

Sub-- Secretarial Practice

Topic: 2- Sources of business finance.

HSC Weightage :- 28 marks.

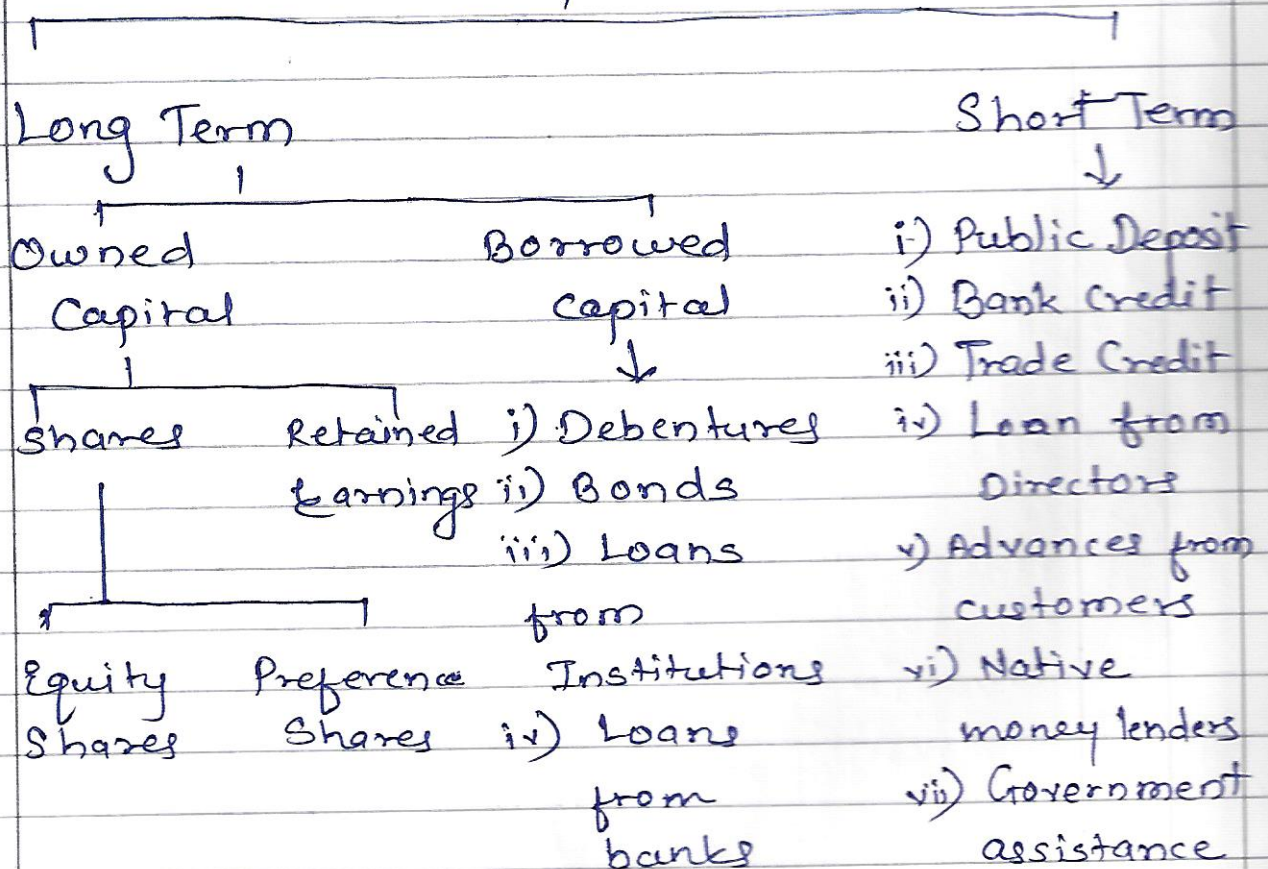
2.3 Sources of Business Finance

- (A) External Sources (Outside the firm)
 (B) Internal Sources (Within the firm)

External & Internal Sources further classified as

- (a) Long Term Sources
 (b) Short Term Sources

Sources of Finance.



