UNIT VI BUSINESS FINANCE

CHAPTER 19 SOURCES OF BUSINESS FINANCE

99E35L

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உண்டாகச் செய்வான் வினை. -குறள் 758

Couplet:
An undertaking of one who has wealth in one's hands is like viewing an elephant-fight from a hill-top.

Learning Objectives

To enable the students to

i. explain the meaning, nature and significance of business finance
ii. explain the need for business finance
iii. classify the various sources of business finance
iv. understand the importance of savings and investments

Introduction

The previous chapter highlighted the importance of insurance. The present chapter enlightens the students on the concept of Business Finance. Need for the Business Finance, sources of funds and the importance of savings and personal investment avenues, are briefly discussed in this chapter.

"Finance is the lifeblood of any business." No business enterprise can function without finance. Business enterprises need finance for fixed and working capital requirement. Fixed capital requirements include purchase of plant, machinery, furniture, fixtures, vehicles, and so on, while working capital requirements include purchase of raw materials, payment of salary and wages, incurring operating expenses like telephone bills, carriage inward and outward, electricity charges, premium, stationery, etc. Owner or promoter has to estimate the business finance and accordingly look for various sources for financing the operations of the enterprises. The term sources of funds denote the various avenues of mobilisation of funds for a concern. This chapter throws light on each source of capital.

19.01 Meaning and Nature of Business Finance

Meaning

The term business finance denotes the economic resources employed in business enterprises. This term includes money and credit employed in the business. Business finance is mainly concerned with arrangement of cash and credit for the business enterprises to carry out their day to day operations smoothly.

It is clear from the definitions given above that the term 'business finance' is mainly concerned with not only acquisition of funds from various sources but also with effective and efficient utilisation of the finance mobilised therefrom.

Definition

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

– *R.C. Osborn*

"Finance is that business activity which is concerned with the acquisition and conservation of capital fund in meeting the financial needs and overall objectives of business enterprises."

- *B.O.Wheeler*

Nature and Significance of Business Finance

Nature of Business Finance

The following characteristics can be derived from the above definitions.

1. Business finance comprises of all types of funds namely short, medium and long term used in business.
2. All types of organisations namely small, medium and large enterprises require business finance.
3. The volume of business finance required varies from one business enterprise to another depending upon its nature and size. In other words, small and medium enterprises require relatively lower level of business finance than the large scale enterprises.
4. The amount of business finance required differs from one period to another. In other words the requirement of business finance is heavy during the peak season while it is at low level during the dull season.
5. The amount of business finance determines the scale of operations of business enterprises.

Significance of Business Finance

Business enterprise can function effectively and efficiently only with adequate business finance. It cannot expand its business operations without business finance. The success of any business firm depends, to a larger extent, on the manner in which it mobilizes, uses and disburses its funds.

The following points highlight the significance of business finance.

1. A firm with adequate business finance can easily start any business venture.
2. Business finance helps the business organisation to purchase raw materials from the supplier easily to produce goods.

3. The business firm can meet financial liabilities like prompt payment of salary and wages, expenses, etc., in time with the help of sound financial support.
4. The sound financial support enables the enterprises to meet any unexpected or uncertain risks arising from business environment efficiently. For example economic slowdown, trade cycles, severe competition, shift in consumer preference, etc.
5. Sound financial position empowers the enterprise to attract talented man power and introduce latest technology.

19.02 Sources of Business Finance

Classification of Sources of Finance

Business finance is classified into three types with reference to time pereiod i.e. Long term finance (more than 5 years), Medium term finance (above 1 year but below 5 years) and Short term finance (within one year) for carrying on business operations. Long term finance can be mobilized by issue of shares and debentures, term loans from commercial banks and financial institutions, and retained earnings. Medium term finance can be mobilized by public deposits, leasing, medium term loans from banks and financial institutions. Short term fiancé can be raised through public deposits, trade credit, customer advance, , hypothecation, cash credit, bank overdraft, pledge, mortgage etc.

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

On the basis of period

The different sources of finance can be further grouped into three categories on the basis of period

1) Short term finance 2) Medium term finance 3) Long term finance

Sources of Short Term Finance

Short term funds are those sources which are required by the business firms for a period of within one year. Some of the important sources of short term finance are briefly explained below.

