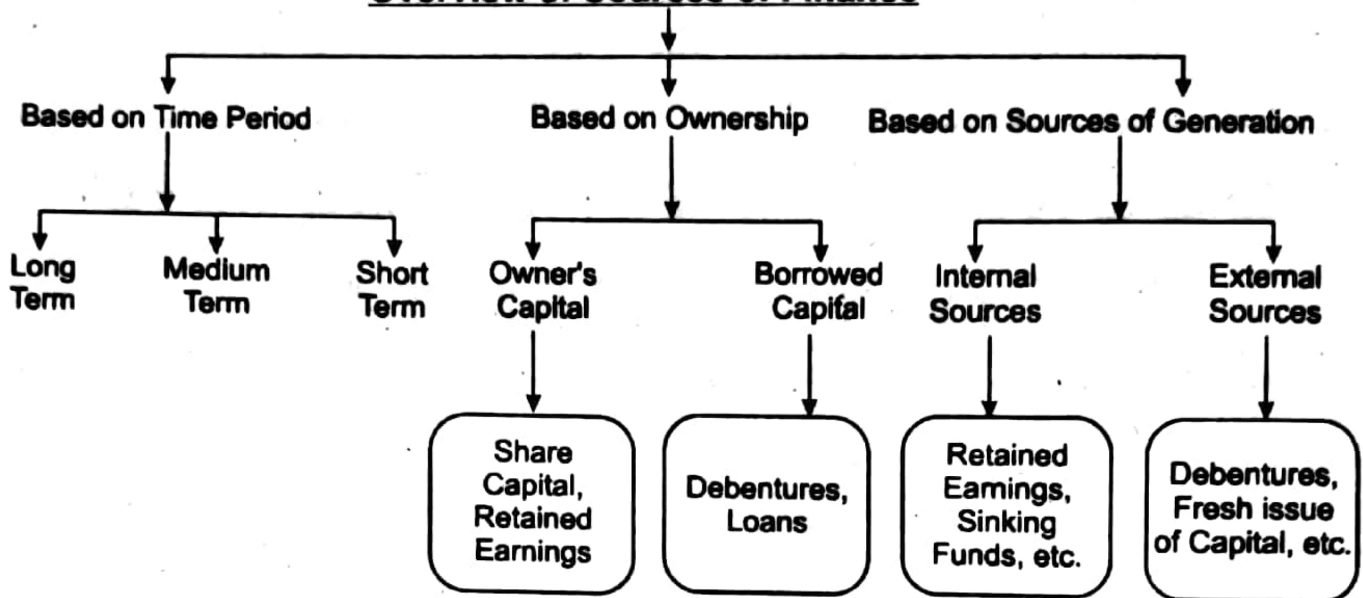

Classification of Sources of Finance

Time Based Classification:

Type	Time period	Examples
Long term	Periods exceeding 5 years	Investment in fixed assets like land, building, plant & machinery and in permanent working capital.
Medium term	Above one year but less than five years	Costs of intensive advertising campaign, or similar deferred revenue expenditure.
Short term	Less than one year	Investment in current assets, for working capital requirement.

Own Funds:

1. **Equity Capital:** Companies can raise finance by way of equity capital, subject to the regulations laid down in the Companies Act, SEBI Guidelines and related laws.

   Features:

   (a) Generally equity shares are to be paid off only upon liquidation. So risk is the least.

   (b) Equity shareholders are entitled to Net Residual Income, i.e. Profit After Tax and Preference Dividends, and their expectations are high. Therefore, the cost of equity capital is high.

   (c) Equity holders are the owners of the company, and have control over the management of the company.

   Advantages:

   (a) Equity capital provides a security to other supplier of funds. So, a company with a high paid-up equity capital can raise further funds from the other sources easily.

   (b) It is a permanent source of finance. Generally, it is to be repaid only in the event of liquidation.

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(c) There are no committed payments to holders of equity shares. Dividends are discretionary and are not mandatory like interest on debentures.

(d) Rights issue can be made to existing shareholders, without handing over control to new external parties.

Disadvantages:

(a) Cost of equity shares is high and also floatation costs are higher.

