8 Sources of Business Finance

What will you learn in this chapter

Introduction

During industrial revolution, in the field of Science and Technology many invention took place. Mechanisation in the field of production resulted in the increase of size of business unit. For each function the needs arises for different specialists. For this reason, specialisation in the business unit became essential and this resulted in high proportions of products. This neccesitated high capital investments in the business unit. This became impossible for one group of people in investment of capital and take risk. As a result, company form of business organisation came in to existance. At the same time sources of business finance also came in to existance.

8 1 Meaning of Business Finance

According to Accounting view point the term capital has narrow meaning. From the accounting view point, capital means amount of cash, assets and goods invested in business, but in commerce the word Captial has wider meaning. Capital, includes the amount invested by owner in business and the borrowed funds from different financial sources, Thus in broad meaning Capital means the funds raised to satisfy the various financial requirements of the business.

8 1 1 Need of Business Finance : Capital requirement is of most important to carry out each activities of business unit effectively.

Following are the factors determining need for capital **:**

(1) For Establishing Business : Various expenses are to be incurred to establish the business unit. Capital is required to meet the expenditures like conducting primary and extensive research, to prepare documents like certificate of registration, fees of experts in the field of law, registration fees etc.

(2) For Purchase of Fixed Assets : The long term investments made for the assets of the business unit is called **Fixed Assets.** In this type of assets frequent change is not possible. Long term finance in large proportions is needed for acquring fixed assets like land, building, machinery, vehicles etc.

(3) For Current Assets : Working capital is required to carry out daily activities smoothly in the business. Working capital is needed for the purchase of raw materials, to pay salary and wages, to make payment for services assisting trade and to invest in the stock of finished goods.

(4) For Mordernisation and Expansion of Business : Capital is required in large proportions due to new invention; for modernisation expansion and to adopt new production techonology in the business

(5) For Accidental Requirements : There are many internal and external factor which affect the business unit. Due to which requirement of capital arise to meet the factors like employee's strike, changes in government policy, trade cycle, natural disasters etc.

8 1 2 Importance of Finance in Business Firm :

Finance is such an axis, around which all financial activities rotate. Capital can be compared with the human blood. The importance of blood in a human body is almost equal to the importance of capital in business unit. To run all activities of business on time, a proper financial system is inevitable. Without capital, transaction of business unit is impossible. Amount of finance is limited and alternative uses are many. Therefore the use of funds should be done optimally.

Due to non-availability of sufficient fund, business has to face many difficulties. Credit worthiness of business unit is affected if there is delay in making payment to creditors. Some times the firm has to ignore the opprtunity of high profit investments, overlook the advantage of cash discount, face difficulty in timely purchase of raw materials etc.

8 2 Owner's Funds

Owner's Funds

- Equity Share
  - Ordinary Equity Share
  - Sweat Equity Share
  - Other Equity Share
- Preference Share
  - Redeemable Preference Shares to be redeemed before 20 years
  - Redeemable Preference Shares to be redeemed after 20 years
- Retained Profit or Ploughing back of profit

8 2 1 Equity Share :

8 2 1 1 Meaning : The shares having last right to receive dividend as well as capital as compared to preference shares are known as equality shares.

8 2 1 2 Characteristics :

(1) True Owners : This types of shareholders are called true owners of company or faithfull companions, because they take more risk than preference shareholders.

(2) Right to Vote : Equity holders have right to cast votes as per shares held by them.

(3) Rate of Dividend : For such shareholder the dividend and rate of dividend is not fixed.

(4) Profit Related : Dividend receivables to such shareholders is related with profit, hence dividend will increase-decrease with profit.

(5) General Meeting : These shareholders have right to attend the general meeting, vote and elect the directors.

(6) Repayment of Capital : Generally the share capital is not repaid during the existence of company.

(7) Dissolution (liquidation) : At the time of liquidation after the repayment of capital to preference shareholders, capital is repaid to equity shareholders. if surplus funds are avaialble.