1. Loans and Advances

Loan is a direct advance made in lump sum which is credited to a separate loan account in the name of borrower. The borrower can withdraw the entire amount in cash immediately. It can be repaid in one or more installments. But the interest on loans and advances is calculated on the whole of the amount borrowed right from the date of sanction. It may be secured or unsecured. Loans and advances are usually sanctioned by pledge of specific assets like Fixed Deposit Receipts, Document of Title to the Goods, Shares, Debentures, etc.

2. Bank Overdraft

Bank overdraft 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.

3. Discounting Bills of Exchange

When goods are sold on credit, the suppliers generally draw bills of exchange upon customers who are required to accept it.

The duration of such bills of exchange may be ranging from 15 days to 180 days. Instead of holding the bills till the date of maturity, borrowers generally prefer to get them discounted with the bank. Discounting bills of exchange refers to an act of selling a bill to obtain payment for it before its maturity.

4. Trade Credit

Trade credit is the credit extended by one trader to another for the purpose of purchasing goods and services. 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. There is no formality involved in availing this facility. There is no need to give any security for trade credit. It is said to be more economical than bank loans.

5. 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.

6. Hypothecation

This is loan taken by depositing document of title to the property with the banker. Of course the physical possession of asset property is with the borrower. If the borrower fails to repay the loan amount, the article hypothecated will be sold in auction by the banker concerned. Business people *hypothecate* goods or equipment to get this type of loan. It is a loan taken on the security of **movable asset**.

7. 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.

8. 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 like railway receipt, bill of lading, trust receipt, warehouse keeper's receipt, book debt, and so on, and provides loan on the basis of the aforesaid securities.

9. Clean Loan

Banks provide clean loan to certain customer of outstanding credit worthiness on the basis of their character, capacity and capability. It simply grants loan without any physical security. In other words clean loan is loan given without any security or with personal security.

10. Commercial Paper (CP)

Commercial paper (CP) is an unsecured money market instrument in the form of a promissory note. Corporates, Primary Dealers (PD), and All India Financial Institutions are eligible to issue Commercial Paper. It was introduced in India in 1990 under Section 45W of the Reserve Bank of India Act. It is issued by a firm to raise funds for a short period. It can be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue.

11. Hire Purchase Finance

Small scale firms can acquire industrial machinery, office equipments, vehicles etc., without making full payment through hire purchase. With the help of assets acquired through hire purchase, they can produce and sell. From the earnings, payments can easily be made in installments. Ultimately the ownership of assets can be acquired. Now several agencies like National Small Industries Corporation (NSIC) provide machinery and equipments to small scale units on hire purchase basis.

12. Factoring

Factoring is one of the methods of raising business finance through sale or mortgage of book debts. Under this method, business concerns sell the accounts receivable to a finance company called a factor at a discount.

Sources of Medium Term Finance

1. Loans from Banks

When the bank lends for a period ranging from more than one year to less than five years, it is called medium term loan. All aspects of bank finance have been discussed under the head long term sources of finance.

2. Loan from Financial Institutions

Where the financial institutions lends for a period ranging from more than one year to less than five years, it is called medium term loan. All aspects of institutional finance have been discussed under the head long term sources of finance.

3. Lease Financing

Lease financing denotes procurement of assets through lease. For many small and medium enterprises, acquisition of plant and equipment and other permanent assets will be difficult in the initial stages. In such a situation Leasing is helping them to a greater extent. Leasing here refers to the owning of an asset by any individual or a corporate body which will be given for use to another needy business enterprise on a rental basis.

The firm which owns the asset is called 'Lessor' and the business enterprise which hires the asset is called 'Lessee'. The contract is called 'Lease'. The lessee pays a fixed rent on agreed basis to the lessor for the use of the asset. The terms and conditions like lease period, rent fixed, mode of payment and allocation of maintenance, are mentioned in the lease contract. At the end of the lease period, the asset goes back to the lessor. Alternatively lessee can own the asset taken on lease by payimg the balance of price of asset concerned to lessor. Hence lease finance is a popular method of medium term business finance.

Sources of Long Term Finance

Long term sources of funds refer to those sources which are required by the business firms for a period exceeding five years. The various sources of long term business finance are briefly explained below.