(b) Dividends are not tax deductible, and hence, there is no extra attraction for the company to issue equity shares.

(c) Investors find equity shares riskier due to uncertainty of dividends and capital gains.

(d) Fresh issue reduces the EPS

(e) Fresh issue reduces the ownership and control of existing share holders.

2. **Preference Share Capital:** Preference Shareholders enjoy priority or preference over Equity Shareholders, as regards – (1) Payment of dividend at a fixed rate, and (2) Repayment of capital on the winding up of the company.

Features:

(a) Preference shares may be issued as cumulative, i.e. the dividend payable in a year of loss gets carried over to subsequent years till there are adequate profits to pay the accumulated dividends.

(b) Preference shares may be redeemed or it may be converted into equity shares also.

(c) Preference shareholders are entitled to get a dividend with fixed rate which is generally higher than the interest rate of debentures.

(d) Preference capital has features of both debt and equity (i.e. Hybrid form of financing)

Advantages:

(a) There is no dilution of EPS on the enlarged capital base as in case of equity capital.

(b) As it bears a fixed charge, there is leveraging or gearing advantage.

(c) There is no risk of takeover or loss of control.

(d) It can be redeemed after a specified period.

Disadvantages:

(a) Preference dividend is an appropriation of profit, and is not deductible for tax purpose.

(b) Arrears of fixed cumulative dividends may create a burden on the company, when equity dividend is declared.

3. **Retained Earnings:**

1. It is a general practice of companies to accumulate profits and plough them back into business. Such accumulated profits are called **Retained Earnings.** They belong to the equity shareholders, and increase the Net Worth of the company.
2. Enterprises must hold back or retain a reasonable amount of profit every year for their expansion plants, and other legal requirements in this regard.
3. Profit making companies that undertake an expansion programme should invest a part of their accumulated reserve or cash profits for creation of capital assets. So, the surplus generated from operations, after meeting all the contractual, statutory and working requirements of fund is available for further capital expenditure.
4. There in no dilution of control in retaining profits.

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Borrowed Funds:

1. **Debentures and Bonds:** Company can raise funds from public by issuing debentures or bonds, by complying with applicable legal requirements. Debentures are issued on the basis of a Debenture Trust Deed that lays down the terms and conditions of issue.

   Features:

   (a) Issue of debentures is governed by Companies Act, SEBI Regulations, and related Laws.

   (b) Debentures are normally secured against the assets of the company.

   (c) Interest rate on debentures is lower, compared to pref. Dividend rate or cost of equity.

   (d) Debentures can also be issued with new inventive schemes like warrants, options, convertibility, etc.

   (e) Credit rating is compulsory for public issue of debentures or private placement of mutual funds.

   (f) It may be classified into – (1) Fully convertible, Partly convertible, Non-convertible, (2) Redeemable, Irredeemable, (3) Secured, unsecured, etc.

   Advantages:

   (a) Cost of Debt Capital is lower when compared to Equity or Preference Capital.

   (b) The gearing or leverage effect is advantageous for companies with good Return on Capital Employed (ROCE).

   (c) Debenture Financing does not result in dilution of control.

   Disadvantages:

   (a) Debenture interest and repayment of capital are obligatory.

   (b) There may be restrictive conditions in a Debenture Trust Deed.

   (c) Debenture financing increases the financial risk associated with the firm

   (d) Substantial Cash Outflow is involved at the time of Debenture Redemption.

2. **Unsecured Loans (Long Term)**

   (a) These are provided by promoters to meet the promoters' contribution norm.

   (b) These loans are subordinate to institutional loans.

   (c) The rate of interest should be less than or equal to the rate of interest on institutional loans and interest can be paid only after payment of institutional dues.

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[2008] – Write a note on the popularity of trade credit as a source of short-term finance. ***(5 marks)***

Ans. Trade credit represents the credit extended by the supplier of goods and services. It facilitates the purchase of supplies without immediate payment. This is commonly used by business organisation as a source of short term financing. It is granted to those customers who have reasonable amount of financial standing and goodwill. On an average, trade credit accounts for about 40% of current liabilities.

