



## BUSINESS STUDIES

### BOOKS - VK GLOBAL PUBLICATION BUSINESS STUDIES (HINGLISH)

### SOURCES OF BUSINESS FINANCE

Objective Type Questions Multiple Choice Questions Mcqs

1. Equity shareholders called

- A. Owners of the company
- B. Partnres of the company
- C. Executives of the company
- D. Gurardian of the company

**Answer:**



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2. The term 'redeemable' is used for

- A. Preference shares
- B. Commercial paper
- C. Equity shares
- D. Public deposits

**Answer:**



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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

**Answer:**



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4. Debentures represent

- A. Fixed capital of company
- B. Permanent capital of the company
- C. Fluctuating capital of the company
- D. Loan capital of the company

**Answer:**



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5. \_\_\_\_\_ is commonly used by business organisations as a source of short-term financing.

- A. Lease financing
- B. ADRs
- C. Trade Credit
- D. None of these

**Answer:**



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6. \_\_\_\_\_ are the unsecured short-term deposits made by a company with another company.

- A. Indian Depository Receipt
- B. American Depository Receipt
- C. Global Depository Receipt

## D. Inter Corporate Deposits

**Answer:**



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**7. Match the columns :**

- (i) If facilitates the purchase of goods and services without making immediate payment.
- (ii) It refers to that part of profits which is kept and reserve for use in the future.
- (iii) This source of finance has characteristics of both equity shares and debentures.



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**8. Finance invested in fixed assets is called working capital. True./False?**

Given reason.



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9. Working capital raised through short-term funds. True/False? Give reason.

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10. Preference shares carry preferential rights over the equity shares as regards payment of dividend and repayment of capital. True/False? Give reason.

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11. A debenture is an acknowledgment of debt. True/False? Give reason.

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12. Debentureholders entitled to a fixed rate of interest. True/False? Give reasons.





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13. Name the capital invested in permanent assets.



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14. Name the funds needed for day-to-day operations business.



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15. Which concern-a trading concern or a manufacturing concern-will have large amount of fixed capital? Why



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16. Neha Ltd. Sells goods on credit while Pankhuri Ltd. Sells goods cash basis. Which company will require more working capital?



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17. Why is equity share capital called risk capital?

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18. Why are equity shareholders referred to as residual owners?

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19. Why is equity share capital called the permanent capital ?

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20. Why are debentures known as borrowed funds?

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21. Name the source of finance which is available in the normal course of purchase of goods.



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22. Why share capital is known as owned funds?



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23. Why are retained profits called self-financing?



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24. Name two Indian companies which have raised money through issue of GDRs.



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**25.** A company wants to issued such shares which do not have the right of preferenc for payment of dividend and refund of capital a the time of liquidation.

Identify such shares.



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**26.** Narayan Trades Ltd. Is a company that delas in the wholeasale business of rice. The finance manager of the company, Mr. Radheshyam dasarranges unsecured short-term finance for the company. The rate of intrest to be paid on this finance the bank's rate of intreset.



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**27.** A foreign company 'Zylo Ldt' wants to collect money form the capital market of India. The finance manager of the company, Mr Robert wants to issue a financial instrument which instead of being in dollars shall denominated in rupees. Once of the characteristics of this financial

instrument is that it can be got listed in any India stocks exchange.

Identify the financial instrument

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**28.** Pranva Udyod Ltd. Is a company manufacturing electric devices. The company's financial manager, Mr. Dhruv, in order to fulfill long -term financial need, wants to raise the cheapest source of finance.

Identify the source of finance.

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**29.** A Indian compnay 'Vandana Ltd' in order to center ot its financial needs, wants to issue such an international financial instruemnt which can be iussed only the American residents.

Identify the financial instruemnt.

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**30.** Fashion, Hut, a reputed garments manufacturing units needs to meet its day-to-day expenses like wages, rent, maintaining stock of raw material etc. The owner approaches the supplier of the raw materials to give credit for two months, so that he can get cloth for making garments without immediate payment. The suppliers made an enquiry regarding the business organisation and found that its reputation was very good. So it extended two months credit to it.