1. Shares

Corporate enterprises generally obtain capital mainly from share capital which is divided into small units called shares. Each share has a nominal value. The Indian Companies Act 2013 describes a share "to be a share in the share capital of a company". The person holding a share is called shareholder who has the interest in the assets and profit of the company. There are two types of shares namely Equity shares and Preference shares.

i) Equity Shares

The fund raised by issuing equity shares is termed as equity share capital. Equity share is the most important source of raising long term capital by a company. These shares do not carry any special or preferential rights in the matter of payment of annual dividend and repayment of capital at the time of winding up . Equity shareholder enjoys more voting rights in proportion to number of shares held by them. Thus they take part in the management of the company.

ii) Preference Shares

The fund raised by issue of preference shares is called preference share capital. Preference shares are those shares which enjoy priority regarding payment of dividend at a fixed rate out of the net profits of the company. They will get their dividend every year before any dividend is paid to equity shareholders. They will have a right to get their settlement before the claims of equity shareholder are settled at the time of liquidation of company. However they do not have voting rights.

2) Debentures

Debentures are an important instrument for raising long term debt capital. A company can raise funds through issue of debentures which bear a fixed rate of interest. The individual or person subscribing to debentures is called debenture holder. An entity raising funds through debenture has to pay interest at the stipulated date whether it earns profit or loss. Failure to pay interest leads to liquidation of the company. Debenture holders do not have voting rights.

3) 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. An individual would like to save a portion of his/her income for meeting the contingencies and growth needs. Similarly profit making company would retain a portion of the net profit in order to finance its growth and expansion in near future. It is described to be the most convenient and economical method of finance.

4) Public Deposits

Under this method, companies invite public deposits by giving advertisement in the media. It offers deposit schemes for a longer tenure. Person interested in making public deposit has to undergo a simple formality. The interest rates offered by companies on public deposits are relatively higher than the bank. Public deposits are perceived to be economical for the company since the interest rate on deposits is less than the cost of borrowing from the bank.

The company need not offer any of its assets as security on accepting public deposits. Moreover the control of the company is not diluted as the deposit holders do not enjoy the voting rights.

5) Long Term Loan from Commercial Banks

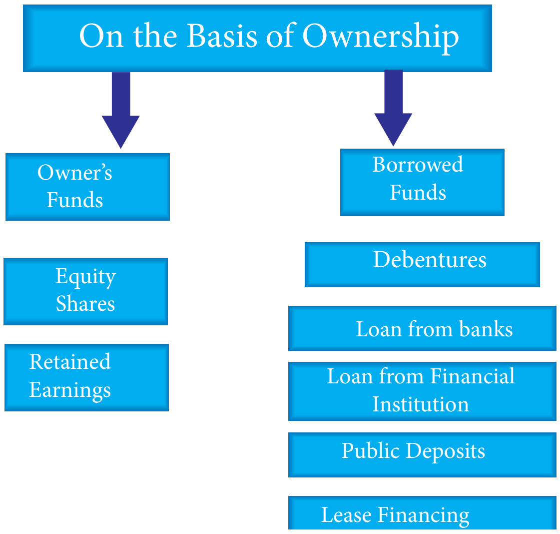
Commercial banks are important sources of raising business finance for various purposes as well as for different time periods. Banks in modern times offer long tenured loans for a period beyond 5 years also. The long term loan taken from banks can be repaid either in installment or in one lump sum. Banks provide long term loans on the security of assets of the business firms. Nowadays the formalities for taking long term loans are simplified by the Reserve Bank of India.

6) The Loans from Financial Institutions

Central and State Governments have established various financial institutions in India to provide finance to business enterprises for a longer period. These institutions aim at promoting the industrial development of a country. In addition to loan assistance, they conduct market surveys, provide technical assistant and supply managerial talents to borrowing enterprises to manage the companies. They mainly provide large funds for longer period for financing expansion, reorganisation and modernisation of an enterprise. They allow longer repayment period to repay the loan. Hence the borrowing companies do not feel the stress of repayment. Financial institutions provide term loans mostly to highly rated corporates by the credit rating companies.

On the Basis of Ownership

Business finance can be divided into two categories based on ownership of funds.



1. Owner's Funds

Owner's funds mean funds which are provided by the owner of the enterprises who may be an individual, or partners or shareholders of a company. The profits reinvested in the business (ploughing back of profit or retained earnings) come under owner's funds. These funds are not required to be refunded during the life time of business enterprise. It provides the owner the right to control the management of the enterprise.

2. 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.

1. These borrowed sources of funds provide specific period before which the fund is to be returned.
2. Borrower is under legal obligation to pay interest at given rate at regular intervals to the lender.
3. Generally borrowed funds are obtained on the security of certain assets like bonds, land, building, stock, vehicles, machinery, documents of title to the goods, and the like.

