

NCERT Solutions for Class 11
Business Studies
Chapter 8 Sources of Business Finance

Exercises

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Multiple Choice Questions:

Tick (✓) the correct Answer out of the given alternatives

Question 1: Equity shareholders are called

- (a) Owners of the company**
- (b) Partners of the company**
- (c) Executives of the company**
- (d) Guardian of the company**

Solution: (a) Owners of the company

Question 2: The term 'redeemable' is used for

- (a) Preference shares**
- (b) Commercial paper**
- (c) Equity shares**
- (d) Public deposits**

Solution: (a) Preference shares

Question 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**

Solution: (c) Working capital requirement

Question 4: ADRs are issued in

- (a) Canada**
- (b) China**
- (c) India**
- (d) USA**

Solution: (d) USA

Question 5: Public deposits are deposits that are raised directly from

- (a) The public**
- (b) The directors**
- (c) The auditors**
- (d) The owners**

Solution: (a) The public

Question 6: Under the lease agreement, the lessee gets the right to

- (a) Share profits earned by the lessor**
- (b) Participate in the management of the organisation**
- (c) Use the asset for a specific period**
- (d) Sell the assets**

Solution: (c) Use the asset for a specific period

Question 7: Debentures represent

- (a) Fixed capital of the company**
- (b) Permanent capital of the company**
- (c) Fluctuating capital of the company**
- (d) Loan capital of the company**

Solution: (d) Loan capital of the company

Question 8: Under the factoring arrangement, the factor

- (a) Produces and distributes the goods or services**
- (b) Makes the payment on behalf of the client**
- (c) Collects the client's debt or account receivables**
- (d) Transfer the goods from one place to another**

Solution: (c) Collects the client's debt or account receivables

Question 9: The maturity period of a commercial paper usually ranges from

- (a) 20 to 40 days**
- (b) 60 to 90 days**
- (c) 120 to 365 days**
- (d) 90 to 364 days**

Solution: (d) 90 to 364 days

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Question 10: Internal sources of capital are those that are

- (a) generated through outsiders such as suppliers**
- (b) generated through loans from commercial papers**
- (c) generated through issue of shares**
- (d) generated within the business**

Solution: (d) generated within the business

Short Answer Questions

Question 1: What is business finance? Why do businesses need funds? Explain.

Solution: The requirement of funds by business to carry out its various activities is called business finance.

A business needs funds for:

(1) Fixed capital requirements: In order to start business, funds are required to purchase fixed assets like land and building, plant and machinery, and furniture and fixtures. The funds required in fixed assets remain invested in the business for a long period of time.

(2) Working capital requirements: Firms require funds for financing their day-to-day operations such as purchase of raw materials and payment of wages to workers. The requirement of funds for such operations is known as the working capital requirement.

Question 2: List sources of raising long-term and short-term finance.

Solution: Sources of long-term-finance are:

- (1) Equity shares
- (2) Retained earnings
- (3) Preference shares
- (4) Debentures
- (5) Loans from financial institutions
- (6) Loan from Banks

Sources of short-term-finance are:

- (1) Trade credit
- (2) Factoring
- (3) Banks
- (4) Commercial paper