

## Chapter - 8 Sources of Business Finance

---

### Question 1

Define ploughing back of profits.

**Answer:** In a company, a part of the net incomes is retrained for future use is known as retained earnings. It is used as a source of internal financing, self-financing, or ploughing back of profits.

### Question 2

Risk capital is defined as which type of capital?

**Answer:** Risk capital is defined as equity share capital.

### Question 3

State the return given to debenture holders for using their funds.

**Answer:** Fixed rate of interest is given to debenture holders for using their funds.

### Question 4

Give one feature of retained earnings that the other source of finance does not have.

**Answer:** Retained earnings save a portion of the net incomes for future use is retained earnings. The retained earnings have the ability to self-finance and it doesn't involve any explicit cost.

### Question 5

Mention one similar function of Public deposits and ADR.

**Answer:** In both public deposits and ADR, the depositors doesn't have a voting right.

### Question 6

Mention one similar function between preference share capital and equity share capital.

**Answer:** The one similar function between preference share capital and equity share capital are that both capitals are a part of the owner's share.

### Question 7

Which term is concerned with the redemption and conservation of capital funds in matching the financial need of a company?

**Answer:** The retained earning is concerned with the redemption and conservation of capital funds in matching the financial need of a company.

### Question 8

In the business sector which organization provides both medium and long term loans and has been set up by both the state and central government.

**Answer:** The organization which provides both medium and long term loans and has been set up by both the state and central government is the development bank.

### Question 9

Name the two companies in India offer factoring services.

**Answer:** The two companies in India offer factoring services are SBI Factors and Commercial Service Ltd.

### Question 10

Mention two rights of preference shareholder.

**Answer:** The two rights of preference shareholder are

- Getting a fixed rate of dividend from the net profit of an organization, before declaring any dividends for equity stockholder.
- At the time of liquidation, receiving funds after the organization creditor's claim has been resolved.

### Question 11

In a company, which factor influence the working capital need.

**Answer:** The factor that influences the working capital need is.

- **Cost-** Taking into account both the cost of procurement of funds and cost of utilizing the fund while deciding the sources of the fund is important.
- **Financial strength and stability of operation-** The sources of funds should have a positive outcome to pay the principal and interest on the borrowed amount. In case, if the operation of a company is not stable, fixed funds should be used wisely as it adds up to the financial burden.

### Question 12

Mention two factors the differentiate share and debenture.

**Answer:** The two factors the differentiate share and debenture are

- Shares/stocks are associated with owner's fund whereas, a debenture is funds that are borrowed.

- In share, there is a return in interest whereas, a debenture has a fixed rate of interest which is paid to the company.

### **Question 13**

Explain the three limitations of equity share capital.

**Answer:** The three limitations of equity share capital are

- Financer who expect a constant income may not favor equity share as it has a fluctuating return.
- The cost of equity share is more than the cost of raising funds through many other sources.
- Equity share diminish the voting power and earnings of the present equity shareholder

### **Question 14**

Explain the three advantages of retained earnings.

**Answer:** The three advantages of retained earnings are

- It doesn't include any direct cost in terms of dividend, interest, and floatation cost.
- It has a flexible operation.
- It increases business capacity to absorb unexpected losses.

### **Question 15**

What is the difference between lessor and lessee?

**Answer:** The assets owner is called lessor and the party that uses the assets is known as lessee.