

# BUSINESS FINANCE

## A. One Word OR One line Questions

**Q. 1. What is business finance ?**

**Ans.** The funds required for any organisation or enterprise for its functions are known as business finance.

**Q. 2. What is capital budgeting ?**

**Ans.** Capital budgeting refers to long-term investment decisions.

**Q. 3. What is capital gearing ?**

**Ans.** The ratio between various types of securities in the capital structure of the enterprise is known as capital gearing.

**Q. 4. Name various sources of fixed capital.**

**Ans.** (i) Retained profits (ii) Preference share capital (iii) Equity share capital (iv) Debentures (v) Long term loans.

**Q. 5. What is meant by cost of capital ?**

**Ans.** Cost of capital is in the form of dividend or interest i.e. payment made to the investors.

**Q. 6. What is capital structure ?**

**Ans.** Capital structure refers to proportional mix between owners' funds or equity and borrowed funds or debt.

**Q. 7. What is financial planning ?**

**Ans.** Financial planning refers to such a process under which plans are formulated about the financial activities of the enterprise.

**Q. 8. What is financial leverage or trading on equity ?**

**Ans.** The process of obtaining more funds through such securities which provide fixed return is known as financial leverage.

**Q. 9. What is meant by working capital ?**

**Ans.** Working capital refers to that amount of capital of the enterprise needed for making investment in short-term assets.

## B. Fill in the Blanks

1. Excess of current assets over current liabilities is known as .....
2. .... decisions are related to financial matters of the organisation.
3. .... decisions are concerned with distribution of profit among shareholders.
4. .... capital keeps on circulating in business.
5. Allocation of funds among different assets is known as ..... decisions.
6. Increased use of debt increases the ..... risk of a business.

**Ans.** 1. Net working capital, 2. Financial, 3. Dividend, 4. Working, 5. investment, 6. financial.

## C. True or False

1. A debenture is a means of raising public funds.
2. Preference shares are a part of owner's funds.
3. Business finance is concerned with establishment, operation, expansion and modernisation etc. of any business organisation.
4. Working capital is used to perform routine functions such as purchase of raw material.

**Ans.** 1. True, 2. True, 3. True, 4. True.

#### D. Multiple Choice Questions

1. Financing decisions are influenced by which of the following ?  
(a) Cost of raising funds                      (b) Cash flow position  
(c) Both (a) and (b)                          (d) None of these.
2. Which of the following decisions are related to financial matters of an enterprise ?  
(a) Investment decisions                      (b) Financing decisions  
(c) Dividend decisions                        (d) All the above.
3. A long-term investment decision is called as :  
(a) Capital budgeting                          (b) Capital gearing  
(c) Capital investment                        (d) All the above.
4. The decisions regarding amount of finance to be raised from various sources are :  
(a) Working capital decisions                (b) Financing decisions  
(c) Dividend decisions                        (d) Both (b) and (c).
5. After having done financial planning, what is the next step ?  
(a) To acquire funds                          (b) To invest funds  
(c) Both (a) and (b)                          (d) None of these.

**Ans.** 1. (c), 2. (d), 3. (a), 4. (b), 5. (a),