[2009] – Convertible Securities ***(5 marks)***

[2011] – Convertible Debentures ***(5 marks)***

[2018(G)] – What is 'convertible debenture'? ***(2 marks)***

Ans. Convertible Securities / Debentures: Those securities or debentures which are convertible into equity or preference shares after a certain period, are called convertible securities or convertible debentures. Following are the essential features of these types of securities:

(a) It may be fully or partly convertible. The non convertible portion will be redeemed at the time of conversion of the convertible portion.

(b) The holder of such securities shall opt for its conversion in due time.

(c) The conversion price and ratio shall be disclosed at the time of issue.

(d) The conversion price must be fixed and higher than market price (i.e. at conversion premium)

(e) It must be listed in stock exchange.

(f) They cannot be converted back into its original form later.

[2010, 2011] – Public Deposits ***(5 marks)***

[2015(G)] – What is Public Deposit? ***(2 marks)***

[2018(G)] – What is 'public deposit'? ***(2 marks)***

Ans. Public Deposits: Public deposit is any deposit of money made by public (general public, shareholders, or employees) with a company at a specified rate of interest for a stipulated period with the provision for renewal. Public deposit can be of two types –

(i) **Cumulative Public Deposits** (Maturity value inclusive of total interest on the initial deposit is paid back by the company after a specified numbers of years.)

(ii) **Fixed Public Deposit** (interest is paid annually)

[2012] – Finance Lease and Operating Lease. ***(5 marks)***

Ans. Financial lease is an agreement to finance the use of equipment for a major part of its useful life. It is also called Capital Lease, as it is nothing but a loan in disguise. It is long term in nature.

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A lease is classified as an Operating Lease if it does not secure for the lessor the recovery of capital outlay plus a return on the fund invested, during the lease term. The term of operating lease is shorter than the assets economic life.

[2014(G)] – Bill of Exchange *(3 marks)*

Ans. A bill of exchange is a non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date. Bills of exchange are similar to cheques and promissory notes. They can be drawn by individuals or banks and are generally transferable by endorsements. The difference between a promissory note and a bill of exchange is that this product is transferable and can bind one party to pay a third party that was not involved in its creation. If these bills are issued by a bank, they can be referred to as bank drafts. If they are issued by individuals, they can be referred to as trade drafts.

[2014(G)] – Bonus Share *(3 marks)*

Ans. A bonus share is a free share of stock given to current shareholders in a company, based upon the number of shares that the shareholder already owns. While the issue of bonus shares increases the total number of shares issued and owned, it does not change the value of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant.

[2014(G)] – Write a note on Lease Financing *(3 marks)*

[2018(G)] – Lease financing *(3 marks)*

Ans. This is a technique of financing various productive assets and goods which are used in trade, industry and commerce, as a supplementary source of finance provided by banking and non banking financial institutions.

The ICAI has issued the accounting standard (AS) 17 defining lease as "an agreement whereby a lessor conveys to the lessee, in return for a rent, the right to use an asset for an agreed period of time". Under section 32A and 32B of Income Tax Act, 1961, in India the lessor is treated as the owner of the asset and is entitled to the benefit of depreciation and other allied benefits.

The major features of lease financing are as follows:

1. It is a contract of two parties (i.e. lessor and lessee)
2. Lessor acquires the title to the asset by paying full value of the asset, and grant the lessee an exclusive right to use the asset.
3. The lessor does not transfer title of ownership of the asset to the lessee.
4. The lease contract mentions the lease period, which is lower than the economic life of the asset.
5. The structure of lease rentals should favour lessor and lessee both.
6. Lessee charges the lease rentals as expenses against incomes of his business.
7. Lessor remains the owner of the asset and claims depreciation on it.

[2015(G)] – Operating Lease *(3 marks)*

[2019(G)] – What is 'operating lease'? *(2 marks)*

Ans. An operating lease is a contract that allows for the use of an asset, but does not convey rights of ownership of the asset. An operating lease is not capitalized; it is accounted for as a ren-

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tal expense in what is known as "off balance sheet financing." For the lessor, the asset being leased is accounted for as an asset and is depreciated as such. Operating leases have tax incentives and do not result in assets or liabilities being recorded on the lessee's balance sheet, which can improve the lessee's financial ratios.

