

19

Sources of Long-term Finance

19.1 Introduction

As you are aware finance is the life blood of business. It is of vital significance for modern business which requires huge capital. Funds required for a business may be classified as long term and short term. You have learnt about short term finance in the previous lesson. Finance is required for a long period also. It is required for purchasing fixed assets like land and building, machinery etc. Even a portion of working capital, which is required to meet day to day expenses, is of a permanent nature. To finance it we require long term capital. The amount of long term capital depends upon the scale of business and nature of business.

In this lesson, you will learn about various sources of long term finance and the advantages and disadvantages of each source.

19.2 Objectives

After studying this lesson, you will be able to:

- explain the meaning and purpose of long term finance;
 - identify the various sources of long term finance;
 - define equity shares and preference shares;
 - distinguish between equity shares and preference shares;
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- explain the advantages and disadvantages of equity shares from the point of view of (a) shareholders and (b) management;
- define Debentures;
- enumerate the types of debentures;
- explain the merits and demerits of debentures as a source of long term finance;
- compare the relative advantages of issuing equity shares and debentures;
- explain the benefits and limitations of retained earnings;
- explain the merits and demerits of Public Deposits;
- outline the rules and regulations about inviting and accepting public deposits by companies;
- discuss the merits and demerits of long term borrowing from commercial banks.

19.3 Long Term Finance – Its meaning and purpose

A business requires funds to purchase fixed assets like land and building, plant and machinery, furniture etc. These assets may be regarded as the foundation of a business. The capital required for these assets is called **fixed capital**. A part of the working capital is also of a permanent nature. Funds required for this part of the working capital and for fixed capital is called long term finance.

Purpose of long term finance:

Long term finance is required for the following purposes:

1. To Finance fixed assets :

Business requires fixed assets like machines, Building, furniture etc. Finance required to buy these assets is for a long period, because such assets can be used for a long period and are not for resale.

2. To finance the permanent part of working capital:

Business is a continuing activity. It must have a certain amount of working capital which would be needed again and again. This part of working capital is of a fixed or permanent nature. This requirement is also met from long term funds.

3. To finance growth and expansion of business:

Expansion of business requires investment of a huge amount of capital permanently or for a long period.

Factors determining long-term financial requirements :

The amount required to meet the long term capital needs of a company depend upon many factors. These are :

(a) Nature of Business:

The nature and character of a business determines the amount of fixed capital. A manufacturing company requires land, building, machines etc. So it has to invest a large amount of capital for a long period. But a trading concern dealing in, say, washing machines will require a smaller amount of long term fund because it does not have to buy building or machines.

(b) Nature of goods produced:

If a business is engaged in manufacturing small and simple articles it will require a smaller amount of fixed capital as compared to one manufacturing heavy machines or heavy consumer items like cars, refrigerators etc. which will require more fixed capital.

(c) Technology used:

In heavy industries like steel the fixed capital investment is larger than in the case of a business producing plastic jars using simple technology or producing goods using labour intensive technique.

19.4 Sources of long term finance

The main sources of long term finance are as follows:

1. **Shares:**

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

2. **Debentures:**

These are also issued to the general public. The holders of debentures are the creditors of the company.

3. **Public Deposits :**

General public also like to deposit their savings with a popular and well established company which can pay interest periodically and pay-back the deposit when due.

4. **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.

5. **Term loans from banks:**

Many industrial development banks, cooperative banks and commercial banks grant medium term loans for a period of three to five years.

6. **Loan from financial institutions:**

There are many specialised financial institutions established by the Central and State governments which give long term loans at reasonable rate of interest. Some of these institutions are: Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), Unit Trust of India (UTI), State Finance Corporations etc. These sources of long term finance will be discussed in the next lesson.

Intext Question 19.1

A. Fill in the blanks with appropriate words given within brackets against each sentence.

1. Long term finance is required for _____ (Fixed Assets/Current Assets)
2. Long Term sources of finance are also required for _____ of working capital (whole/permanent part)
3. Investment in machines require _____ (Short term finance/long term finance)
4. Fixed capital requirement is more in _____ business (manufacturing/trading).

B Name the long term source of finance in the following cases:

1. A part of profits of the company that is used as capital.
2. Savings of the public invested in companies for safety and interest earning.
3. Available to a company as ownership capital.
4. Long term loans from the public.