(8) Shares of Qualification : If there is a provision in the memorandum and director have given consent to become the elected directors of company, then this share is considered as share of qualification.

(9) Capital Benifits : These shareholders receive various benifits. Right share, bonus share, benefit arising due to increase in share price in market etc. called capital benefits.

(10) Registration of shares : These types of share are registered in recognised share market, So purchase and sale of shares at market price can be done freely.

8 2 1 3 Types of Equity Share :

(A) Ordinary Equity Share : These share are very important for the company. Companies which raise share capital, it is compulsory to issue equity shares. These shareholders are true owners of company. Only these shareholder bear the real risk of business, because it is not definate to get dividend and if receivable then the rate of dividend is not fixed. Moreover if the company becomes insolvent or goes in to liquidation then funds realised after selling the assets, then debts are paid and after that in the end they are repaid their capital. The Promoters issues these share to raise the capital keeping in mind their short term, medium term and long term capital requirements. To raise large capital, the company divides the capital in small parts/shares. such each part is called share. **The purchaser of these share is called shareholders.**

(B) Sweat Equity Share : Company allotes shares to its directors, persons working in company who posses special knowledge and to employees at discount or without consideration of cash, such shares are called sweat equity shares.

(C) Other Equity Shares : Other equity shares are of two types :

(i) Equity share with voting rights.

(ii) Equity share with different rights in relation of dividend and having voting rights.

8 2 2 Preference Share :

8 2 2 1 Meaning : The shares having first right to receive dividend from company's profit and at the time of liquidation of company have first right for getting repayment of capital such shares are called preference shares.

8 2 2 2 Characteristics :

(1) Dividend : Preference share holders have first right to get dividend at fixed rate.

(2) Right to Vote : Preference Shareholders have right to vote for matter relating to their interest only.

(3) Preference : The investors prefering to buy this type of share as they like to have a steady, fixed income and security of their capital.

(4) Market Price : The price of these shares usually remain steady. Only when there is a change in rate of interest then their market price changes.

(5) Proportion of Risk : In this type of shares as compared with equity shareholders the proportion of risk is less due to priority of repayment of capital.

(6) Repayment of Capital : At the time of liquidation of company, after repayments of all the liabilities, preference shareholders have preference over equity shareholders to get repayment of capital.

8 2 2 3 Types of Preference Shares :

(1) Redeemable Preference shares before 20 years.

(2) Redeemable Preference shares after 20 years.

8 2 3 The Difference between Equity Share and Preference Share :

Sr. No.	Basis of difference	Equity Share	Preference Share
(1)	Compulsory	It is compulsory to issue each company.	It is not compulsory to issue such share by each company.
(2)	Rate of Dividend	Rate of dividend is not fixed.	Rate of dividend is fixed.
(3)	Rights	There is a right to attend company's meeting, to vote and elect managers.	There is right to vote only in matters related to their interests.
(4)	Risk	Proportion of risk is more	Proportion of risk is less.
(5)	Investors	These shares are preferred more by investors who wish to take risks and speculate (gamble) in shares.	These shares are preferred more by such investors who wish to get fixed income and security of capital.
(6)	Market Price	There is increase-decrease in market price of shares.	Proportionately the price of a share remain fixed. No increase-decrease in market price.
(7)	Addition in capital	In this type of shares, capital can be raised by right shares and bonus shares.	Capital can not be raised.

8 2 4 Retained Profit or Ploughing Back of Profit :

Meaning : During sound financial position, company earns more profit. Instead of distributing all profits in the form of dividend, company keeps some part of profit in the form of reserves in business. For future payment of business liabilities, these retained earning are reinvested in the business, it is called ploughing back of profit.

8 2 4 1 Advantages :

(1) Useful in Times of Recession : Negative changes in the market as well as to face difficulties arising in times of recession, the retained profit is very useful.

(2) Useful in Implimentation of Future Plans : For implementation of future plans like Development of Business unit, Expansion and Modernisation there is need to raise capital, company does not have to depend on external sources.