[2015(G)] – Sweat Equity Share *(3 marks)*

Ans. Sweat Equity Shares means such equity shares as are issued by a company to its directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called. The issue of Sweat Equity Shares is subject to the following conditions:

(1) The Sweat Equity Shares should be a class of shares already issued. [section 54(1)]

(2) The issue of Sweat Equity Shares is authorized by a special resolution passed by the company in the general meeting. [Section 54(1)(a)]

(3) The resolution specifies the number of shares, current market price, consideration if any, and the class or classes of directors or employees to whom such equity shares are to be issued. [section 54(1)(b)]

(4) One year should have elapsed, at the date of such issue, since the date on which the company had commenced business. [Section 54(1)(c)]

(5) The Sweat Equity Shares of a company whose equity shares are listed on a recognized stock exchange are issued in accordance with the regulation made by the SEBI in this behalf. [Section 54(1)(d)]

[2015(G)] – Debenture *(3 marks)*

Ans. A debenture is a type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general credit worthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital. Like other types of bonds, debentures are documented in an indenture.

[2018(G)] – Ploughing back of profit *(3 marks)*

Ans. Ploughing back of profits' is an important source of internal or self financing by a company. It refers to the process of retaining a part of the company's net profits for the purpose of reinvesting in the business itself. In other words, the savings generated internally by a company in the form of 'retained earnings' are ploughed back into the company for diversification of its business. This reduces their dependence on funds from external sources in order to finance their regular business needs. Such a source of finance may be used by the company for the following purposes:-

- For expansion and growth of the business
- For strengthening the financial position of the company
- For meeting various working capital requirements of the company
- For redemption of old debts
- For replacement of obsolete assets and modernisation.

[2018(G)] – Cumulative and non-cumulative preference share. *(3 marks)*

Ans. Cumulative Preference Shares: When unpaid dividends on preference shares are treated as arrears and are carried forward to subsequent years, then such preference shares are known

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as cumulative preference shares. It means unpaid dividend on such shares is accumulated till it is paid off in full.

Non-cumulative Preference Shares: Non-cumulative preference shares are those type of preference shares, which have right to get fixed rate of dividend out of the profits of current year only. They do not carry the right to receive arrears of dividend. If a company fails to pay dividend in a particular year then that need not to be paid out of future profits.

[2019(G)] – Advantages of 'preference share' ***(6 marks)***

Ans. Advantages of Preference Share

- There is no dilution of EPS on the enlarged capital base as in case of equity capital.
- As it bears a fixed charge, there is leveraging or gearing advantage.
- There is no risk of takeover or loss of control.
- It can be redeemed after a specified period.

[2019(G)] – Features of institutional financing. ***(6 marks)***

Ans. The Features of Institutional Financing are:

- **To help in growth of the economy:** Financial system helps to grow the economy of the country. it improves lifestyle and standard of living of the host country.
- **To bring in investment:** When the financial institution work properly, it brings investment to the host country. Because it provides trust to the investors to invest in the country.
- **To encourage savings:** When the people started earning, they started saving and investing.
- **To Allocate of Funds:** When the saving and investments starts in the economy. It gives opportunities to banks to allocate the funds properly.

Comment

No Questions have been asked from this category.

Distinguish between

No Questions have been asked from this category.

Elaborative

[2006] – State the role of lease in financing. ***(5 marks)***

[2008] – Write a note on lease financing in India. ***(5 marks)***

[2010] – State the prospect of lease financing. ***(5 marks)***

Ans. Lease Financing: This is a technique of financing various productive assets and goods which are used in trade, industry and commerce, as a supplementary source of finance provided by banking and non banking financial institutions.

The ICAI has issued the accounting standard (AS) 17 defining lease as " an agreement whereby a lessor conveys to the lessee, in return for a rent, the right to use an asset for an agreed period of time". Under section 32A and 32B of Income Tax Act, 1961, in India the lessor is treated as the owner of the asset and is entitled to the benefit of depreciation and other allied benefits.

