

1. Explain the concept of 'Finance' and its features.

Ans: Finance is the lifeblood of business. "Finance is a professional activity that relates to the acquisition and protection of capital funds at all objectives of the professional enterprise". Finance is essential for forming new businesses, growth opportunities, creating jobs, increasing income and boosting investments in the economy. It also supports other businesses and contributes to government revenue.

Money, credit and finance are closely related but distinct concepts:

'Money' refers to the current medium of exchange or means of payment.

'Credit' or loan is a sum of money to be returned, normally with interest; it refers to a debt of an economic unit.

'Finance' is monetary resources comprising debt and ownership funds of the State, company or person.

In a broader sense, finance is the process of raising funds or capital for various expenses. It involves accumulating funds from savers and investors, such as savings deposits, insurance claims, provident funds and pension funds. Finance then channels these funds through credit, loans, or investments to economic entities that require them for productive use.

Finance plays a critical role in supporting economic, social and administrative activities. It acts as a lifeline for businesses, individuals and governments, enabling them to pursue their objectives and manage their financial affairs effectively. For example, when someone borrows money to set up a new industry, it represents finance that fuels economic activity and growth.

Definition:

"Finance is that administrative area or set of administrative functions in an organisation which relate the arrangement of cash and credit so that the organisation may have the means to carry out its objectives as satisfactorily as possible".-Howard and Upton

FEATURES OF FINANCE

- i. A Branch of Economics: Finance is a branch of economics that deals with managing, allocating, and acquiring resources.
- ii. It is a Process: Finance involves the process of getting money for various expenses. It's about getting funds in the form of loans, investments, or credit to be used productively.

- iii. Closely associated with Money: Finance is closely related to money. It provides money when it's needed.
- iv. Complex Elements: Finance includes a wide range of institutions, markets, instruments and services that help move money from savers to those who need it. It's based on economic theories.
- v. Flow of Funds: Money in finance flows from areas with extra funds to those with deficits, and the financial system helps facilitate this flow.
- vi. Different Forms: Finance comes in various forms, like corporate finance, private finance, government finance, short-term finance and long-term finance.
- vii. Multiple Sources: We can get finance from short-term, long-term, or medium-term sources, and it can be from internal or external sources.
- viii. Purpose: Finance helps people save, manage, and raise money for different purposes.

2. Discuss the different functions/role of finance.

Ans: The following are the different functions/role of finance

- i. Acquisition, Allocation, and Utilization of Funds: Finance involves obtaining, distributing, and using funds efficiently in a business. This includes deciding how to raise money, allocating it to different projects, and ensuring effective utilization.
- ii. Channelization of Funds: The financial system, comprising institutions, markets, instruments and services, channels funds from savers (those with surplus funds/units) to borrowers (those with deficit funds/units)
- iii. Optimal Mix of Funds: Finance aims to find the best mix of owned funds (e.g., equity) and borrowed funds (e.g., loans/debts) to maximize profits while minimizing costs and risks.
- iv. Creation of Investment Opportunities: Finance facilitates the use of funds for profitable purposes. It allows individuals and institutions to invest in physical assets, engage in business activities, or acquire financial securities.
- v. Internal Controls: Finance involves policies and procedures to ensure efficient business operations, regulatory compliance, and prevention of fraud and errors.
- vi. Profit Maximization: Finance plays a crucial role in helping businesses maximize profits by ensuring the timely flow of funds, enabling them to seize profitable opportunities..

vii. Future Decision Making: Finance is essential for making informed decisions about a company's future. It involves evaluating financial options, creating budgets, tracking performance, and developing short- and long-term strategies.

viii. Enhancing Cash Flow: Finance helps companies in managing their cash effectively through expense monitoring, smart spending and budgeting, ensuring money is used wisely for productive purposes.

3. Write a short-term source of finance.

Ans:- The main sources of short-term financing are (i) business credit, (ii) commercial bank loans, commercial letters, a specific type of principal notes, and (iv) are safe loans.

4. Write any three long term sources of finance

Ans:- (i) Equity Shares: Equity shares are a long-term financing source for any company.

(ii) Term Loans: A term loan is a loan that has a fixed repayment period or timeline, often between five and ten years. Term loans are typically used to finance major projects or capital expenditures, like equipment purchases and renovations.

(iii) Preference Shares: Preference shares are shares of company stock with dividends that are paid to shareholders before common stock dividends are issued.

4. What is Finance?

Ans:- Finance is the management of money, investments, and other financial instruments, encompassing activities like budgeting, saving, lending, and investing to achieve economic goals.

5. Explain the different types of finance.

Ans: The different types/categories of finance are:

(a) Short-term Finance: It refers to finance with a duration of less than one year. It is used for working capital expenditure. Some of its sources include cash credit, overdraft, etc. primarily provided by commercial banks.

(b) Medium-term Finance: This type of finance spans one to five years. It is employed for purchasing equipment and fixed assets. Sources include hire purchase finance, lease finance, commercial banks, and development finance institutions.

(c) Long-term Finance: Finance required for more than five years falls into the category of long-term finance. This kind of finance is typically needed for significant investments

like buying land or restructuring buildings. Examples include bonds, debentures, preference shares, equity shares, long-term loans from government or financial institutions, venture funding and investor funds.

B. User-Based Classification:

(a) Public Finance: It deals with the government's income, expenditure and financing techniques. It encompasses public expenditure, public revenues and public debt.

(b) Corporate Finance: This field focuses on raising and allocating funds for corporate activities. Its primary objective is to maximize shareholder value.

(c) Private Finance: It involves managing income, expenditure, and borrowing for individuals, households, and business firms. The goal is to optimize finances to achieve specific objectives.

C. Mode of Delivery-Based Classification:

(a) Direct Finance: In this case, borrowers directly obtain funds from lenders by selling securities in financial markets. For instance, individuals may buy government bonds, or businesses may purchase commercial papers.

(b) Indirect Finance: Borrowers access funds indirectly through financial intermediaries, such as commercial banks. These intermediaries channel funds from savers to borrowers.

D. Source-Based Classification:

(a) Equity Finance: This type of finance consists of owned capital brought in by promoters or business owners

(b) Debt Finance: Debt finance involves borrowed funds, representing money owed by the company to external entities like banks and financial institutions, often in the form of loans.