

# 2011 Paper 7 Question 1

## Business Studies

- (a) Distinguish between debt and equity finance. [5 marks]
- (b) Under what conditions must the directors of a company declare insolvency? [5 marks]
- (c) A small software company has the following simplified cashflow, funded by shareholders' equity of £20,000 and a bank overdraft of £5000:

Cashflow:	Invoiced money received 2 months after due date; paid after 1 month of receipt of invoice							
	Month	1	2	3	4	5	6	7
Income			30,000					30,000
Expenditure								
Programmers	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Overheads		5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total costs	5,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Cash at start	-5,000	15,000	5,000	25,000	15,000	5,000	-5,000	-5,000
Cash at end	15,000	5,000	25,000	15,000	5,000	-5,000	15,000	15,000

- Draw up the balance sheet at the end of month 6. [5 marks]
- (d) What advice would you give the directors? [5 marks]