The major features of lease financing are as follows:

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1. It is a contract of two parties (i.e. lessor and lessee)
2. Lessor acquires the title to the asset by paying full value of the asset, and grant the lessee an exclusive right to use the asset.
3. The lessor does not transfer title of ownership of the asset to the lessee.
4. The lease contract mentions the lease period, which is lower than the economic life of the asset.
5. The structure of lease rentals should favour lessor and lessee both.
6. Lessee charges the lease rentals as expenses against incomes of his business.
7. Lessor remains the owner of the asset and claims depreciation on it.

[2007] – Write the merits and demerits of convertible debenture. ***(5 marks)***

Ans. Merits: **(i)** The debenture holder can get ownership as a shareholder in the company.

(ii) Easy way to get voting right in the company.

(iii) Minimises the risk of Debt.

(iv) Getting additional benefit (as it convertible into shares at higher than market price)

Demerits: Conversion of debenture into equity shares may not be beneficial to the debt holders if after conversion each debentures reduces the wealth of the debenture holders. This happens if conversion value is negative.

[2008] – Financial Institutions in India play an important role in providing long term finance to industrial units in India. Describe briefly the criteria applied by these institutions in sanctioning term finance to industrial units. ***(5 marks)***

Ans. Specialised Public Financial Institutions and Commercial Banks provide long term financial assistance to industry, e.g. the Industrial Finance Corporation of India (IFCI), the State Financial Corporations (SFC), the National Small Industries Corporation Limited (NSIC), etc.

The applicant has to satisfy the lending institution as regards feasibility of the project in the following aspects –

(a) Technical

(b) Commercial

(c) Economic

(d) Financial and

(e) Managerial

The rate of interest charged by institutions differ under various schemes. These secured loans are to be repaid according to a given repayment schedule. Some examples of loan from financial institutions are as – TUFS (Technology Upgradation Fund Scheme) for Textile and Jute Industry, Offered through IDBI, IFCI, SIDBI, the loan being given primarily for expansion / modernisation.

[2008] – Discuss the advantages and disadvantages of taking long-term public deposit. ***(7 marks)***

Ans. Advantages –

1. **Simplicity:** The company raising deposits has to simply give an advertisement and issue a receipt to each depositor without having huge legal formalities.
2. **Economy:** Interest paid on public deposits is lower than that paid on debentures and bank loans.

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3. **No Charge on Assets:** Public deposits are unsecured and therefore, do not create any charge or mortgage on the company's assets.
4. **Flexibility:** Public deposits introduce flexibility in the company's financial structure, because it can be raised and repaid as and when required.
5. **No Dilution of Control:** There is no dilution of shareholders' control because the depositors have no voting rights.

Disadvantages –

1. **Uncertainty:** The depositors may withdraw their deposits whenever they feel shaky about the financial health of the company. Hence it is an uncertain and unreliable source of finance.
2. **Limited Funds:** A limited amount of funds can be raised through public deposits due to legal restrictions.
3. **Temporary Finance:** The maturity period of public deposits is short. So public deposits are not a good source of finance for long term.
4. **Unsuitable for New Concerns:** New companies lacking in sound credit standing cannot depend upon public deposits. Investors do not like to deposit money with such companies.
5. **Limited Appeal:** Public deposits do not appeal as a mode of investment to bold investors who want capital gains.

[2012] – What do you mean by 'Term Financing' ? Write down its features briefly. ***(1 + 4 = 5 marks)***

Ans. Term Financing: Term Financing is a medium term source financed primarily by banks and financial institutions. Such a type of loan is generally used for financing of expansion, diversification and modernization of projects. So this type of financing is also known as project financing.

Features of Term Financing:

Security: Term loans are secured loans assets which are financed through bank and financial institutions. Term loans serve as primary security and the other assets of the company serve as collateral security.

Obligation: Interest payment and repayment of loan is obligatory on the part of the borrower.

Interest: Term loan carry a fixed rate of interest but this rate is negotiated between borrowers and lenders.

Maturity: As it is a source of medium term financing , its maturity period lies between 5 to 10 years and repayment is made in installments.

Convertibility: Term loan may be converted into equity at the option and according to the terms and conditions laid down by the financial institution.

