TEXTBOOK QUESTIONS SOLVED

I. Multiple Choice Questions

Tick the correct answer out of the given alternatives:
Question 1. Equity shareholders are called:
(a) Owners of the company
(b) Partners of the company
(c) Executives of the company
(d) Guardian of the company
Question 2.The term 'redeemable' is used for
(a) Preference shares
(b) Commercial paper
(c) Equity shares
(d) Public deposits
Question 3. 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
Question 4. ADRs are issued in
(a) Canada
(b) China
(c) India
(d) USA
Question 5. Public deposits are the deposits that are raised directly from
(a) The public
(b) The directors
(c) The auditors
(d) The owners
Question 6. Under the lease agreement, the lessee gets the right to
(a) Share profits earned by the lessor
(b) Participate in the management of the organization
(c) Use the asset for a specified period
(d) Sell the assets
Question 7. 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
Question 8. Under the factoring arrangement, the factor
(a) Produces and distributes the goods or services
(b) Makes the payment on behalf of the client
(c) Collects the client's debt or account receivables
(d) Transfer the goods from one place to another
Question 9. The maturity period of a commercial paper usually ranges from
(a) 20 to 40 days
(b) 60 to 90 days
(c) 120 to 365 days
(d) 90 to 364 days
Question 10. Internal sources of capital are those that are
(a) Generated through outsiders such as suppliers

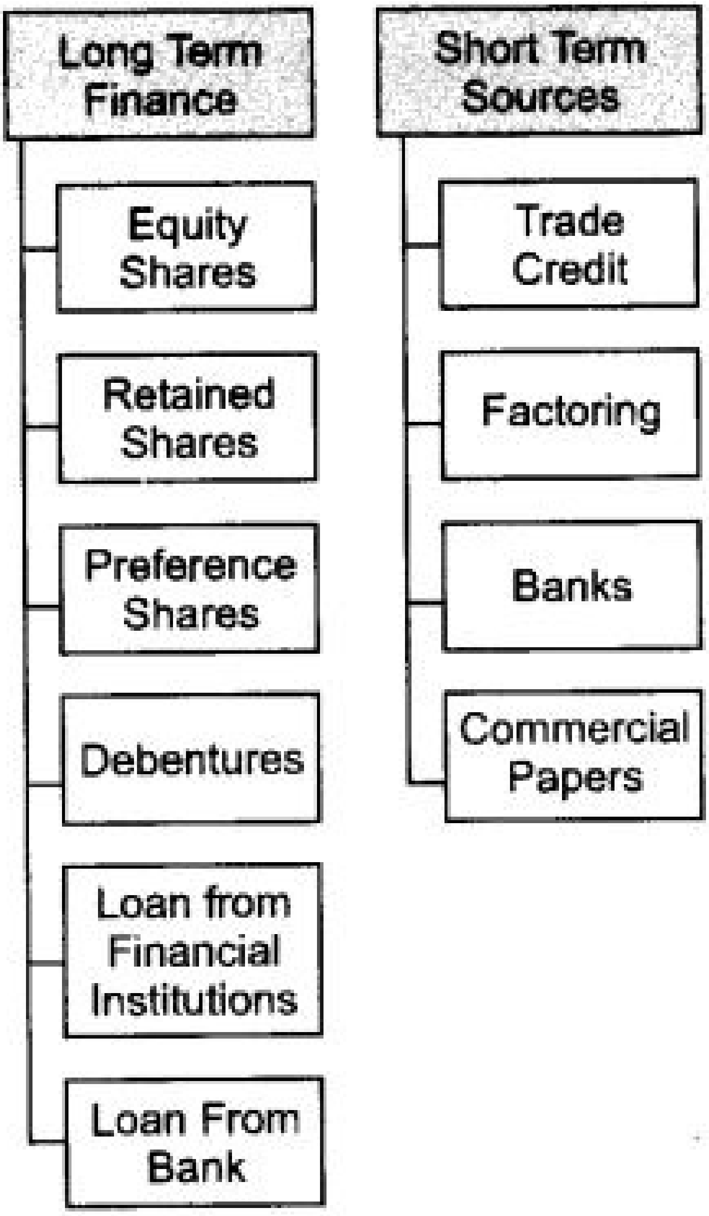
(b) Generated through loans from commercial banks
(c) Generated through issue of shares
(d) Generated within the business
Answers:
1. (a)
2. (a)
3. (c)
4. (d)
5. (a)
6. (c)
7. (d)
8. (c)
9. (d)
10. (d)