2.4 Methods of Raising Finance

(A) Shares

- Equity Shares
- Preference Shares

(B) Retained Profits(C) ① Debentures② Bonds(D) Public Deposits(E) Loan from Financial Institutions(F) Loan from commercial Banks(G) Trade Credit(H) Discounting of Bill of Exchange(I) GDR & ADR.(A) SHARES

According to Companies Act 1956, "Share means a share in the share capital of a company and includes the stock where a distinction between stock and shares is expressed or implied."

Features :-

1. Smallest Unit
2. Ownership
3. Distinct number.
4. Movable property
5. Share Certificate
6. Value expressed in terms of money.
 - (a) Face Value (b) Issue Value
 - (c) Market Value.
7. Dividend
8. Types → (a) Equity Shares (b) Preference Shares

Kinds of shares

(I) Equity Shares :- Ordinary Shares.

According to Companies Act 1956, "those shares which are not preference shares" are equity shares.

Real Risk Bearers. Its a Risk capital.

Equity share holders are Residual Claimants.

Features :-

- 1) Permanent Capital
- 2) Fluctuating Dividend
- 3) No preferential rights
- 4) Rights
- 5) Control
- 6) Risk
- 7) Residual Claimants
- 8) Face Value
- 9) Market Value
- 10) Bonus and Right Issue.
- 11) No charge on assets.

Types of Equity Shares

Equity shares with normal voting rights

Equity Shares with differential voting rights.

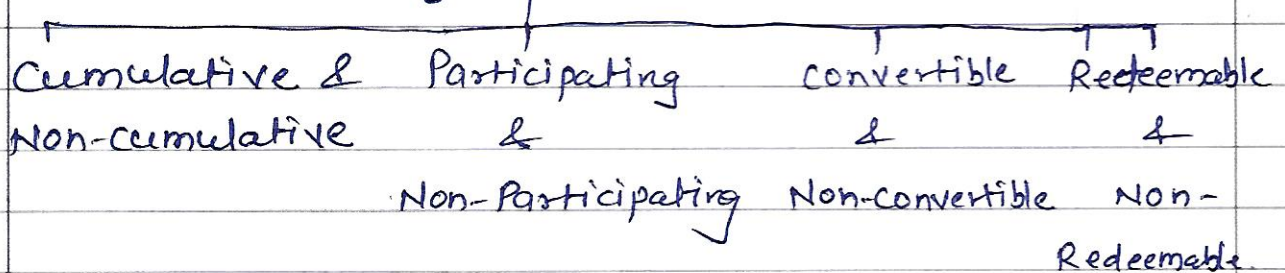
(II) Preference Shares :- Occupy an 'In Between' position in the capital structure.

Features :-

- 1) Preferential Dividend
- 2) Prior repayment of capital
- 3) Fixed return

- 4) Nature of capital
- 5) Market Value
- 6) Voting right
- 7) Risk
- 8) Face value
- 9) Not entitled for Right or Bonus Issue.

Types of Preference Shares.



(B) RETAINED PROFITS

Earnings of the company which are retained in the business.

Determinants :-

- 1) Total earnings of the company.
- 2) Taxation policy.
- 3) Dividend policy
- 4) Government control.