[2012] – Discuss the advantages and disadvantages of ploughing back of profit. ***(5 marks)***

Ans. Advantages of ploughing back of profit –

1. **Convenience:** Retained profits are the most economical and convenient source of finance. No advertisement or prospectus has to be issued. No expenses or legal formalities are involved.
2. **No Charge on Assets:** No charge or mortgage is created on the company's assets. The company is free to use its assets for raising loans in future.

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3. **No Obligations:** There is no fixed burden of dividend and no obligation of repayment. Retained profits are the company's own money.
4. **Goodwill:** Retained profits add to the financial strength, credibility and earning capacity of the business. The company's borrowing capacity is increased. It can safely face business cycles and other crisis. Retained profits provide a cushion of security during adverse conditions.
5. **Growth and expansion:** Retained profits are very useful for financing new projects and expansion of business These are also necessary for innovations and development of new products which are essential in industries like pharmaceuticals.

Disadvantages of ploughing back of profit –

1. **Low Dividends:** Ploughing back of profits reduces the current rate of dividends. This may result in dissatisfaction among the shareholders as they do not get the expected rate of dividend.
2. **Speculation:** A company having large reserves may prompt its directors to indulge in speculation in the prices of its shares. The directors may change the dividend rate to create price changes in their favour. Such price fluctuations may result in loss for the shareholders. The directors may also misuse the funds for personal benefits.
3. **Unbalanced growth:** Retained profits may interfere in the balanced industrial growth of the country. The profits which might have been invested in other industries are reinvested in the same industry.
4. **Over-Capitalization:** Too much ploghing back of profit may prompt management to issue bonus shares. Frequent capitalization of reserves may result in overcapitalization.

[2013(G)] – Describe the various sources of long term finance. ***(10 marks)***

Ans.

1. **Sources of Long Term Financing:**

   Following are the various sources of long term finance are as follows –

   (a) Shares: These are issued to the general public. The holders of shares are the owners of the business. These may be of two types:
   - Equity shares and
   - Preference shares.

   (b) Debentures: These are also issued to the general public. The holders of debentures are the creditors of the company.

   (c) Public Deposits: General public also likes to deposit their savings with a popular and well established company which can pay interest periodically and pay-back the deposit when due.

   (d) Retained Earnings: The company may not distribute the whole of its profits among its shareholders. It may retain a part of the profits and utilize it as capital.

   (e) Term Loans from Banks: Many industrial development banks, cooperative banks and commercial banks grant medium term loans for a period of 3-5 years.

   (f) Loan from Financial Institutions: There are many specialized financial institutions established by the Central and State governments which give long term loans at reasonable rates of interest.

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2. **Long Term Financing Products:**

The following products are provided as part of long term financing services:

- Debentures
- Interest Rate Swaps
- Secured Notes
- Unsecured Notes
- Forward Rate Agreements (FRA's)
- Interest Only Futures
- Convertible Notes
- Option on Future Contracts
- Fixed Deposit Loans
- Subordinated Debt
- Mortgages
- Preference Shares
- Euro-issues

[2014(G)] – What is ploughing back of profit? ***(2 marks)***

Ans. Ploughing back of profits' is an important source of internal or self financing by a company. It refers to the process of retaining a part of the company's net profits for the purpose of reinvesting in the business itself. In other words, the savings generated internally by a company in the form of 'retained earnings' are ploughed back into the company for diversification of its business. This reduces their dependence on funds from external sources in order to finance their regular business needs. Such a source of finance may be used by the company for the following purposes:-

- For expansion and growth of the business
- For strengthening the financial position of the company
- For meeting various working capital requirements of the company
- For redemption of old debts
- For replacement of obsolete assets and modernisation.

[2014(G)] – What is 'Trade Credit'? ***(2 marks)***

[2018(G)] – What is trade credit'? ***(2 marks)***

Ans. Trade Credit: A trade credit is an agreement where a customer can purchase goods on account (without paying cash), paying the supplier at a later date. Usually when the goods are delivered, a trade credit is given for a specific number of days – 30, 60 or 90. Jewelry businesses sometimes extend credit to 180 days or longer. Trade credit is essentially a credit a company gives to another for the purchase of goods and services.