19.5 Shares

Issue of shares is the main source of long term finance. Shares are issued by joint stock companies to the public. A company divides its capital into units of a definite face value, say of Rs. 10 each or Rs. 100 each. Each unit is called a share. A person holding shares is called a shareholder.

Characteristics of shares:

The main characteristics of shares are following:

1. It is a unit of capital of the company.
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2. Each share is of a definite face value.
3. A share certificate is issued to a shareholder indicating the number of shares and the amount.
4. Each share has a distinct number.
5. The face value of a share indicates the interest of a person in the company and the extent of his liability.
6. Shares are transferable units.

Investors are of different habits and temperaments. Some want to take lesser risk and are interested in a regular income. There are others who may take greater risk in anticipation of huge profits in future. In order to tap the savings of different types of people, a company may issue different types of shares. These are:

1. Preference shares, and
2. Equity Shares.

Preference Shares :

Preference Shares are the shares which carry preferential rights over the equity shares. These rights are (a) receiving dividends at a fixed rate, (b) getting back the capital in case the company is wound-up. Investment in these shares are safe, and a preference shareholder also gets dividend regularly.

Equity Shares:

Equity shares are shares which do not enjoy any preferential right in the matter of payment of dividend or reppayment of capital. The equity shareholder gets dividend only after the payment of dividends to the preference shares. There is no fixed rate of dividend for equity shareholders. The rate of dividend depends upon the surplus profits. In case of winding up of a company, the equity share capital is refunded only after refunding the preference share capital. Equity shareholders have the right to take part in the management of the company. However, equity shares also carry more risk.

Following are the merits and demerits of equity shares:

(a) Merits

(A) To the shareholders:

1. In case there are good profits, the company pays dividend to the equity shareholders at a higher rate.
2. The value of equity shares goes up in the stock market with the increase in profits of the concern.
3. Equity shares can be easily sold in the stock market.
4. Equity shareholders have greater say in the management of a company as they are conferred voting rights by the Articles of Association.

(B) To the Management:

1. A company can raise fixed capital by issuing equity shares without creating any charge on its fixed assets.
2. The capital raised by issuing equity shares is not required to be paid back during the life time of the company. It will be paid back only if the company is wound up.
3. There is no liability on the company regarding payment of dividend on equity shares. The company may declare dividend only if there are enough profits.
4. If a company raises more capital by issuing equity shares, it leads to greater confidence among the investors and creditors.

Demerits :

(A) To the shareholders

1. Uncertainly about payment of dividend:

Equity share-holders get dividend only when the company is earning sufficient profits and the Board of Directors declare dividend.

If there are preference shareholders, equity shareholders get dividend only after payment of dividend to the preference shareholders.

2. Speculative:

Often there is speculation on the prices of equity shares. This is particularly so in times of boom when dividend paid by the companies is high.

3. Danger of over-capitalisation:

In case the management miscalculates the long term financial requirements, it may raise more funds than required by issuing shares. This may amount to over-capitalization which in turn leads to low value of shares in the stock market.

4. Ownership in name only :

Holding of equity shares in a company makes the holder one of the owners of the company. Such shareholders enjoy voting rights. They manage and control the company. But then it is all in theory. In practice, a handful of persons control the votes and manage the company. Moreover, the decision to declare dividend rests with the Board of Directors.

5. Higher Risk :

Equity shareholders bear a very high degree of risk. In case of losses they do not get dividend. In case of winding up of a company, they are the very last to get refund of the money invested. Equity shares actually swim and sink with the company.

B) To the Management

1. No trading on equity :

Trading on equity means ability of a company to raise funds through preference shares, debentures and bank loans etc. On such funds the company has to pay at a fixed rate. This

enables equity shareholders to enjoy a higher rate of return when profits are large. The major part of the profit earned is paid to the equity shareholders because borrowed funds carry only a fixed rate of interest. But if a company has only equity shares and does not have either preference shares, debentures or loans, it cannot have the advantage of trading on equity.

2. Conflict of interests :

As the equity shareholders carry voting rights, groups are formed to corner the votes and grab the control of the company. There develops conflict of interests which is harmful for the smooth functioning of a company.

Difference between preference shares and equity shares :

We have learnt the meaning and the feature of preference and equity shares. Now we can differentiate between the two.