(3) Useful to Purchase New Assets : At the end of estimated life of assets, the retained profit can be used to purchase new assets.

(4) Fixed Dividend Policy : When sometimes company adopts a stable dividend policy then retained earning become useful.

(5) Burden Free Assets : As it is a source of ownership capital, retained profit, there is no need to create burden on the assets.

(6) Borrowed Capital Can be Repaid : Retained profits are useful to repay borrowed capital.

(7) Decrease in Cost of Capital : Due to having retained profit the business unit has not to depend on to raise capital by external sources or no expenditure is incurred in getting capital. Thus there is a decrease in cost of capital.

(8) Owner's Funds : Ploughing back of profit is an owner's fund, there is no need to pay interest.

8 2 4 2 Limitations :

(1) Encouragement to Monopoly : Excessive ploughing back of profit encourages monopoly.

(2) Promote Speculation : Many times managers of business by paying less dividend, carry excess profits to reserve fund. As a result market price of share decrease. At this time directors buy the shares and in future they declare higher dividends and when market price of share increase then by selling such share at higher price they derive personal profit.

(3) Difficult for Financially Weak and For New Companies : Ploughing back of profit is not possible for financially weak and also for new company.

(4) No Benefit to Small Investors : Small investors invest in business unit for expectation of higher dividend. If Directors, prefer plough back profit more necessary, then small investors do not get sufficient dividend.

8 3 Borrowed Funds :

8 3 1 Debentures : When company requires more capital then, company issues debentures to raise borrowed capital. Debenture is a liability of the company. Buyers of debentures i.e. debenture holders are creditors of the company. Debenture holders are paid interest at predecided rate and at specified time and at the end of predecided time limit money is returned or transferred into shares as per conditions. This is a important source for satisfying company's requirenents for long time and medium term finance. When debenture are issued, trustees are appointed for protection of interest of debenture holders, who protect the interest of debenture holders as per **Trust Deed.**

8 3 1 1 Characteristics :

(1) Creditors of company : As Debenture is a debt of company, debenture holders are creditors of the company.

(2) Fixed rate of Interest : Debenture holders are paid interest at predecided rate and time.

(3) Charge(burden) on Asset : For protection of money of debenture holders company creates a charge as security on its assets in favour of debenture holders, means company can use this assets.

(4) Necessity : It is a useful tool to satisfy the needs of long term and medium term finance.

(5) Registration at stock exchange : If debentures is listed at stock markets then it can be sold or purchased.

(6) Repayment : At the end of time limit the entire amount of debentures are repaid either once at a time or as per agreement by installements.

(7) First perference for payment : As the debentures are debts of company so at the time of liquidation along with third party debts, the money of debentures are paid.

8 3 1 2 Types of Debentures :

(A) Secured Debentures (B) Convertible Debentures (C) Non-Convertible Debentures

(A) Secured Debentures : Such debentures when issued with charge on assets of company as security against the money of debentures are called secured debentures or mortgaged debentures, These mortgaged assets can be used by the company. It mens a floating charge is crated on the assets.

(B) Convertible Debentures : The Debentures which at a specific time and as per the condition can be converted completely or partly in to the shares are called convertible debentures. If company has made provisions in memorendum of association, then against such debentures after a specific time and at a specific price, shares are given in predecided ratio.

(C) Non-convertible Debentures : These Debentures are not converted into shares and debentures holders are refunded money after a specific time and condition.

8 3 2 Bond : Bond is an important source for long term financial requirements of the company. Bond is a borrowed capital for the company. Bond is a debt and bond holders are creditors of the company. They are paid interest at fixed rate and time.

The basic price of bond is usually more than debentures. Mostly these are issued by Government, Municipal corporation and Companies. Bonds are known by the name given in the issue e.g. Sardar Sarovar Bond.

Bonds are issued for a fixed time limit. Governments and Companies when want to implement large size project then to satisfy long term requirement bond are more suitable.

