

# CAIIB



## Advanced Business & Financial Management

### Module B : Chapter 7 Need For Finance



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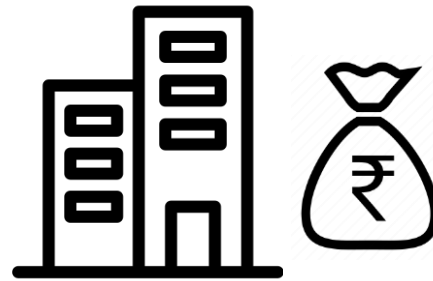
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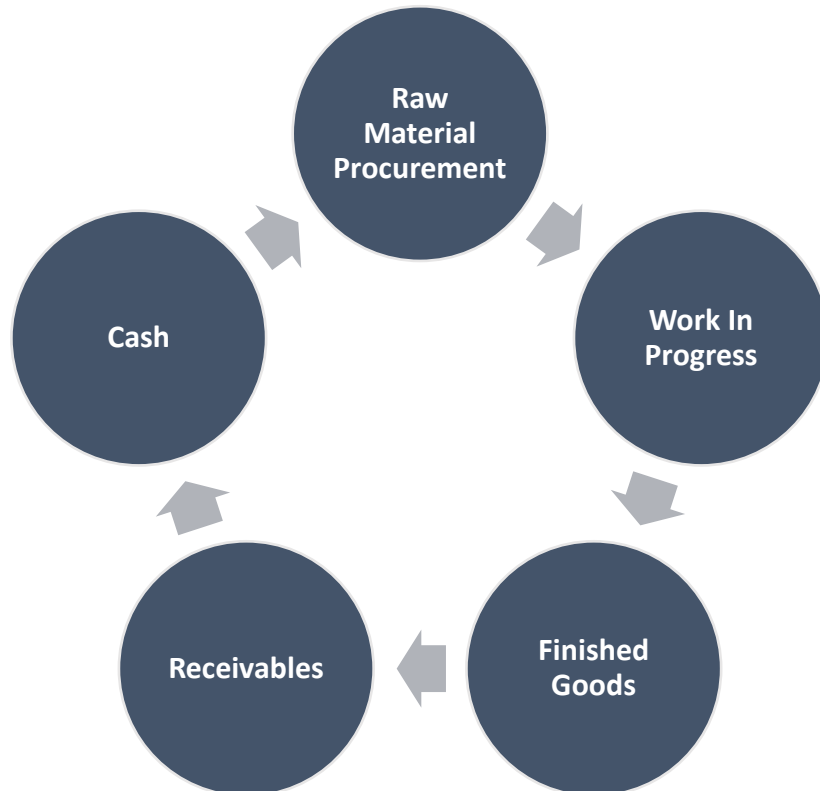
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# Why A Firm Needs Funds?

SOURCES OF FUNDS



USES OF FUNDS



Long Term Funds or Capital



Owner's/Partner's Capital  
Equity & preference shares  
Retained Profits

Term loans  
Debentures  
Corporate Deposits



# Financial Strategies

- Permutations and combinations which a business adopts or avails to satisfy its funds requirements, whether these are long-term or short-term.

## Clean Finance

- A clean finance (unconditional loan) is the costliest because the lender runs higher risks which he would cover by charging higher rate of interest.
- Equity is a clean finance, and the cost of servicing is very high because the equity shareholders will expect good returns in the form of dividend and increase in share price.
- The other sources of finance are borrowings for long term as well as short term purposes
- by offering security such as fixed and current assets.



# Let's Solve

**External sources of finance do not include**

- (a) Debentures
- (b) Retained Earnings
- (c) Overdrafts
- (d) Leasing

**ANSWER: B**



# Let's Solve

**Which among the following statements is incorrect?**

- (a) The gap between current assets and current liabilities is the working capital gap which is not usually financed by a bank.
- (b) A clean finance is the costliest, because the lender who has no assets to fall upon in case of a default.
- (c) Equity is a clean finance and although it appears to be cheap, the cost of servicing is very high.
- (d) None of the above



*Thank You*

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