



INDIAN SCHOOL AL WADI AL KABIR

Class: XI

Department: Commerce

Chapter 8

Topic: Sources of business finance

1. Internal sources of capital are those that are
 - (a) generated through outsiders such as suppliers
 - (b) generated through loans from commercial banks
 - (c) generated through issue of shares
 - (d) generated within the businessAnswer: d

2. Equity shareholders are called _____.
 - (a) Owners of the company
 - (b) Partners of the company
 - (c) Executives of the company
 - (d) Guardian of the companyAnswer: a

3. Money obtained by issue of shares is known as _____.
 - (a) Debts
 - (b) Share Capital
 - (c) Loans
 - (d) Reserve FundsAnswer: b

4. _____ was the first company in India to issue convertible zero interest debentures in January 1990
 - (a) Mahindra and Mahindra
 - (b) Adani Enterprise
 - (c) Tata Motors
 - (d) Reliance LimitedAns: a

5. Which of the following is a commercial bank?
 - (a) All of these
 - (b) Canara bank
 - (d) Punjab National Bank
 - (d) State Bank of IndiaAns: a

6. Debentures represent
 - (a) Fixed capital of the company
 - (b) Permanent capital of the company

- (c) Fluctuating capital of the company
- (d) Loan capital of the company

Ans: d

7. Funds required for purchasing current assets is an example of
- (a) Fixed capital requirement
 - (b) Ploughing back of profits
 - (c) Working capital requirement
 - (d) Lease financing

Ans: c

8. Funds raised through loans or borrowings are _____
- (a) Borrowed funds
 - (b) Owners Equity
 - (c) None of these
 - (d) Share Capital

Ans: a

9. Dividend is paid only on _____
- (a) Loans
 - (b) Debentures
 - (c) Bonds
 - (d) Shares

Ans: d

10. Investors who want steady income may not prefer _____
- (a) None of these
 - (b) Debentures
 - (c) Equity Shares
 - (d) Bonds

Ans: c

11. Mention any one sources of owner's fund.
- Ans: Equity Shares

12. Mention any one type of Financial Institutions.
- Ans: Industrial Finance Corporation of India.

13. Which source of finance is also known as internal financing or self financing?

Answer: Retained earnings

14. Risk capital is defined as which type of capital?
- Answer:** Risk capital is defined as equity share capital.

15. State the return given to debenture holders for using their funds.
- Answer:** Fixed rate of interest is given to debenture holders for using their funds.

16. Give one feature of retained earnings that the other source of finance does not have.

Answer: Retained earnings save a portion of the net incomes for future use is retained earnings. The retained earnings have the ability to self-finance and it doesn't involve any explicit cost.

17. In the business sector which organization provides both medium- and long-term loans and has been set up by both the state and central government.

Answer: The organization which provides both medium and long term loans and has been set up by both the state and central government is the Financial Institution (development bank).

18. Mention two rights of preference shareholder.

Answer: The two rights of preference shareholder are:

- Getting a fixed rate of dividend from the net profit of an organization, before declaring any dividends for equity shareholder.
- At the time of liquidation, receiving funds after the organization creditors claim has been resolved.

19. 'They are also termed as Residual owners'. Who are they? Discuss any three demerits of the source of finance raised from them.

Answer: Equity shareholders. The three limitations of equity share capital are:

- Investors who expect a constant income may not favour equity share as it has a fluctuating return.
- The cost of equity share is more than the cost of raising funds through many other sources.
- Equity share diminishes the voting power and earnings of the present equity shareholder.

20. 'It is the credit extended by one trader to another for the purchase of goods and services. It facilitates the purchase of supplies without immediate payment. It is granted to those customers who have reasonable amount of financial standing and goodwill'. Identify it. Discuss the merits of the identified source of business finance.

Ans: Trade Credit

MERITS:

- (i) Trade credit is a convenient and continuous source of funds;
- (ii) Trade credit may be readily available in case the credit worthiness of the customers is known to the seller;
- (iii) Trade credit helps to promote the sales of an organisation;

(iv) If an organisation wants to increase its inventory level in order to meet expected rise in the sales volume in the near future, it may use trade credit to, finance the same;

(v) It does not create any charge on the assets of the firm while providing funds.

21. Identify the source of finance which grants loan for a longer duration with easy repayment facility. Discuss the merits of the identified source of finance.

Ans: Financial Institutions.

MERITS:

- Financial institutions provide long term finance, which are not provided by commercial banks;
- Besides providing funds, many of these institutions provide financial, managerial and technical advice and consultancy to business firms;
- Obtaining loan from financial institutions increases the goodwill of the borrowing company in the capital market.
- As repayment of loan can be made in easy instalments, it does not prove to be much of a burden on the business;
- The funds are made available even during periods of depression, when other sources of finance are not available.

22. Differentiate between Equity Shares and Preference Shares

Difference between Equity Shares and Preference Shares

	Base	Equity Shares	Preference Shares
1.	Dividend	After preference shares	Priority over equity share
2.	Voting Right	Dividend is paid full voting rights.	No voting right.
3.	Risk	Risk bearing securities	Less risk
4.	Rate of Return	Fluctuates with profit	Fixed Rate of Dividend
5.	Control	Control on the management.	No control on the management.

23. Differentiate between Shares and Debentures

Difference between Shares and Debentures

	Base	Shares	Debentures
1.	Nature	Shares are the capital	Debentures are a loan
2.	Return	Dividend	Interest
3.	Voting Right	Full voting right	No voting right
4.	Holder	Owner is called shareholder.	Creditor
5.	Types	There are two types of shares	More than two types
6.	Security	Not secured by any charge	Secured and generally carry a charge on the assets of the company

24. Name the source of finance which is also termed as ploughing back of profit.

Explain the merits and demerits of the identified source of finance.

Retained earnings – Refer notes for merits and demerits.