8 3 3 Public Deposites : Company accept Deposits from general public to satify the need for short term working capital. They are called Public Deposits. These are borrowed capital as well as debt for the company and investors who invest money in deposits are creditors of the company. The time limit can be from 6 month to 36 months. Company pay interest at a specific rate to the deposit holders. Which may be quarterly, half yearly or yearly or on maturity of principal amount. According to the provisions of Companies Act 2013, excluding Banking and Non-Banking finance companies, can not accept public deposits from public.

8 3 3 1 Advantages :

(1) Easy to Receive Finance : Well established and profit making companies get finance easily.

(2) Less Expence in Receiving Finance : As compared with other sources of finance, finance throgh Public Deposits is less expensive and time required is also short.

(3) Assets Do Not have Charge : Companies need not mortgage the assets against getting finance through public deposits. Therefore in future these assets can be mortgaged to recieve additional borrowed capital.

(4) Interest is An Expense : The interest paid on Public Deposits is an expense to the company, therefore it is deducted from profit in calculating Income tax. Thus company has to pay less income Tax.

(5) Used as Working Capital : To satisfy the short term finance requirement the company can get finance through Public Deposits and thus can satisfy the need of working capital.

8 3 3 2 Limitations :

(1) Uncertainty : There is uncertainty in getting finance through public deposits. Because the mood of the investors can not be predicted.

(2) Insecurity to Investors : Public deposits are considered unsecured debt. Therefore there is an element of risk for investors.

(3) Fair Weather Friends : Public deposits are considered as "Fair Weather Friends". Because when the financial condition of the company deteriorate or damaging, rumours about company spread in market, then depositors make a rush to withdraw deposits before the maturity date. This create financial problems for the company. Therefore public deposits are called "Fair Weather Friends".

(4) Difficult for New and Weak Companies : In the begining the depositors have no trust in new and financial weak companies. Therefore investors do not take risk to invest funds in such companies

8 3 4 Loan from Financial Institutions : Due to changes in the field of Science and Technology there was a rapid growth in the development of Industry and commerce. So the needs of long term finance also increased. Individual investors and commercial banks can not satisfy the increased need. Therefore need to establish special Financial Institutions is arised to meet large and long term capital requirements of the country.

With the begining of five year plans in country, emphasis was laid on industrial development. For satisfying long term capital requirement of Public sector, Private sector and Newly established industries financial institutions were established by Government of India Along with this, state financial corporation had been established to provide financial help to small and medium size units.

Some of main financial institutions providing long term borrowed capital are as under :

(1) IFCI - Industrial Finance Corporation of India

(2) IDBI - Industrial Development Bank of India

(3) ICICI - Industrial Credit and Investment Corporation of India

(4) GSFC - Gujarat State Finance Corporation

(5) GIIC - Gujarat Industrial Investment Corporation

8 3 4 1 Functions :

(1) Provide Finance for Buying Shares : At the time of incorporation of company and at the time of modernisation and expansion, Financial Institution buy the issued share and provide help. Moreover they also help by offering the services of underwriter.

(2) Provide Finance by Giving Loan : Financial Institution give Loan to business units against mortgage. Moreover in certain special situations if there is a need, then over and above the assets of company they take mortgage of personal properties also.

(3) Help through Direct Payment for Technological Services : Many times the companies have to spend heavily for technological services. Financial Institutions provide technical services, and on behalf of the company they make payment directly to such technological companies.

(4) Provide Guarantee : By becoming Guarantor they offer assurance to other financial institutions. This way they offer indirect help to the companies to get finance.

(5) Other Services : Financial companies offer help in establishment of company, market reserch and also providing information of foreign markets.

8 3 5 Commereical Banks : For providing short term working capital, the source of commercial bank is very important. Bussinessmen and Industries depend on commercial banks for their short term capital requirements to certain extent. Deposits accepted from public are used by the bank for lending purpose to business units. Lending of finance of three types : (1) Loan (2) Cash credit (3) Over Draft.

