.
7. What is trade credit likely to be used for?
8. Which is likely to be more expensive, a bank loan or HP?
9. What is the difference between a finance lease and an operating lease?
10. What factors affect the choice of source of finance?

## Question 2.

A mobile phone-based information service, 82Ask, launched by one of Britain's top rising female entrepreneurs, is aiming to float on the stock market early next year after raising £1.3 million in funds. The company, which is changing its name to Texperts, is led by Sarah McVittie, a former UBS investment banker. Texperts allows users to text a question to a team of research experts who promise to provide an answer within five minutes. Users are charged £1 per question only if the inquiry is fully completed. The service, which has close to 400,000 users, has a network of 220 experts answering questions on anything from trivia and entertainment to recommending restaurants, providing travel information and sending maps to people's mobile phones.

Odey Asset Management (an industrial loan specialist), is understood to have provided most of the new funding and now has a stake of around 14 per cent in Texperts. McVittie and co-founder Thomas Roberts, each have about a 15 per cent stake. Over the past four years, Texperts has raised £2.5 million, mainly from wealthy individuals in three fundraising rounds. About £1 million of the £1.3 million from the latest round of fund raising is earmarked for advertising and marketing. This is well above the £200,000 spent to date.

Source: adapted from the *Sunday Times*, 19.8.2007.

- (a) Why is Texperts raising finance?
- (b) How much of the business is owned by the original founders?
- (c) Describe the two key sources of finance used by Texperts?
- (d) Discuss the drawback to the founders of Texperts of using this type of finance.

## Case Study: Gamingking

Gamingking plc was established in 1993 and floated on the Alternative Investment Market (a market for shares) in 1996. In May 2005 Gamingking acquired its largest competitor, Kelly's Eye (No. 1) Ltd. In doing so the Group became the leader in the provision of lotteries and game play products and services to the registered members' club marketplace. The Group now has a client base of around 5,000 clubs in the UK. The Group comprises three main wholly-owned trading subsidiaries:

Kelly's Eye No. (1) Kelly's Eye, based in Hemel Hempstead, is responsible for all sales and marketing activities related to lottery and game play products. The Kelly's Eye salesforce operates nationwide and is able to supply the wide-ranging product portfolio into clubs quickly and efficiently.

Lotteryking Ltd. Lotteryking was the original business providing vending machines; pull-tab lottery tickets and online lottery solutions to the private members' clubs.

Following the acquisition of Kelly's Eye, Lotteryking is now focused on the provision of technical support services, manufacturing, R&D, and purchasing.

Logoking Ltd. This division supplies logo-embroidered leisure and workwear to a wide market including the substantial staff and sports needs of the private members' clubs.

In 2006, Gamingking made a profit of £51,000 and retained the entire sum. It did the same in 2005 when profit was £38,000. At 30 April Gamingking had a loan facility of £800,000 from Barclays Bank much of which was used to buy Kelly's Eye (No.1) Ltd. This loan was due to mature on 15th April 2010. Also, at 30th April 2006, Gamingking had authorised share capital of £5 million and issued share capital of £2.907 million. Other sources of finance used by Gamingking include trade credit and hire purchase.

Source: adapted from [www.gamingking.co.uk](http://www.gamingking.co.uk).

- (a) Explain the difference between authorised and issued share capital. (6 marks)
- (b) How will floating on the Alternative Investment Market (a stock market) affect Gamingking's ability to raise finance? (8 marks)
- (c) (i) Why did Gamingking borrow £800,000 from Barclay's Bank? (4 marks)  
(ii) How will this loan affect the gearing of the company? (8 marks)
- (d) Discuss the advantages and disadvantages to Gamingking of retaining all of its profit in 2005 and 2006. (14 marks)