**EFFECTIVE FINANCIAL MANAGEMENT**

**Learning Outcome 3: ACTIVITY 4**

**Financial gearing**

Decisions on the relative balance of debt and equity finance in a business’s financing structure can have significant effects on many aspects of financial performance and financial position. The use of debt as a source of finance can present considerable risks for the business.

Financial gearing occurs as a result of the use of borrowing as a source of finance

Look back to LO2 Activity 2, LO2 Activity 3, LO2 Activity 4 and LO2 Activity 5.

#### In small groups

Identify a business with which you are familiar. This could be a multinational company from which you have purchased goods/services, a business that owns your favourite brand or the business for which you work (or wish to work in the future).

Ideally this should be the business you chose earlier to re-visit throughout your classroom activities.

From your research:

1. Identify and explain the factors that determine the level of financial gearing.
2. Explain how and why financial gearing might be important to shareholders.
3. Identify and discuss the factors that might influence the attitude of shareholders to the level of financial gearing.
4. Prepare a short presentation on your findings.