8 3 5 1 Loan : Commercial banks lend money to business organisation in the form of loan, which is as per such and policy of the bank. They provide loan after proper evaluation of the company's financial requirements, capability to repay money, last year's annual account and profitability of the business. While offering loan, the assets of company is mortgaged in favour of bank. Interests have to be paid at fixed rate of interest over approved loan. Amount of loan can be repaid in predecided installment or total at a time.

8 3 5 2 Cash Credit (C.C.) : For meeting the requirements of businessman, Industrial bank approves an amount of loan against the security of stocks and personal properties, then approved amount is called **Cash Credit**.

Intreast on such credit facility will be charge on the basis of amount utilised and time of utilisation of fund.

8 3 5 3 Over Draft (O.D.) : Bank offers the facility for withdrawal of more money than the balance in current account of the business man, under certain limtation is called **Over Draft.**

8 3 6 Trade Credit : Business units have needs of raw material, finished goods or other tools and things. In this situation a business unit purchases from other producers or traders on credit for some time period and create working capital. Thus the creditors do not provide capital directly. But by giving goods or services on credit they satisfy the capital requirement.

8 3 7 Internel Corporate Deposites : Usually when a company gives deposit to other company which is in need of fund, then such deposit is called **Inter corporate Deposit**. Usually these types of transaction occur between a major company and a minor company, also happens between various companies managed by one group. Rate of interest and time limit is decided by an agreement. As compared with other sources this borrowing is easy.

8 3 8 Difference Between Owner's fund and Borrowed Fund :

Sr. No.	Basis of difference	Owner's fund	Borrowed fund
(1)	Meaning	Funds invested by shareholders is called owner's fund.	Funds borrowed from other sources and invested in business is called borrowed fund.
(2)	Source	Can be received from equity shares, ploughing back of profit, depreciation fund and reserves.	Can be received from debenture commercial banks and financial institutions.
(3)	Return	Return is in form of dividend of owner's fund.	Return is in form of interest at fixed rate.
(4)	Rate of return	Rate of return is uncertain or not fixed.	Rate of return is fixed.
(5)	Repayment of capital	Owner's fund is repaid at last.	Repayment of borrowed funds is made earliar than owner's fund.

What did you learn in this chapter

(1) Meaning of Business Finance : As per accounts, capital means cash, goods or assets invested by owners of business. In view of commerce, the funds invested by the owner himself and borrowed funds from various sources is included in capital.

Factors determining need for capital :

Business Finance : (1) For establishment of the business (2) For purchase of fixed assets (3) For current assets (4) For modernisation and expansion of business (5) For accidental requirements.

Importance of finance : Finance is an axis around which all financial activities rotate. Business finance can be compared with the blood of human body. Due to insufficient finance business has to face many problems.

(2) Owner's Fund :

Equity Share : Meaning : The share which have the right to receive dividend and repayment of capital in the last is called equity share.

Characteristics : (1) True owners (2) Right to vote (3) Rate of dividend (4) Relation with Profit (5) General meeting (6) Repayment of capital (7) Dissolution/Liquidation (8) Share of qualification (9) Capital benefits (10) Registration of shares.

Types of Equity Share : (A) Ordinary Equity Share (B) Sweat Equity Share (C) Other Equity Share

(A) Ordinary Equity Share : Very important share. It is compulsary to issue share for the companies which generate capital by issuing share. True owners of company. Bear true risks. Rate of dividend is not fixed. Repayment is made in the last of all.

(B) Sweat Equity Share : Company allots shares to its managers and persons with specialised knowledge at a discount or for non cash consideration, such shares are called sweat equity share.

(C) Other equity Shares : These shares are of two types :

(1) Share with voting right (2) Share having various rights in rotation to dividend along with voting rights.

Preference Share : Meaning : The share having first right to receive dividend from profit as well as having first right to get repayment of capital at the time of liquidation are called preference share or share having a preference.

Characteristics : (1) First right to receive dividend (2) Voting right only for the matters related to their interest, (3) Steady, fixed income, Preferred by investors who wish to have security of capital. (4) Usually market price remain steady (5) Proportion of risk is less. (6) Repayment of capital is received prior to equity shareholders.