On the Basis of Generation of Funds

The sources of funds can be grouped into two categories based on generation.

1. Internal Sources

This includes all those sources generated from within the business enterprises. For instance retained earnings, collection from receivables (trade debtors and bills receivable), surplus from disposal of old assets and so on. These sources can meet only limited needs of business enterprise.

2. External Sources

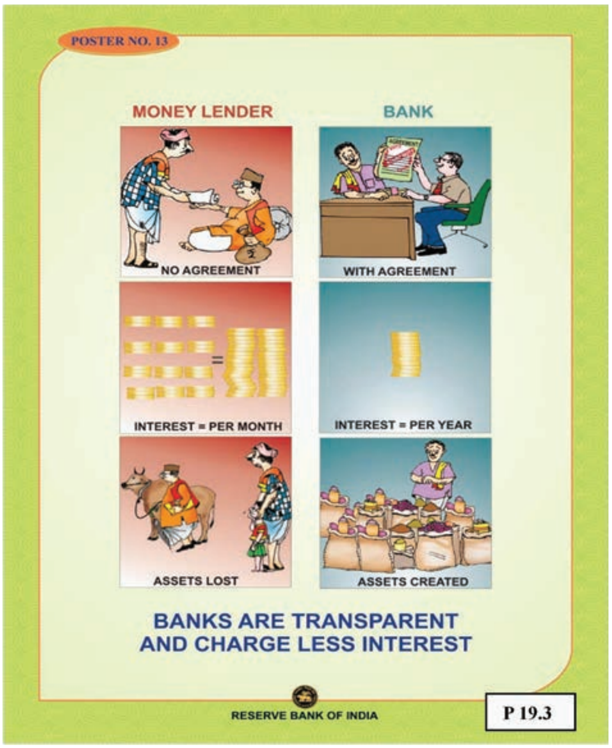
External sources of funds include all those sources which generate funds from outside the business enterprise. For example issue of shares and debentures, borrowings from banks and financial institutions, public deposits, factoring, leasing, hire purchase, etc.

19.03 Factors Influencing Choice of Business Finance

There are various factors influencing choice of source of business finance. These factors are briefly discussed below

1. Cost

Business enterprises have to analyse the cost of mobilising and utilizing the funds. For



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Informal money lenders

There are certain groups or individuals in urban and rural areas of Tamil Nadu, and all over India, who lend money informally. They follow unethical practices of lending by

i) Charging very high rate of interest on daily basis.

ii) Collecting back the loans through money and muscle power.

iii) Ill-treating the borrowers to the core, sometimes leading to suicides

iv) Being highly choosy about the borrowers rather than the project financed.

The RBI and the respective governments in various states have come up with many legal control measures, but still they are beyond the reach of such measures. For example with the rapid growth in information technology personal financing has undergone a sea-change. Peer-to-peer lending is very popular among urban salaried class. Sites like https://www.faircent.com/ enable salaried people to take an advance at a nominal interest in case of emergencies.

Micro finance or financing small business enterprises today has to be viewed from the 'ethical' sources than the 'informal' sources that are totally unscrupulous in their financing practices. So Entrepreneurs can approach sites like https://udyamimitra.in to apply for MSME, 'STAND UP INDIA' and MUDRA loans.

The website portals like https://www.vidyalakshmi.co.in/ enable the students to approach for Education Loan in moderate rate of interest for further studies in various banks and financial institutions. The portal helps in providing linkages to National scholarship Portal.

instance where the interest rate is relatively lower, public deposits, debentures, term loan etc. may be desirable options.

2. Financial Capacity of the Firm

Financially sound enterprises have capacity to pay interest promptly and return the capital at the stipulated time. Such enterprises can go for borrowed source. On the other hand, if the firm is not financially stable, it has to depend on owned sources of fund.

3. Forms of Organisation

The choice of source of fund depends on the form of organisation. Sole proprietor and partnership firms cannot issue shares and debentures. They have to depend on short term sources like bank finance, leasing, hire purchase, factoring, etc. On the other hand Companies, Government organisations and Co operative organisations mobilise funds both from long term sources like shares, debentures, public deposits etc. and from short term sources.

4. Time Period

The period for which business finance is required determines the suitable source. For instance, where funds are required for shorter period, bank finance like overdraft, cash credit, bill discounting, mortgage, pledge, leasing, hire purchase, factoring and so on, are suitable sources. Funds required for longer period can be tapped from issue of shares, debentures, bonds, term loan and the like.