Basis of difference	Preference Shares	Equity shares
1. Choice	It is not compulsory to issue these shares.	It is compulsory to issue these shares.
2. Payment of dividend:	Dividend is paid on these shares in preference to the equity shares.	Dividend is paid on these shares only after paying dividend on preference shares.
3. Return of capital	In case of winding up of a company the capital is refunded in preference over the equity shares.	Capital on these shares is refunded in case of winding up of the company after refund of preference share capital.

Intext Questions 19.2

- A) Following are the characteristics either of equity shares or of preference shares. Put the appropriate characteristics against (a) equity shares and (b) preference shares:
- i) No fixed rate of dividend.
 - ii) Carry maximum risk.
 - iii) Priority regarding payment of dividend and repayment of capital.
 - iv) Provides scope for trading on equity.
- B) Following are the merits and demerits of equity shares classify them as (a) Merits to share holders, (b) Demerits to shareholders, (c) Merits to Management, (d) Demerits to Management.
- i) In case of good profits, company pays higher dividend
 - ii) Benefit of trading on equity will not be available.
 - iii) It helps in creating more confidence among the investors and creditors
 - iv) No certainty of payment of dividends.
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19.6 Debentures

Whenever a company wants to borrow a large amount of fund for a long but fixed period, it can borrow from the general public by issuing loan certificates called Debentures. The total amount to be borrowed is divided into units of fixed amount say of Rs.100 each. These units are called Debentures. These are offered to the public to subscribe in the same manner as is done in the case of shares. A debenture is issued under the common seal of the company. It is a written acknowledgement of money borrowed. It specifies the terms and conditions, such as rate of interest, time repayment, security offered, etc.

Characteristics of Debenture

Following are the characteristics of Debentures:

- i) Debentureholders are the creditors of the company. They are entitled to periodic payment of interest at a fixed rate.
- ii) Debentures are repayable after a fixed period of time, say five years or seven years as per agreed terms.
- iii) Debentureholders do not carry voting rights.
- iv) Ordinarily, debentures are secured. In case the company fails to pay interest on debentures or repay the principal amount, the debentureholders can recover it from the sale of the assets of the company.

Types of Debentures :

Debentures may be classified as:

- a) Redeemable Debentures and Irredeemable Debentures
- b) Convertible Debentures and Non-convertible Debentures.

Redeemable Debentures :

These are debentures repayable on a pre-determined date or at any time prior to their maturity, provided the company so desires and gives a notice to that effect.

Irredeemable Debentures :

These are also called perpetual debentures. A company is not bound to repay the amount during its life time. If the issuing company fails to pay the interest, it has to redeem such debentures.

Convertible Debentures :

The holders of these debentures are given the option to convert their debentures into equity shares at a time and in a ratio as decided by the company.

Non-convertible Debentures:

These debentures cannot be converted into shares.

Merits of debentures :

Following are some of the advantages of debentures:

1) Raising funds without allowing control over the company:

Debenture holders have no right either to vote or take part in the management of the company.

2) Reliable source of long term finance :

Since debentures are ordinarily issued for a fixed period, the company can make the best use of the money. It helps long term planning.

3) Tax Benefits :

Interest paid on debentures is treated as an expense and is charged to the profits of the company. The company thus saves income-tax.

4) Investors' Safety :

Debentures are mostly secured. On winding up of the company, they are repayable before any payment is made to the shareholders. Interest on debentures is payable irrespective of profit or loss.

Demerits :

Following are the demerits of debentures:

1. As the interest on debentures have to be paid every year whether there are profits or not, it becomes burdensome in case the company incurs losses.
 2. Usually the debentures are secured. The company creates a charge on its assets in favour of debentureholders. So a company which does not own enough fixed assets cannot borrow money by issuing debentures. Moreover, the assets of the company once mortgaged cannot be used for further borrowing.
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3. Debenture-finance enables a company to trade on equity. But too much of such finance leaves little for shareholders, as most of the profits may be required to pay interest on debentures. This brings frustration in the minds of shareholders and the value of shares may fall in the securities markets.
4. Burdensome in times of depression : During depression the profits of the company decline. It may be difficult to pay interest on debentures. As interest goes on accumulating, it may lead to the closure of the company.

Until now you have learnt about issue of shares and debentures as two main sources of raising long term finance. You have also learnt about the merits and demerits of the two. Now let us make a comparative study of shares and debentures for raising long term capital.

