

Chapter 8

Sources of Business Finance

One Mark Questions

1. What is business finance?
2. For which purpose fixed capital is needed?
3. For which purpose working capital is needed?
4. Name a source of funds classified under long term.
5. Name a source of funds classified under short term.
6. Name any one source of funds classified under medium term.
7. State any one type of funds classified on the basis of ownership.
8. Name any one source of funds classified under owner's funds.
9. Name any one source of funds classified under borrowed funds.
10. Give an example for internal sources of business finance.
11. Give an example for external sources of business finance.
12. Which source of finance is more economical, internal source or external source?
13. Write any one merit of retained earnings as a source of business finance.
14. Write any one limitation of retained earnings as a source of business finance.
15. Write any one merit of trade credit as a source of business finance.
16. Write any one limitation of trade credit as a source of business finance.
17. Write any one merit of factoring as a source of business finance.
18. Write any one imitation of factoring as a source of business finance.
19. Name any one method of factoring.
20. State one financial service rendered by a factor.
21. Write one merit of debentures as a source of business finance.

22. Write one limitation of debentures as a source of business finance.
23. Write one merit of commercial banks as a source of business finance.
24. Write one limitation of commercial banks as a source of business finance.
25. What is a lease?
26. Name one party in a lease contract.
27. Who is a lessor?
28. Who is a lessee?
29. For which type of asset lease financing is more prevalent?
30. Write any one merit of lease financing as a source of business finance.
31. Write one limitation of lease financing as a source of business finance.
32. Write one merit of Public deposits as a source of business finance.
33. Write one limitation of Public deposits as a source of business finance.
34. What is the tenure (period) of commercial papers?
35. Write one merit of commercial papers as a source of business finance.
36. Write one limitation of commercial papers as a source of business finance.
37. Name one type of shares issued by the companies.
38. State any one type of Preference shares.
39. State any one type of Debentures.
40. What type of shareholders enjoys voting right in a company?
41. Write one merit of equity shares as a source of business finance.
42. Write one limitation of equity shares as a source of business finance.
43. Write one preferential right enjoyed by preference shareholders?
44. Write one merit of preference shares as a source of business finance.
45. Write one limitation of preference shares as a source of business finance.
46. Write one merit of financial institutions as a source of business finance.
47. Write one limitation of financial institutions as a source of business.
48. Name any one international source of finance where from Indian companies can generate funds.
49. Name any one financial instrument used to generate funds from international capital market.
50. Expand: IFCI SFC ICICI IDBI SIDC UTI LIC (Frame separate questions for each abbreviation)
51. Expand GDRs.
52. Expand ADRs.
53. Expand FCCBs.
54. Name any one factor that affects the choice of source of finance.

Multiple Choice Questions

1. Equity shareholders are called
 - (a) Owners of the company
 - (b) Partners of the company
 - (c) Executives of the company
 - (d) Guardians of the company
2. The term 'redeemable' is used for
 - (a) Preference shares
 - (b) Commercial paper
 - (c) Equity shares
 - (d) Public deposits
3. Funds required for purchasing current assets is an example for
 - (a) Fixed capital requirement
 - (b) Ploughing back of profits
 - (c) Working capital requirements
 - (d) Lease financing
4. ADRs are issued in

- (a) Canada
 - (b) China
 - (c) India
 - (d) USA
5. Public deposits are the deposits that are raised directly from
- (a) The public
 - (b) The directors
 - (c) The auditors
 - (d) The owners
6. Debentures represent
- (a) Additional capital of the company
 - (b) Permanent capital of the company
 - (c) Fluctuating capital of the company
 - (d) Loan capital of the company
7. Under the factoring arrangement, the factor
- (a) Produces and distributes the goods and 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
8. The maturity period of a commercial paper usually ranges from
- (a) 20 days to 40 days
 - (b) 60 days to 90 days
 - (c) 120 days to 365 days
 - (d) 90 days to 364 days
9. 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

Two Marks Questions

- 1) What is business finance?
- 2) What do you mean by fixed capital requirement of business?
- 3) What do you mean by working capital requirement of business?
- 4) Name any two sources of funds classified under long term.
- 5) Name any two sources of funds classified under short term.
- 6) Name any two sources of funds classified under short term.
- 7) What are the two types of funds classified on the basis of ownership?
- 8) Name any two owner's funds.
- 9) Name any two borrowed funds.
- 10) Name any two internal sources of business finance.
- 11) Name any two external sources of business finance.
- 12) Which source of finance is more economical, internal source or external source? And why?
- 13) Write the meaning of retained earnings.
- 14) Write any two merits of retained earnings as a source of business finance.
- 15) Write any two limitations of retained earnings as a source of business finance.
- 16) What is trade credit?
- 17) Write any two merits of trade credit as a source of business finance.
- 18) Write any two limitations of trade credit as a source of business finance.
- 19) What is factoring as a source of business finance?
- 20) Write any two merits of factoring as a source of business finance.
- 21) Write any two limitations of factoring as a source of business finance.
- 22) State the financial services rendered by a factor.