5. Risk Factor

Owned funds do not invite any risk while using borrowed funds entails a lot of risk. The probable default in paying interest and capital may lead to the liquidation of business enterprises besides damaging the reputation of the business concern in the business world.

6. Control

Equity shareholders are real owners of corporate enterprises. They exercise complete control over the management of the company. If the existing shareholders do not like to lose their control, they must not issue more equity shares to supplement the financial resources. Contrarily borrowed sources of funds will not disturb the control exercised by the company management. Hence borrowed source is suitable for maintaining the administrative control of the company.

7. Stage of Development

A new business enterprise finds it hard to mobilise business finance than an established firm. Therefore it may have to rely on owned sources in the initial stage. Once the business enterprise has established itself in the business world, they can tap borrowed source of funds and offer its assets as security there for.

8. Credit Worthiness of Firms

Some sources of funds like debentures and creditors require the business firms to mortgage the assets. This hurts the credit worthiness of the business concern in the financial market. Contrarily business concerns do not have to mortgage its assets when they mobilise funds through sources like share capital, retained earnings, unsecured loans, etc. and thereby maintaining good image in the financial market.

19.04 Savings - Importance of Savings

The concept of savings plays an important role in economic development of any country. Saving is defined as the difference between income and consumption. In other words it points to sacrifices of some sort. Earning money may be easy; but using it in the right way as well as saving it for the future is pretty tough. Savings is important for each and every one of us to lead a peaceful life. Saving paves way for a happier future. "World Savings Day" was promoted all over the world to emphasis the value of savings. October 31 has been declared as the "World Savings Day" by the International Savings Bank Congress.

Following Points Highlight the Importance of Savings

Money invested in deposit account, small savings schemes, mutual funds, life insurance policies, Bonds of Government companies, shares etc. lead to overall economic development of a country.

1. Money invested in bank deposits facilitates employment generation in various sectors of economy and poverty alleviation.
2. The savings invested in bank deposits lead to credit creation in the country which in turn promotes industrial and agricultural development in a country.

"SAVE MONEY TO SAVE ALL"

3. Savings invested in government bonds and various institutions helps in great measure in building in strengthening the infrastructure facilities in a country.
4. The country with higher savings can easily face the consequences of economic recession.
5. The bad consequences of inflation can be met easily with strong savings. As a result the evil effect of soaring prices can be controlled.

19.05 Personal Investment Avenues

People invest the savings to gain financial security. They are investing their savings in a various investment avenues for various purposes. They may invest in various securities and wait for a stipulated period to get back their investments with higher value addition.

There are three aspects which need to be considered before investing the money namely liquidity, profitability, and safety. In other words some investments can be easily and readily encashed in the market without any loss. Such investments are called liquid investments, for example bank deposits, government bonds, mutual funds, precious metals like gold, silver, platinum etc. while certain other investments cannot be liquidated immediately but they may fetch higher returns at maturity. For example shares, real assets, debentures, public deposits, fixed deposits, money back insurance policies come under this category.

Certain other investments offer higher income earning prospects but they are totally unsafe as in the case of gambling, horse race, lottery, speculation and so on and so forth. Therefore an individual investor has to park the surplus funds judiciously so as to balance the liquidity, safety and profitability.

Following are some of the investment options available to individual investor

1. 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. The money deposited cannot be withdrawn before 15 years and an investor can earn compound interest from this account. However the investor can extend the time frame for the next five years if the investor does not opt to withdraw the amount matured for payment at maturity date. PPF investor can take loan against PPF account when he/she experiences financial difficulties.

2. 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. Systematic investment plan is one of the best investment options in India.

3. Direct Equity or Share Purchase

An individual can opt for investment in shares. But he has to analyse the market price of various shares traded in stock exchange, reputation of the company, consistency in the payment of dividend, the nature of the project undertaken by the company, growth prospects of industry in which a company is operating, before investing in shares. If the investment is made for a long time, it may yield good return. However there is equally risky to invest in shares as there is no guaranteed return therein.

4. 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. The value of the real asset may increase substantially depending upon the area of location and other support facilities available therein. However an investor in real estate has to be cautious and circumspect in verifying the genuineness of the title deeds before investing in real estate assets and also the reputation of seller of real assets.

