MORE QUESTIONS SOLVED

I. Very Short Answer Type Questions

Question 1. Give the full form of GDR and ADR.
Answer: Global Depository Receipts and American Depository Receipts

Question 2. State various sources of long term funds.
Answer: Various sources of long term funds include: Equity shares, preference shares, debentures, retained earnings, loans from financial institutions, loans from commercial banks etc.

Question 3. State various sources of short and medium term funds.
Answer: Short term sources include trade credit, factoring, banks and commercial papers. Middle term credit sources include loans from banks, public deposits, loans from financial institutions and lease financing.

Question 4. What are the preferences given to preference shareholders?
Answer:

1. They get dividend at a fixed rate and dividend is given on these shares before any dividend on equity shares.
2. When company winds up, preference shares are paid before equity shares.
3. Preference shares also have a right to participate in excess profits left after payment being made to equity shares.
4. They also have a right to participate in the premium at the time of redemption.

Question 5. Name two sources of funds under owner's fund.
Answer: Equity shares and retained earnings

Question 6. Who are called the owners of a company?
Answer: Equity shareholders are called the owners of the company.

Question 7. Which deposits are directly raised from the public?
Answer: Public deposits.

Question 8. What are the two important functions of factors?
Answer:
(a) Discounting of bills and collection of the client's receivables.
(b) Providing information to the client on credit worthiness of prospective client.

Question 9. What is the status of debenture holders?
Answer: Debenture holders are creditors of the company.

Question 10. In leasing agreement what right is given to lessee?
Answer: The right to use the asset in lieu of specific prepayment for a specific time period.

Question 11. Preference shares are not suitable for which kind of investors?
Answer: It is not suitable for those investors who want to get a fixed return without failure.

Question 12. What are Indian depository receipts (IDRs)?
Answer: IDR is an instrument in the form of a depository receipt created by the Indian depository in India against the underlying equity shares of the issuing company.

Question 13. Name the two Indian companies which have raised money through issue of GDRs.
Answer: WIPRO and ICICI

Question 14. Who regulates the acceptance of public deposits?
Answer: Reserve Bank of India

Question 15. What is factoring?
Answer: Factoring is a financial service under which the factor of discounting of the bills of exchange of the clients and collects his debts and also provides him information on credit worthiness of perspective client. He charges fees for the services rendered.

Question 16. What are retained earnings?
Answer: A company generally does not distribute all its earnings amongst shareholders in the form of dividend. A portion of the net earnings may be retained in the business of ruse in future. These are called retained earnings.

Question 17. What are public deposits?
Answer: Public deposits are the deposits raised by organizations directly from the public.

Question 18. Specify the objective of I.D.B.I.
Answer: Its objective was to coordinate the activities of other financial institutions including commercial banks. The bank performs three types of functions namely, assistance to other financial institutions, direct assistance to industrial concerns and promotion and coordination of financial technique service.

Question 19. What do you mean by discounting of bills of exchange?
Answer: Discounting of bills of exchange means that the bank pays the person beforehand at less than face value and receives the payment on maturity equivalent to maturity value. The difference between the amount paid and face value is the return for discounting bills of exchange.

Question 20. What is a trade credit?
Answer: Trade credit is the credit extended by one trader to another for the purchase of goods and services.

Question 21. What is debenture?
Answer: A debenture is a document or certificate, which is issued under the common seal of the company, acknowledging its debt to the holders at given terms and conditions.

Question 22. Why preferences are given to preferential shares?
Answer: They are given some preferences because they are not given the voting rights.

Question 23. State two factors affecting the fixed capital requirement of a firm.
Answer: Size of business and nature of business.

Question 24. Why is equity share capital called 'Risk Capital'?
Answer: Equity shareholders get return only when profits is left after paying interest on debentures and fixed return on preference shares. Therefore, it is called risk capital as it bears maximum risk.

Question 25. State two factors affecting the working capital requirement of a firm.
Answer: Nature of business and speed of sales turnover.

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