Sources of Business Finance

Standard difficulty · 20 questions · 40 marks · Time: 38 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. The part of profit kept in the business instead of being distributed is:
   (a) commercial paper **(b)** public deposit
   (c) trade credit **(d)** retained earnings

2. What is meant by “lease financing”?
   (a) paying rent to use an asset owned by another
   (b) shares with a fixed dividend paid before equity
   (c) instruments of debt with a fixed rate of interest
   (d) a short-term unsecured promissory note

3. A firm keeps back this year’s profit to buy new machines. Which source of finance is being used?
   (a) financial institutions **(b)** trade credit
   (c) retained earnings **(d)** factoring

4. Which of these is part of owner’s funds?
   (a) preference shares **(b)** public deposits
   (c) trade credit **(d)** debentures

5. Which of these is a medium term source of finance?
   (a) equity shares **(b)** factoring
   (c) lease financing **(d)** trade credit

6. A company has issued 41,000 debentures of ₹100 each at 11% interest. How much interest does it pay each year?
   (a) ₹451,000 **(b)** ₹225,500 **(c)** ₹902,000 **(d)** ₹4,100,000

7. A company has 30,000 preference shares of ₹100 each carrying an 8% dividend. What is the yearly preference dividend?
   (a) ₹480,000 **(b)** ₹240,000 **(c)** ₹3,000,000 **(d)** ₹24,000

8. A firm sells receivables of ₹1,400,000 to a factor, who pays 90% in advance. How much does the firm receive at once?
   (a) ₹140,000 **(b)** ₹1,400,000 **(c)** ₹1,260,000 **(d)** ₹1,399,910

Section B — Short answer — 8 × 2 = 16 marks

9. What is meant by business finance?

10. Explain each term: (a) debentures (b) preference shares

11. Name the source of finance in each case. (a) A company raises permanent capital by issuing ownership shares. (b) A company raises funds abroad by issuing depository receipts.

12. Is each owner's funds or borrowed funds? (a) Loans from commercial banks. (b) Retained earnings.

13. Distinguish between shares and debentures on the basis of (a) voting rights (b) repayment.

14. A company has 37,000 debentures of ₹100 each at 8% interest. This year it earns ₹740,000 before interest. (a) How much interest is due? (b) What is left for shareholders before tax?

15. Aman holds 190,000 equity shares of ₹10 each. The company declares a dividend of 12%. How much dividend is received?

16. A factor collects debts of ₹300,000 for a firm and charges a commission of 1%. How much does the firm finally receive?

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the classification of sources of finance.

18. Match each with its meaning: (a) equity shares (b) preference shares (c) trade credit. Choose from: ownership capital with voting rights and a varying dividend; shares with a fixed dividend paid before equity; credit given by one trader to another for buying goods.

19. Read about Shubh Footwear Ltd. (a) A company raises permanent capital by issuing ownership shares. (b) A large company issues a promissory note for 90 days to meet a cash shortage. (c) A company borrows by issuing instruments carrying 9% interest. Identify the source of finance in each part and explain it briefly.

20. Greenleaf Agro Ltd has equity capital of ₹600,000 and 12% debentures of ₹600,000. It declares a 20% dividend. (a) Find the debenture interest and the equity dividend. (b) Which must be paid even in a year of loss? (c) Which holders own the company?

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Answer key

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Q	Answer	Working
1	(d) retained earnings	—
2	(a) paying rent to use an asset owned by another	—
3	(c) retained earnings	—
4	(a) preference shares	—
5	(c) lease financing	—
6	(a) ₹451,000	41,000 × 100 × 11/100
7	(b) ₹240,000	30,000 × 100 × 8/100
8	(c) ₹1,260,000	1,400,000 × 90/100
9	The money needed to start a business and carry on its activities.	—
10	(a) instruments of debt with a fixed rate of interest (b) shares with a fixed dividend paid before equity	—
11	(a) equity shares (b) GDRs	—
12	(a) borrowed funds (b) owner's funds	—
13	(a) shareholders: yes; debenture holders: no (b) shares: only on winding up; debentures: after a fixed period	—
14	(a) ₹296,000; (b) ₹444,000	37,000 × 100 × 8/100; 740,000 − 296,000
15	₹228,000	190,000 × 10 × 12/100
16	₹297,000	300,000 − 1% of 300,000
17	By period: long, medium and short term; by ownership: owner's funds and borrowed funds; by source of generation: internal and external.	—
18	(a) ownership capital with voting rights and a varying dividend (b) shares with a fixed dividend paid before equity (c) credit given by one trader to another for buying goods	—
19	(a) equity shares: ownership capital (b) commercial paper: a short-term unsecured promissory note (c) debentures: borrowed capital at a fixed interest	—

Q	Answer	Working
20	**(a) interest ₹72,000, dividend ₹120,000 (b) debenture interest (c) equity shareholders**	600,000 × 12/100; 600,000 × 20/100

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