5. Investing in Metals

Investment in metals like gold, silver and platinum is one of the oldest and evergreen investment products. The values of the metals rise slowly and steadily in line with the dynamic market conditions. But investors can liquidate the metals immediately in the market without any loss. Besides an investor can opt for investment format, like gold deposit scheme, gold ETF (exchange-traded fund), Gold Bar, Gold mutual fund etc., to get benefit in the short period of time.

6. Post Office Saving Schemes

There are different types of postal small savings schemes namely Post Office Savings Account, Post Office Recurring Deposit Account (RD), Post Office Fixed Deposit Account (FD/TD), Post Office Monthly Income Account Scheme (MIS), Senior Citizens Saving Scheme (SCSS) Public Provident Fund Account (PPF), National Savings Certificates (NSC), Kisan Vikas Patra (KVP), Sukanya Samriddhi Account (SSA). Investors can choose the appropriate postal schemes as per their needs.Postal investment schemes is the safest investments

7. Public Deposits

Public deposits are more beneficial than the fixed deposit in the bank, in the matter of yielding good return. An investor has to select the investment period very carefully. He/she is not allowed to withdraw money before maturity. However the public deposits collected by companies and institutions do not offer any insurance benefits. It does not come under the control of the Reserve Bank of India. The investors who are willing to invest for long term can opt for public deposits.

8. Bonds

Bonds are one of the ideal investment options for those investors who would like to invest their hard earned money safely. Bonds are issued both by government and public and private sector companies and financial institutions. Mostly there are four types of bonds sold in India namely Government bonds, Corporate bonds, Banks and other financial institutions bond and Tax saving bonds. The term bond is used for the debt collected by the government while the term debenture is used when the corporates collect debt capital from the public.Investment in bonds is totally risk free.

9. 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.

10. Bank Deposits

Fixed deposits (FD) enable the investor to invest the money for a specific period. The Fixed deposit can be opened from a minimum period of 7 days to a maximum period of 10 years. The fixed deposit holder can take loan against the fixed deposit receipt. The depositor cannot withdraw the fixed deposits before the maturity date.

Recurring deposit (RD) account is another investment option for those people who earn regular income. This deposit can be opened for a minimum period of 1 year to a maximum period of 10 years. The Recurring deposit holder can take loan against the instalments paid.

Key Terms

Business Finance	Trade Credit
Leasing	
Personal Savings	
Shareholders	Mortgage

Case Study

Gokul Steel Ltd is a large and creditworthy company that manufactures steel for the Indian market. It now wants to cater the Asian market and decides to invest in new hi-tech machines. Since the investment is large, it requires long term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost, the company decides to tap money market.

a) Name and explain the money-market instrument the company can use for the above purpose.

b) What is the duration for which the company can get funds through the instrument?

c) State any other purpose for which this instrument can be used.

For Own Thinking

1) Working of chit funds

2) Finance for bonded labour

For Future Learning

1) Export finance for small entrepreneurs

2) Financing software companies run by young graduates

Exercise

I. Choose the Correct 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

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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 issue of shares
   d. generated within the business

3. Debenture holders are entitled to a fixed rate of __________
   a. Dividend
   b. Profits
   c. Interest
   d. Ratios

4. Public deposits are the deposits which 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 Profits
   c. Working Capital Requirement
   d. Lease Financing

7. Which of the following holder is given voting right?
   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

Answers

1. a   2. d   3. c   4. a   5. b
6. c   7. c   8. b

II. Very Short Answer Questions

1) Write a short notes on debentures.
2) What do you mean by public deposits?
3) Name any two sources of funds classified under borrowed funds.
4) Name any two internal sources of business finance.
5) State any two factors that affect the choice of source of finance.

III. Short Answer Questions

1. Define Business finance.
2. What is pledge?
3. List sources of raising long-term and short-term finance.
4. For which purpose fixed capital is needed in business?
5. What do you mean by working capital requirement of business?

IV. Long Answer Questions

1. List out the various sources of financing.
2. What are the different types of short term finances given by commercial banks?
3. Write short notes on 1.Retained Earnings 2. Lease financing
4. Write short notes on a) owner's funds b) borrowed funds
5. Explain any four personal investment avenues.

Project work

1. Visiting a bank in your locality and find out from them about the various ways in which they provide finance to small business enterprises.
2. Kumaran had started his leather bag business as a sole proprietor, with a capital of ₹10,00,000/-. Now, after five years, he has decided to expand his business in the form a company. As a commerce student, give your suggestions to find out the various long term financial sources to generate funds for his company.

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