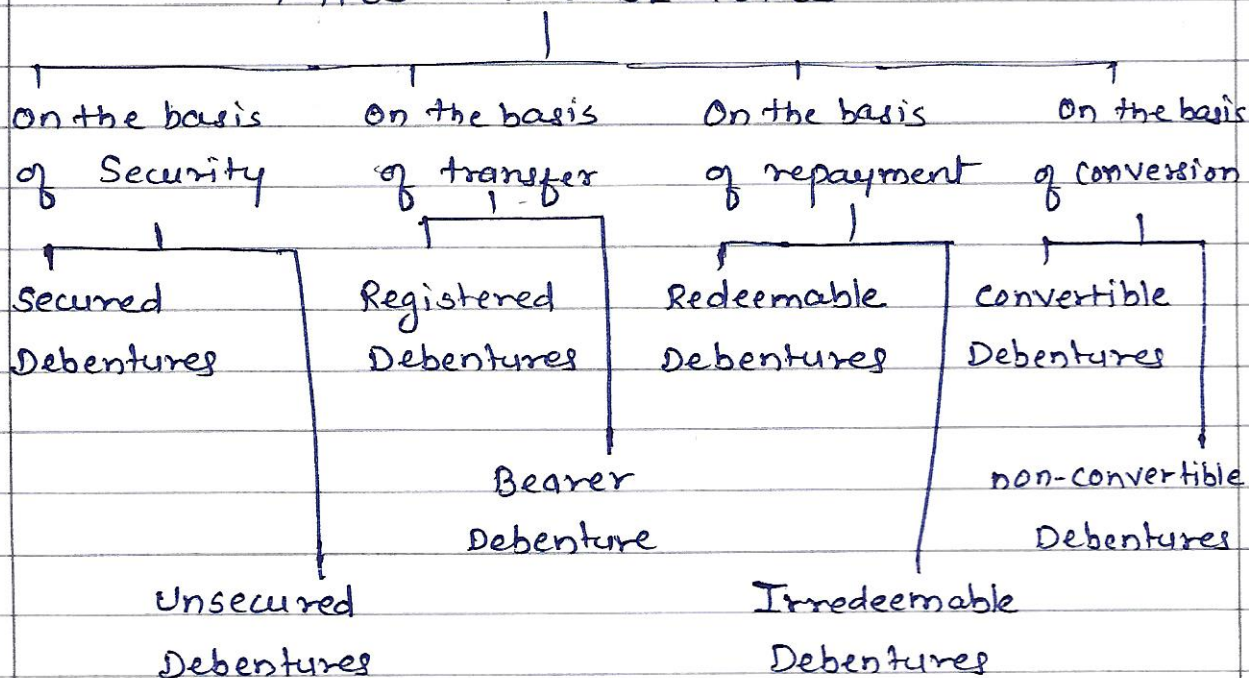
(c) (i) DEBENTURES

Tophan Defines, "a debenture is a document given by a company as evidence of debt to the holder, usually arising out of loan and most commonly secured by charge."

Debtenture holder is creditor of the company.
Debtenture is a transferable instrument issued in the form of 'Debtenture Certificate.'

Features :-

- 1) Promise
- 2) Face Value
- 3) Time of payment
- 4) Interest
- 5) Assurance of repayment
- 6) Parties :-
 - (a) Company
 - (b) Trustee
 - (c) Debenture holders
- 7) Rights of debentureholders
- 8) Terms of issue of debentures.
- 9) Security
- 10) Listing