[2015(G)] – What is Retained Earnings? ***(2 marks)***

Ans. Retained Earnings:

1. It is a general practice of companies to accumulate profits and plough them back into business. Such accumulated profits are called **Retained Earnings.** They belong to the equity shareholders, and increase the Net Worth of the company.

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2. Enterprises must hold back or retain a reasonable amount of profit every year for their expansion plants, and other legal requirements in this regard.
3. Profit making companies that undertake an expansion programme should invest a part of their accumulated reserve or cash profits for creation of capital assets. So, the surplus generated from operations, after meeting all the contractual, statutory and working requirements of fund is available for further capital expenditure.
4. There in no dilution of control in retaining profits.

[2015(H)] – What do you mean by Finance Lease? Write its features. ***(3 + 7=10 marks)***

Ans. This is a technique of financing various productive assets and goods which are used in trade, industry and commerce, as a supplementary source of finance provided by banking and non banking financial institutions.

The ICAI has issued the accounting standard (AS) 17 defining lease as " an agreement whereby a lessor conveys to the lessee, in return for a rent, the right to use an asset for an agreed period of time". Under section 32A and 32B of Income Tax Act, 1961, in India the lessor is treated as the owner of the asset and is entitled to the benefit of depreciation and other allied benefits.

The major features of lease financing are as follows:

1. It is a contract of two parties (i.e. lessor and lessee)
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5. The structure of lease rentals should favour lessor and lessee both.
6. Lessee charges the lease rentals as expenses against incomes of his business.
7. Lessor remains the owner of the asset and claims depreciation on it.

[2017(G)] – What is 'bonus share'? ***(2 marks)***

Ans. Sometimes a company cannot pay dividend in cash due to shortage of liquid funds—viz. cash — in spite of earning a large amount of profit for a particular period. Under the circumstances, the company issues new shares to the existing shareholders in lieu of paying dividend in cash.

These shares are known as 'Bonus Shares'. Such bonus shares are to be offered to the existing shareholders in proportion to the shareholdings and dividend rights.

Generally, the company issues bonus shares out of profits and/or reserve to the existing shareholders. Since the profit/reserve is being capitalized, it is also called capitalisation of profit/reserve. As the company cannot receive cash from the shareholders for the purpose of issuing bonus shares, a sum equal to the total value of bonus issue is to be adjusted against profit/reserve and transferred to Equity Share Capital Account.

[2017(G)] – Name any two sources of long-term finance. ***(2 marks)***

Ans. (1) Share Capital or Equity; and (2) Debentures or Bonds

[2018(H)] – Do you recommend that a firm should finance its current assets entirely with short-term financing? Explain. ***(5 marks)***

Ans. Short-term financing, no doubt, involves less cost, but at the same time more risky than long-term ones due to the following:

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(i) Interest cost on short-term borrowings may fluctuate widely whereas interest on long-term borrowings is more stable.

(ii) Continued financing from short-term sources exposes the firm unable to repay its short-term debts which adversely impacts on the credit reputation of the firm. In future, the firm may be unable to raise any funds since the lenders will be reluctant to extend loans and consequently, its operating activities may be disrupted.

Therefore, it is better to use long-term funds than short-term funds for financing current assets. At least, the fixed/permanent current assets should be financed from long-term sources in order to avoid risk.

[2019(G)] – What is 'term loan'? ***(2 marks)***

Ans. Term Loan : A term loan is a loan from a bank for a specific amount that has a specified repayment schedule and either a fixed or floating interest rate. A term loan is often appropriate for an established small business with sound financial statements. Also, a term loan may require a substantial down payment to reduce the payment amounts and the total cost of the loan.

[2019(G)] – Name four basic components of financial environment. ***(2 marks)***

Ans. The complete system of financial environment comprises of four important components. These include

(1) financial managers

(2) investors

(3) financial markets and

(4) Financial instruments

[2019(G)] – Name the banking regulator and insurance regulator of India. ***(2 marks)***

Ans. Reserve Bank of India (RBI) and The Insurance Regulatory and Development Authority of India (IRDAI)

Practical

No Questions have been asked from this category.

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