Basis	Shares	Debentures
1. Status	Shareholders are the owners of the company. They provide ownership capital which is not refundable	Debentureholders are the creditors of the company. They provide loans generally for a fixed period. Such loans are to be paid back.
2. Nature of return on investment	Shareholders get dividends. The amount is not fixed. It depends on the profit of the company. Hence only those persons invest in shares who are ready to take risk.	Interest is paid on debentures at a fixed rate. Interest is payable even if the company is running at a loss. So it is good investment for those who do not want to take risk.

3. Rights	Share holders are the real owners of the company. They have the right to vote and frame the objectives and policies of the company.	Debentureholders do not have the right to attend meetings of the company. So they have no say in the management of the company.
4. Security	No security is required to issue shares.	Generally debentures are secured. Therefore sufficient fixed assets are required when debentures are to be issued.
5. Order of repayment.	Shareholders take the maximum risk because their capital will be paid back only after repaying the loan of debentureholders.	Debentureholders have the priority of repayment over shareholders.

Intext Questions 19.3

- A) Write true or false in the space provided against each sentence:
1. Debentureholders are the creditors of the company. ()
 2. Debentureholders have the right to vote in the meetings of the company. ()
 3. Interest at a fixed rate is paid on debentures. ()
 4. Debentures carry more risk than shares. ()
 5. Debentures are generally redeemable after a fixed period. ()
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B. Match the following.

- | | |
|----------------------------|--|
| 1. Convertible debenture. | (i) Holders have the right to recover their money from the sale of assets of the company |
| 2. Secured debentures | (ii) Deducted from the profits of the company. |
| 3. Interest on debentures | (iii) Permanent liability on the company. |
| 4. Irredeemable Debentures | (iv) The holders of such debentures are given the option to exchange them for shares. |

(C) Following sentences relate to either shares or debentures. Put tick (✓) mark in the correct box given in the table below:

- i) They provide ownership capital.
- ii) Return on these is called interest.
- iii) Return on these is called dividend.
- iv) Holders enjoy voting rights.
- v) Holders are the creditors of the company.

	(i)	(ii)	(iii)	(iv)	(v)
1. Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Debentures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

19.7 Retained Earnings

Like an individual, companies also set aside a part of their profits to meet future requirements of capital. Companies keep these savings in various accounts such as General Reserve, Debenture Redemption Reserve and Dividend Equalisation Reserve etc. These reserves can be used to meet long term financial requirements.

The portion of the profits which is not distributed among the shareholders but is retained and is used in business is called retained earnings or ploughing back of profits. As per Indian Companies Act., companies are required to transfer a part of their profits in reserves. The amount so kept in reserve may be used to buy fixed assets. This is called internal financing.

Merits :

Following are the benefits of retained earnings:

1. Cheap Source of Capital :

No expenses are incurred when capital is available from this source. There is no obligation on the part of the company either to pay interest or pay back the money. It can safely be used for expansion and modernization of business.

2. Financial stability :

A company which has enough reserves can face ups and downs in business. Such companies can continue with their business even in depression, thus building up its goodwill.

3. Benefits to the shareholders:

Shareholders may get dividend out of reserves even if the company does not earn enough profit. Due to reserves, there is capital appreciation, i.e. the value of shares go up in the share market .

Limitation :

Following are the limitations of Retained Earnings:

1. Huge Profit :

This method of financing is possible only when there are huge profits and that too for many years.

2. Dissatisfaction among shareholders :

When funds accumulate in reserves, bonus shares are issued to the shareholders to capitalise such funds. Hence the company has to

pay more dividends. By retained earnings the real capital does not increase while the liability increases. In case bonus shares are not issued, it may create a situation of under-capitalisation because the rate of dividend will be much higher as compared to other companies.

3. Fear of monopoly :

Through ploughing back of profits, companies increase their financial strength. Companies may throw out their competitors from the market and monopolize their position.

4. Mis-management of funds :

Capital accumulated through retained earnings encourages management to spend carelessly.

Intext Question 19.4

Which of the following statements are right and which are wrong?

1. Retained earning is the portion of profit which is not distributed among shareholders as dividend.
2. A company can create reserves even if it is running at a loss.
3. Heavy expenses are incurred to raise capital through retained earnings.
4. Retained earnings are useful for shareholders because it brings stability in the rate of dividend and leads to capital appreciation.
5. Retained earning means ploughing back of profits.

19.7 Public Deposits

It is a very old source of finance in India. When modern banks were not there, people used to deposit their savings with business concerns of good repute. Even today it is a very popular and convenient method of raising medium term finance. The period for which business undertakings accept public deposits ranges between six months to three years.