Identify the source of the finance discussed above. s



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**31.** C Ltd. Planning to modernise its plant with latest technology. The company is not having sufficient money. The finance manager plans to arrange money 3 years since after that the company is expecting a good return on investment. The finance manager does not want to speed on flotation costs on issue of shares or debentures.

Identify the suitable source of finance for the company



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## Case Problem

1. Trinity Ltd. Is a company which manufactures blankets. The company needs addition capita for expansion of business. So it issue 50,000 shares of the face value of Rs. 100 each. Before, issuing shares the management of the company decided that they would issue such shares which will not impose any fixed financial charges. In the processus they investors would be able to earn extra dividends. Teh company collected money from the public and the company' s business expanded.

Identify and explain the type of shares issued by Trinity Ltd.



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2. Radhika Ltd. Has good growth prospects . So it si planning to expand their business. For this the company needs addtional funds. The finance manger reports that the company is not in a positionto bear extra burden of paying any fixed inancial charges like intrest or dividnet. They

do not want to bear any flotation costs even. Also, the equity shareholders insist not to issue further shares as there is risk of dilution of control.

Suggest and explain the source of finance most suitable for Radhika Ltd.

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**3. Krishana Pvt. Ltd.** is facing the shortages of long-term finance as it is a period of depression in the economy.

The experts were consulted to determine the source of finance the company should raise. One financial advisor, Mr. Ram, advised that the company should use such a security on which it has a tax advantage and there is no dilution of control of the shareholders. Another finance specialist, Mr. Shiv, advised that the company should not issue any debt or equity security but raise such a source of long-term finance which can be redeemed in easy instalments.

Quoting the relevant lines from the above para, identify and explain the source of finance suggested by the two specialists, Mr. Ram and Mr. Shiv

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4. A seminar was held in New York on the problems of finance. Its topic was The Different Finance Sources available at the Global Level in the Modern Context. 200 representatives from different countries participated in this seminar. All the representatives shared their respective opinions. One of the sources of finance discussed in the seminar was such through which the foreign companies could issue their securities in India. Looking at the great possibilities of obtaining capital from the investors in India, they showed a great interest in the discussion of the source. Another source of finance which created interest in everyone was the source through which money could be obtained very big area, the number of people who took interest in it was also large. One of the Indian representatives threw light on the special characteristics of this source. His presentation was appreciated by one and all. In the final session of the seminar, the discussion took place on such a source of finance which could be used only in America. In the end of the seminar, the organizer thanked all the guests, and the seminar came to a successful conclusion.

In the above paragraphs, three international sources of finance were discussed. Quoting the relevant lines identify those and explain them.

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5. Madhava Sales Pvt. Ltd owns the agency of different food products, which sells goods of different brands to retailers after purchasing them from several companies. It purchases almost all goods for cash while its all sales are on credit of the one month. So the company keeps struggling with the short term finance. To overcome this problem, the company's finance department held a meeting. The chairperson of the meeting asked the members of their views on the solution of this problem. The first person said, "we should use a source of finance which does not involve any bureaucracy and legal problems and the market of which maintains secrecy." The second person's opinion was that the company often needs cash credit and overdraft. Therefore, the source of the finance should be selected considering these facts. The view of the third person was that the company also should buy goods on credit. The chairperson of the meeting listened to the suggestion of all and, to take



the final decision, asked them to be present in a meeting the next week.

Quoting the relevant lines from the above para, identify and explain the source of finance as suggested by different person.



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6. Subham Ltd. Has decided to expand its production capacity by modernising its plant and machinery at an estimated cost Rs. 2 crore. It does not have adequate reserves to finance the expansion. Suggest any four source for the company.



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7. Shobhit has Rs. 50,000 for investment purpose. Should he invest in equity shares, preference shares, public deposits or debentures ? Justify your answer.



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8. The Direction of Sheetsl Ltd. Have decided to expand the business activities by increasing the stock of the compnay, advise the directors about the various methods open to the company to raise necessary finance for this purpose



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9. A company needs to increase its stock of raw material and finished goods, which will required funds of Rs. 40 lakh. What are the various options available with company to finnace this amount? Explain.



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