Types of Preferences Share : (1) Such preference share which can be repaid before twenty years (2) Such preference share which can be returned after 20 years.

Difference Between Equity Share and Preference Share :

Points: (1) Compulsory (2) Rate of dividend (3) Rights (4) Risk (5) Investors (6) Market price (7) Growth in capital.

Retained Earning or Ploughing Back of Profit :

Meaning : Instead of distributing all profits as dividend, some part is kept in the form of reserves. If need arise in future then this retained earning are reinvested in business.

Advantages : (1) Useful in time of recession (2) Useful for implimentation of plan in future (3) For purchase of new assets (4) Fixed dividend policy (5) Assets do not have charge as a security (6) Borrowed capital. (7) Decrease in cost of capital (8) Owner's fund.

Limitations : (1) Encouragement to monopoly. (2) Promote Speculation (3) Difficult for financially weak and new companies (4) No benefits to small Investors.

(3) Borrowed Funds :

Debenture : Issued for raising more capital. It is a debt of company. Purchasers are called debenture holders. They are creditors of company. Interest is paid at fixed rate of interest and at fixed time. At the end of time limit, money is returned as per conditions. It is an important source for long term and medium term finance.

Characteristics : (1) Creditors of company (2) Interest at fixed rate. (3) There is a charge on assets. (4) Necessity. (5) Listed at stock exchange. (6) Money repaid (7) First preference for repayment.

Types of Debentures :

(1) Secured Debentures : When comany received money after mortgaging its assets, then such debentures are called secured debentures.

(2) Convertible Debentures : Such Debentures can be converted into shares at a fixed time and as per rules and conditions.

(3) Non-Convertible Debentures : Such debentures are not converted in to shares. Money is returned.

Bonds : Useful to satisfy long term requirements of business finance. It is a debt of company. Bond holders are called creditors of company. They are paid interest at the fix rate and at fixed time. They are known by name in which they are issued e.g; Sardar Sarovar Bond.

They are issued by the Government, Municipal corporation and the Company. They are useful to implement long term projects.

Public Deposits : Company accepts deposits from Public to satisfy the short term working capital needs. It is a borrowed fund and debt. Depositors are creditors of the company. The time limit is of from 6 months to 36 months. Interest is paid at decided fixed rate and as per conditions. At the time of maturity the money is paid back.

Advantages : (1) Easy to raise finance. (2) Less expensive to raise finance. (3) Assets are charge free. (4) Interest paid is an expeanse (5) Used as working capital.

Limitations : (1) Uncertain (2) Risky to Investors (3) Fair weather friends (4) Difficult for new and financially weak companies.

Loans from Financial Institutions : To meet the long term capital requirements of the company, the financial Institution were established. These Institutions are established by Central Govern-ment and State Government, e.g; (1) Industrial Finance Corporation of India (IFCI) (2) Industrial Development Bank of India (IDBI) (3) Industrial Credit and Investment Corportion of India. (ICICI) (4) Gujarat State Finance Corporation (GSFC) (5) Gujarat Industrial Investment Corporation (GIIC).

Functions : (1) Provide finance for purchase of shares (2) Private finance by giving loans (3) Help by paying directly for Technology Services (4) Provide Guarantee (5) Other services.

Commerical Bank : Provide short term working capital. Deposits accepted by Gerenal Public is used to finance the companies by three ways : (1) Loan (2) Cash Credit (3) Over Draft.

(1) Loan : After proper evaluation of company, according to the rules and polices of the bank-offer loans to the company. Assets are to be mortgaged. Interest is to be paid at fixed rate of interest on approved amount of loan. Loan is to be repaid according to predecided conditions.

(2) Cash Credit : Bank approves an amount of loan against the security of company's stock of goods or personal assets is called cash credit.

(3) Over Draft : The Bank provides the facility for withdrawal of more money then the balance in company's current account, under certain limitations. This facility is called an Over Draft.

