

ANSWERS

Sample Question Paper—A

Ans. 1. Entrepot trade 1

Ans. 2. By Hindu Law 1

Ans. 3. Partnership 1

Ans. 4. Departmental Undertakings 1

Ans. 5. Statutory Corporations 1

Ans. 6. Departmental Undertaking. 1

Ans. 7. Increased resources and capacity 1

Ans. 8. Traditional business gives due consideration to locational requirement, Proximity to the source of raw material or the market is seen where as it is not required in e-business. 1

Ans. 9. (a) charging fair prices from customers

(b) using fair weights for measurement of commodities. $\frac{1}{2} + \frac{1}{2}$

Ans. 10. A promoter is any person or group of persons or a company who undertakes various functions to bring a company into existence. 1

Ans. 11. Consumer cooperative stores 1

Ans. 12. Cheap-jacks, sheet traders 1

Ans. 13. The major reasons underlying trade between nations are :

(a) Unequal distribution of natural resources among the nations.

(b) Differences in the productivity levels of the factors of production

(c) Comparative Cost advantage to nations to produce a commodity efficiently with their given resources. 3

Ans. 14. Internal Trade means buying and selling of goods and services within the boundaries of a nation. The two types are as follows :

(a) **Wholesale trade**—Purchase & sale of goods & services in large quantities for the purpose of resale or intermediate use is referred to as wholesale trade.

(b) **Retail trade**—Sale of varieties of goods & services in smaller quantities directly to the ultimate consumers is known as retail trade 3

Ans. 15. An ancillary small industrial unit is the one who supplies not less than 50% of its production to another industry referred to as the parent unit & having the investment in plant & machinery is not more than ₹ 5 crore.

On the other hand a tiny industry is an industrial or business enterprise whose investment in fixed assets i.e., plant & machinery does not exceed ₹ 25 lakh. 3

Ans. 16. Three differences between fire & Marine Insurance

Basis	Fire Insurance	Marine Insurance
1. Subject matter	The subject matter is any physical property or assets	The subject matter is a ship, cargo or freight
2. Duration	Five insurance policy usually does not exceed a year	Marine insurance policy is for one or period of voyage or mixed
3. Indemnity	The insured can claim only the actual amount of loss from the insurer. The loss due to the fire is indemnified subject to the maximum limit of policy amount	The insured can claim the market value of the ship and cost of goods destroyed at sea and the loss will be indemnified.

Ans. 17. Three advantages of intercorporate deposits are :

(a) **Easy Availability**—Inter corporate deposits are easily available with assured supply of

funds as no mortgage of assets is required.

(b) **Free from legal formalities**—ICDs are free from legal and bureaucratic hassels.

(c) Avenues for cash surplus Companies—

ICDs provide good avenues to cash surplus companies for parking their funds on short term basis with high returns. **3**

Ans. 18. An entrepreneur can deal with risks in following ways :

(a) Efficient management—An efficient management links business org. with its business environment requirements. Thus binging required changes for minimising the risks.

(b) Good and safe working Conditions—Good healthy and safe working conditions minimises the risks of accidents, health hazards etc.

(c) Insurance provision—By getting insurance coverage for different kinds of risk—fire, marine, insurance etc, the risks can be minimised. **3**

Ans. 19. Four institutions working for the benefit of SSIs are :

(a) National Bank for Agriculture and Rural Development—NABARD was set up in 1982 to promote integrated rural development. Through its multi pronged, multipurpose strategy it has been working for the promotion of rural business enterprises, cottage & village industries and rural artisans using credit non-credit approaches.

(b) The Rural Small Business Development Centre—It aims at providing management and technical support to current and prospective micro and small enterprises in rural areas. RSBDC organises several programmes on skill upgradation workshops trainers training programme etc.

(c) National Small industries corporation—It was set up in 1955 with a view to promote, aid and foster the growth of SSI. It provides mentoring, advisory services, creates awareness on technology upgradation procure, supply and distribute indigeneous and imported raw-material and machines etc.

(d) World Association for Small & Medium Enterprise—It is the only international Non Govt. Org. of micro, medium & SS Industries, in India. It aims to develop an action plan model for sustained growth of rural enterprises. **4**

Ans. 20. Equity shares represent the ownership of a company and do not carry any special or preferential rights in the payment of annual dividend or repayment of capital. It is the most important source of raising long term capital by a company.

Features of Equity Shares

(i) Basis for loans—Equity share capital is the basis on which debts are taken by the company. Equity share capital increases the confidence of the creditors

(ii) Control—Equity shareholders have control over the activities of the company through voting rights given to them in proportion to their share holdings.

(iii) Primary risk bearers—Equity share holders are the primary risk bearers as during losses no dividends are paid to them **4**

Ans. 21. Values affected here are :

- Breach of trust
- unethical practices of partners
- Exploitation of workers
- Dishonesty, disrespect for the law
- Tax-evasion **4**

Ans. 22. Partnership deed is the written agreement which specifies the terms & conditions that govern the partnership is called Partnership deed. Its main contents are :

- (i) Name, location and nature of the business of the firm
- (ii) Duration of business, Procedure for dissolution of the firm
- (iii) Investment made by each partner, their profit sharing ratio
- (iv) Duties and obligations of the partners
- (v) Terms governing admission, retirement, expulsion of partners
- (vi) Preparation of accounts & their auditing
- (vii) Method of solving disputes **4**

Ans. 23. Major causes of Environmental Pollution are as follows—

(i) Air Pollution—Air pollution is the result of a combination of factors which lowers air quality and responsible for creating a hole in the ozone layers leading to dangers to human life. It is mainly due to carbon monoxide emitted by automobiles smoke & other chemicals from manufacturing plants pollute the air.

