FOCUS AREA BASED ON PREVIOUS AND EXPECTED QUESTIONS , ANSWERS OF PLUS ONE BUSINESS STUDIES 2020-2021

Prepared by:

PRAKASH.P.N
9447226258,7012881563
GOVT.HSS NEDUMGOLAM
KOLLAM

CHAPTER.7
SOURCES OF BUSINESS FINANCE

1. Fill in the series as per hint given:
a. Equity – Owned capital
b. Debentures- ?
Ans: **Borrowed capital.**
2. Which of the following is a borrowed fund?
a. Equity shares
b. Preference Shares
c. Retained Earnings
d. Debenture.
Ans:d. **Debenture.**
3.Which of the following is not an external source of finance?
a. Preference Share
b. Public Deposits
c. Commercial Paper.
d. Equity shares.
Ans:d. **Equity shares.**
4. Match the following

1	Equity shares	Retained earnings
2	Preference shares	Voting right
3	Debenture	Fixed Rate of dividend
4	Ploughing back of profits	Fixed rate of interest

Ans: **1.Equity shares -Voting right**
2.Preference shares -Fixed Rate of dividend
3.Debenture -Fixed rate of interest.
4.Ploughing back of profits -Retained earnings.
5.Complete the table
a. Owners fund---?
b. Borrowed fund---?
Ans: **a: Equity capital. B: Debenture.**
6. Retained earnings is otherwise called--------------
Ans: **Self financing / ploughing back of profits / internal financing.**
7.The capital of the company is divided into small unit is called...
Ans: **Shares**
8.Equity shares are referred to as----------
Ans: **Residual Owners.**
9. The permanent capital of the company is-------------
Ans: **Equity capital.**
10.Expand the term CRISIL
Ans: **Credit Rating and Information Services of India Ltd.**

11.Fill in the series as per hint given:
a) Equity Shares - ?
b) Debentures -- .....Borrowed capital.
Ans: **Owned Capital**
12.Fill in the series as per hint given:
a. Debenture holders—Fixed rate of Interest
b. Share holders- ?
Ans: **Dividend.**
13.The cheapest source of finance is..............
a) Equity Shares. b) Preference Shares. c) Debentures. d) Retained Earnings.
Ans:**d) Retained Earnings.**
14.Equity shareholders are also called ....
a) Owners of the company. b) Partners of the company. c) Executives of the company
d) Guardians of the company.
Ans:a) **Owners of the company.**
15. ------- is considers as the life blood of business.
Ans:**Finance.**
15 Explain the meaning of business finance ?
Ans:**The requirements of funds by business to carry out its various activities is called business finance. Finance is very important to the business as it is the lifeblood of an organization. Without adequate amount of finance an enterprise cannot function smoothly.**
16.Write any two merits of retained earnings as a source of finance. ?
Ans: **1. It is more dependable than external sources.**
2. No dividend is to be paid.
3. No cost of raising funds such as prospectus, advertisement etc.
4. No sharing of ownership and control.
5. No security is needed.
6. It makes companies financially strong. (Any 2).
17. Describe the merits of retained earnings as a source of finance for business enterprise.?
Ans: **merits of retained earnings.**
18. What do you mean by ploughing back of profits?
Ans:**A company generally does not distribute all its earnings amongst the shareholders as dividends. A portion of the net earnings may be retained in the business for use in the future. This is known as retained earnings. It is a source of internal financing or self- financing or 'ploughing back of profits'.The profit available for ploughing back in an organisation depends on many factors like net profits, dividend policy and age of the organisation.**
19. Describe debentures.?
Ans:Debentures are an important instrument for raising long term debt capital. A company can raise funds through issue of debentures, which bear a fixed rate of interest. The debenture issued by a company is an acknowledgement that the company has borrowed a certain amount of money,which it promises to repay at a future date.
20. " As a source of finance retained earnings is a better option than other sources". Give two reasons to justify this statements .?
Ans: **Merits of retained earnings.**
21. Name the cost-free internal source of fund. Explain any two merits of such a fund.?
Ans: **Retained earnings.**
Merits of retained earnings.

22.These are shares which carry preferential rights over equity shares. Being a commerce student, identify these type of shares and state their rights discussed as above.?
Ans: **Preferential shares.**

(i) receiving a fixed rate of dividend, and (ii) receiving their capital after the claims of the company's creditors have been settled, at the time of liquidation.

23. Illustrate equity shares, merits and demerits.?

Ans:**Equity shares is the most important source of raising long term capital by a company. Equity shares represent the ownership of a company and thus the capital raised by issue of such shares is known as ownership capital or owner's funds. Equity share capital is a prerequisite to the creation of a company. Equity shareholders do not get a fixed dividend but are paid on the basis of earnings by the company. They are referred to as 'residual owners'**

Merits

1. Suitable for risk takers.
2. No obligation for dividend.
3. Permanent capital.
4. Provides creditworthiness to the company.
5. No charge against assets.
6. They have voting rights

Limitations

1. Fluctuation in dividend based on profit.
2. Cost of raising equity capital is very high.
3. Dilution in control for existing share holders when the company makes fresh issues.
4. Complex legal formalities .

24. Describe preferential shares, merits and demerits. ?
Ans:**The capital raised by issue of preference shares is called preference share capital. The preference shareholders enjoy a preferential position over equity shareholders in two ways:(i) receiving a fixed rate of dividend, and (ii) receiving their capital after the claims of the company's creditors have been settled, at the time of liquidation. Preference shareholders generally do not enjoy any voting rights.**

Merits

1. Fixed rate of return is guaranteed.
2. Preference in repayment of capital on winding up
3. No dilution in control
4. Trading on equity
5. No charge over the assets.
6. Economical

Demerits

1. Not suitable for high risk takers
2. Dilutes claim on assets
3. High rate of dividend
4. It may not attract many investors
5. No tax benefits

25. As a commerce student prepare a notes on debentures including its merits and demerits. ?

Ans:Debentures are an important instrument for raising long term debt capital. A company can raise funds through issue of debentures, which bear a fixed rate of interest. The debenture issued by a company is an acknowledgement that the company has borrowed a certain amount of money,which it promises to repay at a future date.

Merits

1. Fixed income at lesser risk

2. No participation in profit

3. No dilution in control

4. Suitable during stable earnings

5. Less costly

Limitations

1. Permanent burden

2. Repayment difficulty

3. Reduces borrowing capacity.

26. Illustrate the difference between shares and debentures.?

Ans: **Difference between shares and debentures.**

27. Debenture is a --------------- security.
Ans: **creditor ship.**

28.Shares and debentures are two important source of finance for a Joint Stock Company. But these are certain difference between the two. Explain these difference.?

Ans:**Difference between share and debentures.**