- 23) State the methods of factoring.
- 24) What are debentures?
- 25) State any two types of debentures.
- 26) Write any two merits of debentures as a source of business finance.
- 27) Write any two limitations of debentures as a source of business finance.
- 28) Write any two merits of commercial banks as a source of business finance.
- 29) Write any two limitations of commercial banks as a source of business finance.
- 30) Mention any two ways of extending loans by the commercial banks.
- 31) Why financial institutions are called Development Banks?
- 32) What is lease financing?
- 33) Who are the parties in a lease contract?
- 34) Write any two merits of lease financing as a source of business finance.
- 35) Write any two limitations of lease financing as a source of business finance.
- 36) Give the meaning of public deposits.
- 37) Public deposits are beneficial to both depositors as well as to the organizations. How?
- 38) Write any two merits of Public deposits as a source of business finance.
- 39) Write any two limitations of Public deposits as a source of business finance.
- 40) What are commercial papers?
- 41) Write any two merits of commercial papers as a source of business finance.
- 42) Write any two limitations of commercial papers as a source of business finance.
- 43) Give the meaning of shares.
- 44) Name the types of shares generally issued by companies.
- 45) What are equity shares?
- 46) Write any two merits of equity shares as a source of business finance.
- 47) Write any two limitations of equity shares as a source of business finance.
- 48) What are preference shares?
- 49) State any two types of preference shares.
- 50) Write any two merits of preference shares as a source of business finance.
- 51) Write any two limitations of preference shares as a source of business finance.
- 52) Mention two preferential rights enjoyed by preference shareholders over equity shareholders.
- 53) Write two merits of financial institutions as a source of business finance.
- 54) Write two limitations of financial institutions as a source of business.
- 55) Name two international sources of finance from where Indian companies can generate funds.
- 56) Name any two prominent financial instruments used to generate funds from international capital market?
- 57) What are Global Depository Receipts?
- 58) What are American Depository Receipts?
- 59) What are Foreign Currency Convertible Bonds?
- 60) Name any two factors that affect the choice of source of finance.

Four Marks Questions

1. Explain briefly the financial needs of a business.
2. List out the sources of raising medium term and short term finance.
3. List out the sources of raising finance on the basis of ownership.
4. Write short notes on a) owner's funds b) borrowed funds
5. Write short notes on a) retained earnings b) trade credit
6. Write short notes on a) public deposits b) commercial papers
7. Explain briefly the merits of retained earnings as a source of business finance.
8. Explain briefly the merits of trade credit as a source of business finance.
9. Explain briefly the limitations of trade credit as a source of business finance.
10. Explain briefly the merits of factoring as a source of business finance.
11. What is Factoring? Explain briefly its demerits.

12. Explain briefly the merits of lease financing as a source of business finance.
13. Explain briefly the limitations of lease financing as a source of business finance.
14. Explain briefly the merits of public deposits as a source of business finance.
15. Explain briefly the limitations of public deposits as a source of business finance.
16. Explain briefly the merits of commercial papers as a source of business finance.
17. Explain briefly the limitations of commercial papers as a source of business finance.
18. Write short notes on a) equity shares b) preference shares
19. Explain briefly the merits of equity shares as a source of business finance.
20. Explain briefly the limitations of equity shares as a source of business finance.
21. Explain briefly the merits of preference shares as a source of business finance.
22. Explain briefly the limitations of preference shares as a source of business finance.
23. Distinguish between equity shares and preference shares by taking any four points of distinction.
24. Explain briefly the merits of debentures as a source of business finance.
25. What are debentures? Briefly explain the important limitations of debentures as a source of business finance.
26. Explain briefly the merits of raising funds from a commercial bank.
27. Explain briefly any four merits of raising funds through financial institutions.
28. Write short notes on ADRs and GDRs.
29. Describe different avenues for organizations to raise funds internationally.

Eight Marks Questions

1. What are retained earnings? Explain its merits and limitations.
2. What is trade credit? Explain its merits and limitations as a source of business finance.
3. Describe the merits and limitations of factoring.
4. What is lease financing? Explain its merits and limitations.
5. What are public deposits? Explain the merits and limitations of public deposits.
6. What are commercial papers? Explain the merits and limitations of commercial papers.
7. Explain the merits and limitations of equity shares as a source of finance.
8. Explain the merits and limitations of preference shares as a source of finance.
9. Explain the merits and limitations of debentures as a source of finance.
10. Explain the merits and limitations of commercial banks as a source of finance.
11. Discuss any eight sources from which a company can meet its financial requirements.
12. Discuss the factors that affect while making the decision for the choice of an appropriate source of funds by a business organization.