19 SOURCES OF BUSINESS FINANCE

I. CHOOSE THE BEST ANSWER:

1. What is defined as the provision of money at the time when it is required?

(a) Finance (b) Bank (c) Cash Management (d) None of these

2. 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 loans from commercial banks

(d) Generated within the business

3. Debenture holders are entitled to fixed rate of

(a) Dividend (b) Profits **(c) Interest** (d) Ratios

4. Public deposits are the deposits that are raised directly from____

(a) The public (b) The directors (c) The auditors (d) The owners

5. Equity shareholders are the ______ of a company

(a) Creditors **(b) Owners** (c) Debtors (d) Employees

6. Funds required for purchasing current assets is an example for_____

(a) Fixed Capital requirement (b) Ploughing back of profit

(c) Working capital requirement (d) Lease financing

7. Which one of the following holder is given voting rights?

(a) Debentures (b) Preference Shares **(c) Equity shares** (d) Bonds

8. It may be wise to finance Fixed Assets through______

(a) Creditors **(b) Long term debts**

(c) Bank overdraft (d) Bills discounting

II. VERY SHORT ANSWER QUESTIONS:

1) Write a short note on debentures.

✡ Debentures are an important instrument for raising long term debt capital.

- The individual or person subscribing to debentures is called debenture holder.

2) What do you mean by public deposits?

- The companies invite public deposits by giving advertisement in the media.
- It offers deposit schemes for a longer tenure.

3) Name any two sources of funds classified under borrowed funds.

- Borrowed Funds
- Public Deposits
- Debentures
- Lease Financing

4) Name any two internal sources of business finance.

- Retained earnings,
- Bills Receivable,
- Trade Debtors
- Surplus from

5) State any two factors that affect the choice of source of finance.

- Cost
- Control
- Risk Factor
- Storage of Development

III. SHORT ANSWER QUESTIONS:

1. Define Business finance.

"The finance function is the process of acquiring and utilizing funds by a business."

– R.C. Osborn

2. What is pledge?

- A customer transfers the possession of an article with the creditor (banker) and receives loan.
- Till the repayment of loan, the article is under the custody of the borrower.
- If the debtor fails to refund the loan, creditor (banker) will auction the article pawned and adjust the outstanding loan from the sale proceeds.

3. List sources of raising long-term and short-term finance.

Long Term Finance	Short Term Finance
i). Shares	i). Loans and Advances
ii). Debentures	ii). Bank Overdraft
iii). Retained Earnings	iii). Clean Loan
iv). Public Deposits	iv). Trade Credit
v). Long term loan from commercial banks	v). Pledge

4. For which purpose fixed capital is needed in business?

- For the acquisition of fixed assets such as land, building, plant and machinery , motor vehicles, furniture and fixtures, etc.

- For the acquisition of intangible assets such as goodwill, patents, trademarks, and copy rights.
- For meeting promotion or preliminary expenses.

5. What do you mean by working capital requirement of business?

- Short term finance usually refers to finance required by a firm for a period of one year .
- It is also called as working capital finance.
- Working capital is required for purchase of raw material, salary and wages of payment, operating expenses.

IV. LONG ANSWER QUESTIONS:

1. List out the various sources of financing.

The various sources of business finance can be classified into three categories on the basis of

i) Period Basis **ii) Ownership Basis** **iii) Source of Generation Basis**

A). On the basis of Period:

i) Short term finance **ii) Medium term finance** **iii) Long term finance**

i). Short Term Finance

- Loans and Advances
- Bank Overdraft
- Mortgage
- Pledge
- Clean Loan
- Commercial Paper

ii). Medium Term Finance

i). Loan from Banks
ii). Loan from Financial institutions
iii). Lease Financing

iii). Long Term Finance

i). Shares
ii). Debentures
iii). Retained Earnings
iv). Public Deposits
v). Long term loan from commercial banks

B). On the Basis of Ownership

i). Owners Fund **ii). Borrower Funds**

i). Owners Fund

i). Equity Shares
ii). Retained Earnings

ii). Borrower Funds:

i). Loan from banks
ii). Loan from financial institution
iii). Debentures
iv). Public Deposits
v). Lease Financing

C). On the Basis of Generation of Funds

i). Internal Source

ii). External Source

2. What are the different types of short term finances given by commercial banks?

i). Bank Overdraft

- It refers to an arrangement whereby the bank allows the customers.
- To overdraw the required amount from its current deposit account within a specified limit.
- Interest is charged only on the amount actually overdrawn.

ii). Trade Credit

- Purchaser need not pay money immediately after the purchase.
- Such credit appears in balance sheet as Trade Creditors, or Accounts Payable.
- Trade credit is very simple and convenient method of raising short term finance.

iii). Mortgage

- This is a type of loan taken from the bank by lodging with the banker title deeds of immovable assets like land and building.
- Business people raise loans by depositing the title deeds of the properties with the bank.

iv). Loans against the Securities

- Banks accept various types of securities like fixed deposit receipt, book debts, insurance policies, supply bills, shares, debentures, bonds of company, document of title to the goods and so on.
- It provides loan on the basis of the aforesaid securities.

v). Clean Loan

- Banks provide clean loan is loan given without any security or with personal security.
- It simply grants loan without any physical security.

3. Write short notes on a).Retained Earnings b). Lease financing

a). Retained Earnings:

- Retained earnings refer to the process of retaining a part of net profit year after year and reinvesting them in the business.
- It is also termed as ploughing back of profit.
- It is described to be the most convenient and economical method of finance.

b). Lease Financing:

- ✡ Lease financing denotes procurement of assets through lease.
- ✡ In such a situation Leasing is helping them to a greater extent.
- ✡ Leasing here refers to the owning of an asset by any individual which will be given for use to another needy business enterprise on a rental basis.

4. Write short notes on a) owner's funds b) borrowed funds

a). Owners Fund

- ➲ The profits reinvested in the business come under owner's funds.
- ➲ These funds are not required to be refunded during the life time of business enterprise.

b). Borrowed Funds

- ✓ The term 'borrowed funds' denotes the funds raised through loans or borrowings.
- ✓ For example debentures, loans from banks and financial institutions, public deposits, trade credit, lease financing, commercial papers, factoring, etc. represent borrowed funds.

5. Explain any four personal investment avenues.

i). Public Provident Fund (PPF)

- ➢ It is the safest long-term investment option for the investors in India.
- ➢ It is totally tax free.
- ➢ PPF account can be opened in bank or post office.

ii). Mutual Funds

- ★ An individual investor who wants to invest in equities and bond with a balance of risk and return generally can invest in mutual funds.
- ★ Nowadays people invest in stock markets through a mutual fund.

iii). Real Estate Investment

- ✡ Real estate is one of the fastest growing sectors in India.
- ✡ Buying a flat or plot is supposed to be the best decision amongst the investment options.

iv). Unit Linked Insurance Plans (ULIP)

- ULIP is a life insurance linked product, which provides risk cover for the policy holder along with investment options.
- To invest in any number of qualified investments such as stocks, bonds or mutual funds.

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