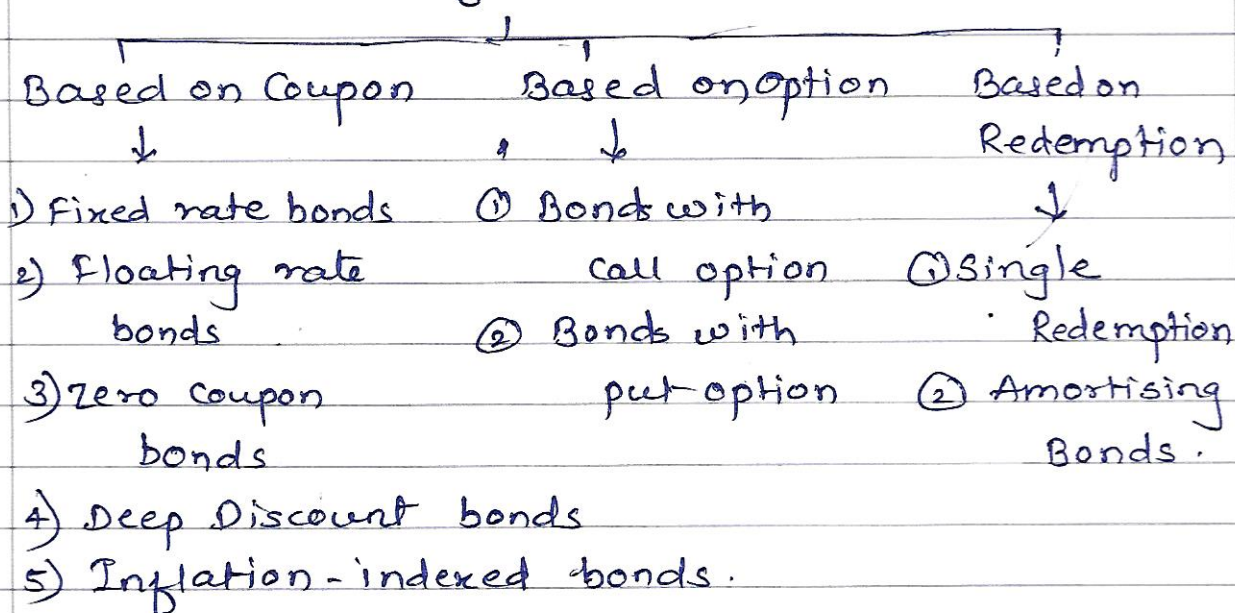
TYPES OF DEBENTURES

(c) (2) BONDS :- It is a debt security. Bond holder is creditor of the company. The amount of interest is paid on bond.

Features of Bonds :-

- 1) Nature of finance
- 2) Status of Investor
- 3) Return on bonds
- 4) Repayment

Types of Bonds.



(D) PUBLIC DEPOSITS

It is an important source of financing short term requirement of company. Companies generally receive public deposits for the period ranging from 6 months to 36 months. The rate of interest is higher than commercial banks. The company issue 'Deposit Receipt' to depositors. The term of deposit is mentioned in the 'Deposit Receipt'.

Rules and Regulations :-

- 1) Ceiling on deposits
- 2) Maturity of Deposits
- 3) Interest on deposits
- 4) Register of deposits
- 5) Status of Deposit holder.

(E) LOAN FROM FINANCIAL INSTITUTIONS

The Government of India established special financial institutions for providing industrial finance.

Financial Institutions

Development Banks	Financial Institutions	Investment Institutions	State level Institutions
↓	↓	↓	↓
1. IDBI	1. RCTC	1. LIC	1. SFC
2. IFCI	2. TDICI	2. UTI	2. SIDC.
3. ICICI	3. TFCI	3. GIC	
4. SIDBI			
5. IRBI			

Importance of Institutional financing

- 1) To develop sound capital market
- 2) To mobilize financial resources
- 3) Capital formation
- 4) Planned economy
- 5) Financing small business
- 6) Foreign exchange need
- 7) Government taxation policy
- 8) Rate of Interest.

(F) LOANS FROM COMMERCIAL BANKS

Types of bank credit

- 1) Overdraft - For current Account holders
- 2) Cash Credit - against pledge or hypothecation
- 3) Cash Loans

(G) TRADE CREDIT

It is a short term financing to business. Manufacturers, wholesalers and suppliers are called 'Trade creditors.' They sell tangible goods to other business concerns on the basis of future payment. i.e. deferred payment. Credit is extended by these business concerns with an intention to increase their sales.

(H) DISCOUNTING OF BILL OF EXCHANGE

- Instrument of credit.

The seller gets a definite promise in writing from buyer, for paying the amount on a specific date.

(I) GLOBAL DEPOSITORY RECEIPT (GDR) & AMERICAN DEPOSITORY RECEIPT (ADR)

Indian Companies, which can not list their shares directly on foreign stock exchange, get listed on these stock exchanges indirectly using GDR and ADR.

Advantages - Text Book pg.no. 41.