Procedure to raise funds through public deposits:

An undertaking which wants to raise funds through public deposits advertises in the newspapers. The advertisement highlights the achievements and future prospects of the undertaking and invites the investors to deposit their savings with it. It declares the rate of interest which may vary depending upon the period for which money is deposited. It also declares the time and mode of payment of interest and the repayment of deposits. A depositor may get his money back before the date of repayment of deposits for which he will have to give notice in advance.

Features :

1. These deposits are not secured.
2. They are available for a period ranging between 6 months and 3 years.
3. They carry fixed rate of interest.
4. They do not require complicated legal formalities as are required in the case of shares or debentures.

Keeping in view the malpractices of certain companies, such as not paying interest for years together and not refunding the money, the Government has framed certain rules and regulations regarding inviting public to deposit their savings and accepting them.

Rules governing Public Deposits

Following are the main rules governing public deposits:

1. Deposits should not be made for less than six months or more than three years.
 2. Public is invited to deposit their savings through an advertisement in the press. This advertisement should contain all relevant information about the company.
 3. Maximum rate of interest is fixed by the Reserve Bank of India.
 4. Maximum rate of brokerage is also fixed by the Reserve Bank of India.
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5. The amount of deposit should not exceed 25% of the paid up capital and general reserves.
6. The company is required to maintain Register of Depositors containing all particulars as to public deposits.
7. In case the interest payable to any depositor exceeds Rs. 10,000 p.a., the company is required to deduct income-tax at source.

Advantages :

Following are the advantages of public deposits:

1. Simple and easy:

The method of borrowing money through public deposit is very simple. It does not require many legal formalities. It has to be advertised in the newspapers and a receipt is to be issued.

2. No charge on assets :

Public deposits are not secured. They do not have any charge on the fixed assets of the company.

3. Economical :

Expenses incurred on borrowing through public deposits is much less than expenses of other sources like shares and debentures.

4. Flexibility :

Public deposits bring flexibility in the structure of the capital of the company. These can be raised when needed and refunded when not required.

Disadvantages :

Following are the disadvantages of public deposits:

1. Uncertainty :

A concern should be of high repute and have a high credit rating to attract public to deposit their savings. There may be sudden

withdrawals of deposits which may create financial problems.

2. Insecurity :

Public deposits do not have any charge on the assets of the concern. It may not always be safe to deposit savings with companies particularly those which are not very sound.

3. Lack of attraction for professional investors :

As the rate of return is low and there is no capital appreciation, the professional investors do not appreciate this mode of investment.

4. Uneconomical :

The rate of interest paid on public deposits may be low but then there are other expenses like commission and brokerage which make it uneconomical.

5. Hindrance to growth of capital-market :

If more and more money is deposited with the companies in this form there will be less investment in securities. Hence the capital market will not grow. This will deprive both the companies and the investors of the benefits of good securities.

6. Over-capitalisation :

As it is an easy, convenient and cheaper source of raising money, companies may raise more money than is required. In that case it may not be able to make the best use of the funds or may indulge in speculative activities.

Intext Questions 19.5

A) Tick the correct part of the statements:

1. Public deposits are secured/unsecured.
 2. Public deposits involve/do not involve any charge on the assets of the company.
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3. Advertisement is required/not required for inviting public deposit.
4. Public deposits can be/cannot be for more than three years.

B) Write yes or no against the following statements:

- i) The system of public deposits is economical.
 - ii) Public deposits are secured.
 - iii) Rate of interest on public deposits is not fixed.
 - iv) Public deposits help in the growth of a sound capital market in the country.
 - v) Public deposit is a method which has become popular only recently.
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19.8 Borrowing From Commercial Banks :

Traditionally, commercial banks in India do not grant long term loans. They grant loans only for short period not extending one year. But recently they have started giving loans for a long period. Commercial banks give term loans i.e. for more than one year. The period of repayment of short term loan is extended at intervals and in some cases loan is given directly for a long period. Commercial banks provide long term finance to small scale units in the priority sector.

Merits of long term borrowings from Commercial Banks:

The merits of long-term borrowing from banks are as follows:

1. It is a flexible source of finance as loans can be repaid when the need is met.
 2. Finance is available for a definite period, hence it is not a permanent burden.
 3. Banks keep the financial operations of their clients secret.
 4. Less time and cost is involved as compared to issue of shares, debentures etc.
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5. Banks do not interfere in the internal affairs of the borrowing concern, hence the management retains the control of the company.
6. Loans can be paid-back in easy instalments.
7. In case of small-scale industries and industries in villages and backward areas, the interest charged is low.

