INDIAN SCHOOL AL WADI AL KABIR

Class: XI	**Department: Commerce**
Subject:	**BUSINESS STUDIES**
A.Y. 2026 - 27	**Chapter 8: Sources of Business Finance**

Qt no.	**OBJECTIVE TYPE QUESTIONS**
1	The money required to buy land, building and machinery for starting a business is called: (a) Working capital (b) Retained earnings (c) Trade credit (d) Fixed capital
2	Funds provided by a sole trader, partners or shareholders of a company are known as: (a) Borrowed funds (b) Owner's funds (c) External loans (d) Trade credit
3	A manufacturing business purchases machinery to increase its production capacity. This is an example of: (a) Working capital requirement (b) Fixed capital requirement (c) Short-term borrowing (d) Trade credit
4	Preference shareholders differ from equity shareholders because they: (a) Receive a fixed rate of dividend before any dividend is paid to equity shareholders (b) Generally, have the right to vote on all company matters (c) Bear the highest risk of ownership (d) Are called the residual owners of the company
5	Which source of finance is regulated by the Reserve Bank of India and is generally invited by companies for a period up to three years? (a) Trade credit (b) Public deposits (c) Debentures (d) Equity shares
6	Financing through debentures is generally less costly than financing through equity or preference capital mainly because: (a) debenture holders share in the profits of the company (b) debenture holders have voting rights (c) interest paid on debentures is tax deductible (d) debentures never have to be repaid
7	Mehta Auto Components Ltd., a manufacturing company, plans to modernise and expand its plant. It needs a large amount of money for a long period. Commercial banks are willing to lend to it only for short periods. Which source of finance is most suitable for Mehta Auto Components Ltd.? (a) Trade credit (b) Loans from financial institutions (c) Public deposits (d) Overdraft from a bank
8	The sales and profits of a company go up and down widely from year to year. Which source of finance would be least suitable for raising a large amount of funds for this company? (a) Equity shares

	(b) Retained earnings (c) Debentures (d) Preference shares
9	Assertion (A): Equity shareholders are called the residual owners of a company. Reason (R): They receive what is left after all other claims on the company's income and assets have been settled. On the basis of above Assertion and Reason choose the correct answer from the options given below. a. Both Assertion and Reason are correct and the Reason is a correct explanation of the Assertion. b. Both Assertion and Reason are correct but Reason is not a correct explanation of the Assertion. c. The Assertion is correct but Reason is incorrect. d. Both the Assertion and Reason are incorrect.
10	A finance manager is comparing preference shares and debentures for raising ₹10 crore. Which statement correctly gives an advantage of preference shares over debentures? (a) The dividend is paid only when the company earns a profit, so there is no compulsory payment in a loss year. (b) The dividend is deductible as an expense, so it saves tax. (c) The rate of return is generally lower than the interest on debentures. (d) Preference shareholders are creditors and are repaid before all other claims.
	DESCRIPTIVE TYPE QUESTIONS
1	Vikram Electronics Ltd. wants to raise ₹5 crore by issuing shares. Neha wishes to invest for a steady income at low risk and does not want a say in management. Arjun is ready to take more risk for higher returns and wants the right to vote on company matters. (a) Which type of share is suitable for Neha and which for Arjun? Give a reason for each. (b) State any two other differences between these two types of shares.
2	Asha Textiles Ltd. is a new company started two years ago. It needs funds for working capital for the next two years. Commercial banks are asking for security of assets and charging a high rate of interest. The directors are thinking of inviting public deposits. However, one of the senior directors warns that, this could be a bad idea. (i) Identify the type of financial requirement for which Asha Textiles Ltd. needs funds. (ii) Explain any two merits of public deposits that make them attractive to the directors. (iii) Is the senior director's concern valid? Give reasons for your answer.
3	Kiran Pharma Ltd. has had stable sales and earnings for many years. It needs ₹10 crore for expansion. The existing shareholders do not want their control over the management to be reduced. The finance manager suggests raising the money by issuing debentures. The Chief Financial Officer, however, points out that debentures are not free from problems. (i) Explain any two reasons why debentures are suitable for Kiran Pharma Ltd. (ii) Explain any two limitations of raising funds through debentures that the Chief Financial Officer may have in mind. (iii) Name the type of agency whose rating is required for a public issue of debentures. Give one example of such an agency.
4	Bharat Engineering Ltd. has two needs. First, it needs ₹20 lakh quickly to buy raw material and wants the freedom to increase the amount if required and to repay early when funds are not needed. Second, it needs ₹8 crore for a new plant over many years, and would also welcome financial, managerial and technical advice. (i) Suggest a suitable source of finance for the first need. Give any two reasons. (ii) Suggest a suitable source of finance for the second need. Give any two reasons. (iii) State any one limitation of the source of finance chosen in (ii).
5	Sanjay wants to start a garment business. He is choosing between (A) a small shop that buys and sells readymade garments and (B) a factory that makes garments using machines. In both cases he plans to sell on credit and expects slow sales in the first year.

	(i) Name the two types of financial requirements Sanjay will face in either business. (ii) Which option will need more money for land, building and machinery? Give a reason. (iii) Explain why credit sales and slow sales will increase his working capital requirement.
6	Alpha Ltd. raises funds by issuing bonds. Beta Ltd. has a good reputation but few assets to pledge, so it issues debentures. (i) Which company's instrument is backed by the issuer's assets? What are the other company's instruments issued on? (ii) Whose instruments will generally carry the lower rate of interest?
7	Horizon Foods Ltd. plans to raise ₹20 crore by issuing equity shares. The directors like that dividend need not be paid when profits are low. Mr. Das, an existing shareholder, is unhappy because the new shares will reduce his voting power and his share of earnings. (i) State any two merits of equity shares that favour the directors' decision. (ii) Name the demerit of equity shares that worries Mr. Das
8	Mohan Enterprises needs a loan from a commercial bank. The bank offers cash credit, overdraft and term loans. Before sanctioning the loan, it studies the company's affairs and financial structure in detail and asks Mohan Enterprises to create a charge on its assets and give personal sureties. Explain demerits of bank loans that Mohan Enterprises may face.
9	Medico Pharma Ltd. is a profit-making company whose earnings go up and down sharply from year to year. It needs ₹40 crore for a long-term expansion. At the board meeting, Director A suggests issuing debentures because the interest is tax deductible. Director B suggests issuing preference shares because they create no charge on the assets. Director C suggests financing the whole amount from retained earnings. (i) Evaluate Director A's suggestion in the light of the company's fluctuating earnings. (ii) Compare Director B's suggestion with Director A's on any two points. (iii) Examine why Director C's suggestion may not be practical.
10	Rohan Textiles bought new machinery that will be used for eight years. It paid for the machinery with a bank loan that must be repaid in two years. To boost sales, it also bought large quantities of raw material on easy trade credit from its suppliers. Sales did not rise as expected. Now the bank is unwilling to renew the loan and the suppliers are demanding payment. (i) Identify the mistake Rohan Textiles made in choosing the source of finance for the machinery. Explain with reference to the period. (ii) Explain any two problems of bank loans that Rohan Textiles is facing or may face.