Inter Corporate Deposits : When one company provide funds in the form of deposit to another company who is in need of company then it is called inter-corporate deposit. These transactions happen between a holding company and a subsidiary company. Rate of interest is determined by an agreement.

The Difference Between the Oweners Fund and Borrowed Funds :

Points: (1) Meaning (2) Source (3) Returns (4) Rate of Returns (5) Repayment of capital.

Trade Credit : When purchases of raw material, finished goods and other Equipments are made from producers and traders on credit, it is called trade credit. Trade credit is a source of working capital.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) Out of the following which is not the sources of ownership capital. ?

(a) Ordinary equity share (b) Sweat equity share

(c) Preference share (d) Debenture

(2) Who are called the true owners of company ?

(a) Equity shareholders (b) Preference shareholders

(c) Debenture holderes (d) Bond holders

(3) Which shares are offered to the managers at a discount or in place of cash ?

(a) Ordinary equity share (b) Sweat equity share

(c) Bonus share (d) Right share

(4) Who has the first right to recieve dividend from profit of company ?

(a) Preference shareholders (b) Debenture holders

(c) Equity shareholders (d) Creditors

(5) At time of Liquidation who get capital first ?

(a) Preference shareholders (b) Oridany Equity shareholders

(c) Premoters (d) Debenture holders

(6) The capital invested in the permanent assets of business is known as which capital ?

(a) Working capital (b) Short term capital

(c) Current capital (d) Fixed capital

(7) What are the Debenture holders of the company called ?

(a) Owners (b) Debtors

(c) Creditors (d) Promoters

(8) ...... is the internal source to satisfy the long term finance requirements for business unit.

(a) Ordinary equity share (b) Preference share

(c) Public deposits (d) Ploughing back of profits

(9) Which companies can plough back the profits ?

(a) Newly established company (b) Running company

(c) Financially sound company (d) Loss making company

(10) How do the government get finance to implement long term project ?

(a) By ordinary equity share (b) By bond

(c) By debentures (d) By public deposits

(11) The proper source of getting short term working capital is......

(a) Preference share (b) Bond

(c) Financial Institutions (d) Trade credit

Answer (1) (d) (2) (a) (3) (b) (4) (a) (5) (d) (6) (d) (7) (c) (8) (d) (9) (c) (10) (b) (11) (d)

2. Answer the following questions in one sentence each :

(1) Which shareholders are the true owners of business ?

(2) Who has the first right to receive dividend from company's profit ?

(3) State the sources of borrowed capital.

(4) What is a convertible debenture ?

(5) Explain the following terms :

(1) IFCI (2) IDBI (3) ICICI (4) GSFC (5) GIIC

(6) State the main lending polices of commercial banks.

3. Answer the following questions in short :

(1) Give meaning of capital from the view of commerce.

(2) What is called sweat equity share ?

(3) Why preference shares are called the share of preference ?

(4) State types of preference share.

(5) Why ordinary equity share is called risky share ?

(6) What is the main difference between bond and public deposits ?

(7) What is a floating charge ?

4. Answer the following questions in brief :

(1) Explain advantages and limitations of ordinary equity share.

(2) Distinguish between equity share capital a preference share capital.

(3) Explain the lending policy of commerical bank.

(4) Distinguish between ownership capital a burrowed capital.

(5) Write short notes on.

(A) Bond (B) Trade credit (C) Inter corporate deposits.

(6) "Public Deposit is known as Fair Weather friends"-Explain statement.

(7) "Ploughing back of profit is not possible for every company"-Explain statement.

5. Answer the following questions in detail :

(1) Explain the factors deciding the need of capital.

(2) Define share and explain the charactristics of equity share.

(3) Give meaning of preference share and explain its characteristics.

(4) Give the meaning of debenture and explain its types.

(5) What is the ploughing back of profit ? Explain its advantages and limitations.

(6) What is public deposits ? Explain advantages and limitations of public deposit.

(7) Explain the functions of financial institutions.

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