Demerits:

Following are the demerits of borrowing from commercial banks:

1. Banks require personal guarantee or pledge of assets and business cannot raise further loans on these assets.
2. In case the short term loans are extended again and again, there is always uncertainty about this continuity.
3. Too many formalities are to be fulfilled for getting term loans from banks. These formalities make the borrowings from banks time consuming and inconvenient.

Intext Question 19.6

Write 'True' if the statement is correct and 'False' if the statement is incorrect:

- (a) Commercial banks do not grant long-term loans.
 - (b) Short term loans grant by commercial banks can become long term loans.
 - (c) Commercial banks charge high rate of interest while giving loans to small scale industries and industrial units set up in villages.
 - (d) No guarantee or pledge of assets are to be made while borrowing from commercial banks.
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19.9. What You Have Learnt

Capital is the life blood of business. A business requires capital to purchase its fixed assets, which is called long term finance. The factors that determine the long term requirements of capital are: (i) Nature of

business, (ii) Size of business, (iii) Kinds of goods produced, and (iv) Technology used.

The main sources of raising long term finance are: (i) Shares, (ii) Debentures (iii) Public deposits, (iv) Retained earnings, (v) loans from financial institutions, and (vi) term loans from banks.

Share is an unit of capital of a company of a definite face value. Share indicates certain rights of its holder and the extent of his liability. Shares are mainly of two types : (i) Equity shares (ii) Preference shares. Preference shares are the shares which carry preferential rights of receiving dividend and repayment of capital (in case the company is wound up) over other shares.

Equity shares are shares which do not carry any preferential right. Holders of these shares are the real owners of the company. They get dividends only when dividend on preference shares has been paid.

Issue of debenture is a source of borrowed capital. A debenture is a written acknowledgement of debt by a company. Debentureholders are the creditors of the company. They do not enjoy any voting rights. They are secured. Debentures may be (a) redeemable or irredeemable, and (b) convertible or non-convertible.

Public deposits channelise savings into business. They are unsecured. They bear fixed rate of interest. Deposits generally are for one year to three years. An advertisement is required for inviting public deposits.

Retained earning is a portion of profit, earned by an enterprise, set aside to finance its activities. It is also called ploughing back of profit or internal financing.

Commercial banks traditionally give loans for a short period. But recently they have started giving term loans both by extending the short-term loans and also directly for a long period.

19.11 Terminal Question

1. Why does business need long term finance? Explain in brief.
 2. Give the advantages of equity shares to (a) the management and to (b) the shareholders.
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3. Differentiate between :
 - (a) Equity shares and preference shares
 - (b) Shares and Debentures
4. State the meaning of Debenture. Give the merits and demerits of debentures as a source of long term finance.
5. Define Retained Earnings. What are limitations of Retained Earning as a source of finance?
6. Briefly explain the meaning of Public Deposits. State the government rules and regulations regarding Public Deposits.
7. List out the various advantages and disadvantages of long term loans from commercial banks.
8. The management of an engineering company has decided to double its manufacturing capacity. Suggest, giving arguments, whether it should issue shares or debentures?

19.11 Answers to intext Questions

- A..
1. Fixed Assets
 2. Permanent
 3. long term finance
 4. Manufacturing

- B.
1. Retained earning
 2. Public Deposits
 3. Shares
 4. Debentures

- 19.2** A
- a) Equity Shares (i), (ii)
 - b) Preference Shares (iii), (iv)
-

- B (i) (a)
 (ii) (d)
 (iii) (c)
 (iv) (b)

- 19.3** (A) 1. True
 2. False
 3. True
 4. False
 5. True

- (B) (1) (iv)
 (2) (i)
 (3) (ii)
 (4) (iii)

		(i)	(ii)	(iii)	(iv)	(v)
C)	Shares	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Debentures	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

- 19.4** 1. Right
 2. Wrong
 3. Wrong
 4. Right
 5. Right

- 19.5** A) 1. Unsecured
 2. Do not involve

3. Required

4. Cannot be

B) (i) Yes,

(ii) No,

(iii) No,

(iv) No,

(v) No.

19.6 a) False

b) True

c) False

d) False