II. Short Answer Type Questions

Question 1. What is business finance? Why do businesses need funds? Explain.
Answer: Business is concerned with production and distribution of goods and services for the satisfaction of need of society. A business cannot function unless adequate funds are made available to it. The need of fund arises from the stage when an entrepreneur makes a decision to start a business. Some funds are needed immediately. The financial need of a business can be categorized in the following ways:

- Fixed Capital Requirements: In order to start business, funds are required to purchase fixed assets like land and building, plant and machinery, and furniture and fixures. This is known as fixed capital requirement of an enterprise.
- Working Capital Requirements: The financial requirements of an enterprise do not end with the procurement of fixed assets. No matter how small or large business, it need funds for its day-to-day operations. This is known as working capital of an enterprise which is used for holding current assets like stock, bill receivable, current expenses etc. Therefore, a business needs funds to meet its fixed as well as working capital requirements.

Question 2. List sources of raising long-term and short term finance.
Answer: Sources of raising long term and short term finance are shown in the chart given below:



Question 3. What is the difference between internal and external sources of raising funds? Explain.
Answer: The differences between interned and external sources of raising funds are summarized in the table given as follows:

Basis	Internal Sources	External Sources
Meaning	Internal sources of capital are those sources that are generated within the business.	External sources of raising funds are those which are outside the business.
Example	Ploughing back of profits, equity shares	Financial institutions, loans from banks, preference shares, debentures, public deposits, lease financing, commercial papers, trade credit, factoring
Reliability	It is more reliable.	It is less reliable.

Question 4. What preferential rights are enjoyed by preference shareholders? Explain.
Answer: Following preferential rights are enjoyed by the preference shareholders:

- They get dividend at a fixed rate and dividend is given on these shares before any dividend on equity shares.
- When company winds up, preference shares are paid before equity shares.
- Preference shares also have a right to participate in excess profits left after payment being made to equity shares.

- They also have a right to participate in the premium at the time of redemption. In lieu of these preferential rights, their voting rights are taken i.e. they are not eligible for voting.

Question 5. Name any three special financial institutions and state their objectives.
Answer: Given below are three financial institutions along with their objectives:

1. Industrial Credit and Investment Corporation of India (ICICI): It came into existence in 1955 as a public limited company under the Companies Act, 1956. Objective: ICICI assists the expansion and modernisation of industrial enterprises exclusively in the private sector. The corporation has also encouraged the participation of foreign capital in the country.
2. Industrial Development Bank of India (IDBI): It came into existence in 1964 under the Industrial Development Bank of India Act, 1964.
   Objective: Its objective was to coordinate the activities of other financial institutions including commercial banks. The bank performed three types of functions namely, assistance to other financial institutions, direct assistance to industrial concerns and promotion and coordination of financial technique service.
3. Life Insurance Corporation of India (LIC): It came into existence in 1956 under the LIC Act 1956 after nationalising 245 existing insurance companies.
   Objective: It mobilises the community saving in the form of insurance premia and makes it available to industrial concerns. Both public as well as private, in the form of direct loan and underwriting of an subscription to shares and debentures.

Question 6. What is the difference between GDR and ADR? Explain.
Answer: Global Depository Receipts (GDRs): GDR is an instrument issued by a company to raise funds in some foreign currency and is listed and traded on a foreign stock
exchange. American Depository Receipts (ADRs): The depository receipts issued by the company in the USA are called American Depository Receipts.
GDR and ADR are similar to each other except:

- GDR can be issued to anyone but ADRs can be issued only to an American citizen.
- GDR can be listed and traded in stock exchange of any country but ADRs can be listed and traded only in the stock exchange of USA.

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