2005 Paper 7 Question 13

Business Studies

(*a*) Explain the difference between *debt* and *equity* financing. [5 marks]

(*b*) What is meant by a *convertible debenture with coupon*, and how does this differ from a *redeemable preference share*? [5 marks]

(*c*) A certain software company has assets valued at £1M and is making a net profit of £100K on a turnover of £1M growing at 10% per annum. 1m shares, including 100K staff options, have been issued. No dividends have been paid. The company wish to raise money so that they can expand faster, and are prepared to sell up to 300K new shares. Price the issue. [5 marks]

(*d*) Why do venture capital funds prefer to invest in preference shares? [5 marks]