



[Frequently Asked Questions]

Source Of Finance

Subject :	Business Economics
Course :	B.A., 3rd Semester Undergraduate
Paper No. & Title :	Paper – 303 Business Finance
Unit No. & Title :	Unit – 5 Sources of Finance
Lecture No. & Title :	Lecture – 1 Source Of Finance

Frequently Asked Questions

Q1. How can we differentiate short term and long term?

A1. Short term is generally known as the term within the one year while long term generally refers more than five year of term period.

Q2. Why equity shares are not considered as an internal source of finance?

A2. Equity shares are the shares of the public in the capital. Though the equity shareholders are the real owners of the company, they are the outsiders. Therefore it is considered as an external source of Finance.

Q3. Why debenture holder gets interest and not the dividend?

A3. Dividend is the income of shareholders given towards owners capital, while Debenture is a borrowed capital and therefore they get interest like a loan.

Q4. What is demand deposit?

A4. Deposit which can be withdrawable whenever one can demand the money without any restriction is called demand deposit. Current Account is also known as Demand Deposit.

Q5. How cash credit is differ than Bank overdraft?

A5. Cash credit is granted on the pledging of stock of goods according to requirements while Bank overdraft is a temporary arrangement to overdraw current account up to specified limit.

Q6. For whom Treasury bill is the source of Finance?

A6. Government. Reserve bank of India issue Treasury bill on behalf of Government.

Q7. How can it say that retained earning is source of finance?

A7. When company is not facing any difficulties and does not require no cash, the part of retained earning may be invested outside the business and company can earn interest or dividend out of that investments. Even company can invest retained earnings in business instead of borrowing from outside.

Q8. Who can issue Commercial Paper?

A8. All the corporates and financial institutions can issue the commercial paper after recognized by Reserve Bank of India as a player of money market to meet its short term financial needs.

Q9. Which are the ways of collecting the capital for the business of company?

A9. Company can use owners' capital by issue of Equity shares and Preference shares while borrowed capital is used by issue of Debentures, Bonds or long term Loans.

Q10. How can a bank help in financing to business?

A10. Bank provides business to access current account facilities to run the business smoothly without any restriction. Except it, Cash credit, Bank overdraft, Term Loans provide by bank to business to meet its financial needs.