

CHAPTER-7**Very Short Answer Questions**

1. Name the two categories into which the financial needs of a business can be grouped.
2. Name any two factors affecting the fixed capital requirements of a business.
3. Give any two factors affecting the working capital requirement of a business.
4. Name any two sources of long term funds.
5. Enumerate any two sources of medium term finance.
6. List any two sources of short term finance.
7. State the two categories into which the sources of finance can be classified on the basis of ownership.
8. Give the classification of funds on the basis of source of generation.
9. Give any two internal sources of finance.
10. List any two external sources of finance.
11. Name any two factors which affect the volume and time duration of trade credit.
12. Enumerate the two types of shares normally issued by a company.
13. State the two processes enjoyed by preference shareholders over equity shareholders.
14. Name any two types of preference shares.
15. Identify the instrument which is an acknowledgement of debt of a company.
16. Identify the source of finance which is referred to as creditorship securities.
17. This type of preference shares do not enjoy any right to participate in the surplus profits of the company.
18. Name the authority which regulates the issue of public deposits in India?
19. Name any one credit rating agency authorised to who give the credit rating of a public issue of debentures.

Short Answer Questions

1. Distinguish between ownership funds and borrowed funds.
2. Distinguish between external sources and internal sources of funds
3. Write a short note of retained earnings
4. State any three features of trade credit.
5. State any four features of trade credit.
6. Explain any four features of equity shares.
7. Explain any four features of preference shares.
8. State any four features of debentures.
9. Why are public deposits known as 'fair weather friends'?
10. State any three advantages of issuing equity shares from companie's point of view.
11. Describe any three advantages of equity shares from investor's point of view.
12. Give any three advantages of preference shares as a source of finance from companie's point of view.
13. Outline any three advantages of preference shares from investor's point of view.
14. What are the limitations of equity shares as a source of finance from companie's?
15. State the limitations of equity shares from investors point of view.
16. What are the limitations of preference shares as an investment option for the investors?
17. Why do you think investors should not buy preference shares?

18. What are the advantages of trade credit from the purchasing firm's point of view?
19. Why should a business firm use trade credit as a source of finance?
20. What are the limitations of trade credit as a source of finance from selling firm's point of view? Describe briefly any two financial institutions.
21. Why is return on equity shares said to be variable? Explain with the help of a suitable example.
22. The amount of dividend paid on face is not considered to be a tax deductible expense. Explain the statement with the help of a suitable example.
23. The interest paid on debentures is treated as a tax deductible expense. Explain the statement with the help of a suitable example.
24. What are ADR's? State its features.
25. Write a short note on Financial Institutions.
26. What are GDR's? State its features.
27. What are IDR's? State its features.
28. Distinguish between American depository receipts and global depository receipts.

Long Answer Questions

1. Describe briefly the different types of sources of finance on the basis of time period.
2. State the merits and limitations of retained earnings.
3. State the merits and limitations of equity shares.
4. State the merits and limitations of trade credit.
5. Outline the merits and limitations of debentures as a source of finance.
6. Commercial banks are considered to be an important source of finance for business. State its merits and limitations.
7. What are the merits and limitations of raising funds from financial institutions?
8. Describe briefly the various sources of international Finance.

Case Study Based Questions

1. Jia is planning a Start up to launch smart phone apps for healthcare, based on the study that mobile medical apps market has a great future in the country the app will help the users in doing everything from helping them to manage existing health conditions and preventing new concerns to arise, there by reducing the need for face-to-face consultations. In order to assess the financial needs of her business she met her aunt Pragya, who works as a financial advisor for Startup Ventures. Pragya told her that the financial needs of a business can be divided into two categories. Also, a loan from commercial bank would be an ideal source of business finance for her business.
 - (a) Identify and explain the two categories into which the financial needs of Jia's business can be grouped.
 - (b) Give any two advantages and two limitations of using commercial any source of finance by her.
2. Considering the fact that travel industry in India has witnessed a boom in the past decade, Lalit promoted a travel agency three years back. In order to start the business, he had then purchased an office space in a popular complex in New Delhi. Moreover, he continues to make investments on different types of office equipments, besides meeting

the day today running cost of the business. Six months back he decided to offer a complementary one day trip to local Resorts, to his most privileged customers. As he thought this promotional initiative, would help to promote loyalty amongst his customers and help to increase his business manifolds in future. Identify and explain the different types of funds being described in the above paragraph on the basis of time period.

3. Nilesch, works as a digital marketing campaign manager in a firm. Over the years, the business of his firm has increased by leaps and bounds as the marketing has gone digital. The firm obtains it's stock of office stationery on a one month credit from the suppliers and at the same time the company offers 15 days credit period to its clients (business firms).
 - (a) Identify and explain the source of business finance being described in the above paragraph.
 - (b) State any two favourable factors because of which the firm is able to make credit purchases.
 - (c) Give any two limitations of the source of business finance as identified in part (a) of the question.
4. 'Healtho Ltd.' is a popular health management company offering a wide range of healthcare products to the customers. Two years back, the company started a series of online fitness classes and this segment of business has been a big hit right from its inception. It has helped the company to make huge profits. By taking into consideration, the requests from many of its regular clients, the company has now decided to start fitness centres at five strategic locations within the country. The management of the company has decided to use the portion of their undistributed earnings to finance the new business venture.
 - (a) Identify and explain the source of business that the company intends to use for financing its expansion plans.
 - (b) State any two merits and two limitations of this source.
5. Prateek purchased one hundred 12% preference shares of ABC Limited. The face value of each share is Rs.200. Due to insufficient profits, the company did not declare any dividend last year. Assuming that the company has made substantial profits in the present year and declared to pay dividend, calculate the amount of dividend payable to Prateek in case he is holding;
 - (a) Cumulative Preference Shares
 - (b) Non Cumulative Preference Shares
6. Arun owns Rs.200, 12% preferences shares of XYZ Limited of Rs. 100 each. During the present year the company made surplus profits. Therefore, besides a regular dividend he also received an additional dividend in lieu of surplus profits.
 - (a) Identify the type of preference shares being discussed in the above paragraph.
 - (b) Calculate the amount of dividend payable to Arun assuming that the company has declared an additional dividend of 20%.