(ii) Water Pollution—Business enterprises have been dumping waste & chemicals into rivers, streams & lakes causing water pollution which has posed a serious threat to aquatic & human life.

(iii) Land Pollution—Dumping of toxic wastes, on land causes land pollution. This damages the quality of land, making it unfit for agriculture or plantation.

(iv) Noise Pollution—Noise caused by the sound produced by machines in factories and moving vehicles beyond the specific decible causing discomforts & serious health hazards.

Ans. 24. Principles of contract of Insurance are explained below :

(i) Utmost Good Faith—It implies that the applicant for an insurance policy *i.e.*, the insured should reveal all material facts about the subject to the insured and the insurer to make clear all the terms and conditions in the insurance contract. Failure to make disclosure of material facts by any of the party to contract makes the contract voidable at their discretion.

(ii) Insurable Interest—Insurable interest means some pecuniary interest in the subject matter of the insurance contract. According to this principle the insured must have an interest in the preservation of the subject so that he/she will suffer financially on the happening of the event against which he/she is insured.

(iii) Indemnity—According to it the insurer undertake to compensate the insured for the loss caused to him/her due to damage or destruction of property insured. The principle of indemnity is not applicable to life insurance as the life of a human being cannot be compensated.

(iv) Proximate Cause—This principle states that when the stated loss is the result of two or more causes, the proximate causes *i.e.*, the direct and the most dominant and most effective cause of which the loss is the natural consequence, should be taken into consideration.

(v) Subrogation—It refers to the right of the insurer to stand in the place of the insured, after settlement of a claim as far as the right of insured in respect of recovery from an alternative source is involved. This is because the insured should not be allowed to make any profit, by selling the damaged property or in the case of lost property being recovered 3

Ans. 25. Merits of Outsourcing

(i) Concentration on core competence—By outsourcing non core activities the management or the company can concentrate on core activities crucial for the success & growth of the enterprise.

(ii) Reduction in cost—The outsourcing partners performs the task for various companies. So the Client companies tend to gain from their economies to scale.

(iii) Growth through alliance—The outsourcing services reduce the need for investment in fixed assets & employing more number of employees as the outsourcing agencies take up the responsibilities of routine jobs. So the firm who outsource business activities tends to gain & can extra invest in expansion & growth of their business.

Limitations of outsourcing

(i) Confidentiality—In outsourcing the parent company shares its trade secrets with the captive or third parties which can be misused by these captive or third parties for their personal interests.

(ii) Sweat shopping—The firms which outsource their work prefer to outsource the work which requires doing skills and does not require thinking skills. It means by working in outsourcing companies the employees' competence, intelligence level does not increase. They are asked to do very simple routine work which reduces thier creativity and intellectual development to work beyond this.

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Ans. 26. The various major agreements of WTO are discussed below :

(a) General Agreement on Tariffs and Trade (GATT)—GATT came into existence on 1st January 1948 and remain in force till 1994. This agreement defines the general rules to deal with specific tariff barriers so as to promote free & smooth international trade.

(b) Agreement on Textile and Clothing (ATC)—Under it the developed countries agreed to remove quota restrictions during a period of ten years starting from 1995 so that underdeveloped & developing countries can get equal benefits of foreign trade.

(c) Agreement on Agriculture—It is observed that the use of high subsidies in agriculture by the developed countries had highly distorted the agriculture trade. Therefore under this agreement the developed countries were ready to lower down the custom duty on their imports & subsidies to their exports.

(d) General Agreement on Trade in Services (GATS)—GATS enforced all the rules which were applicable on trade in goods as well as in services also. Three major provisions of GATS are :

- All member nations must remove trade restrictions
- It insists that trade in service should not be governed by most Favoured Nation obligation.
- Each member country must publish its relevant laws and regulations regarding trade of services

(e) Agreement on Trade Related aspects of Intellectual Property Rights (TRIPS)—This agreement sets up protection standards of seven intellectual properties-copyrights, trade-

marks, geographical indications, industrial designs, patents, layout designs of integrated circuits circuits and trade secrets. 5

Ans. 27. Meaning of Lease Financing—Lease financing is a contractual agreement between the owner of the asset who grants the other party the right to use the asset in return for a periodic payment and the other party who is the user of such assets. The owner of the party is known as Lessor and the user of the asset under such agreement is known as lessee and the rental paid is known as lease rental.

Merits of Lease financing (any 2)

1. Cheap source—It enables the lessee to acquire the asset with a lower investment only.

2. No dilution of ownership—It provides the finance without diluting the ownership or control of business.

3. Easy replacement of asset—The risk of obsolescence is borne by the lesser. This allows greater flexibility and cheap financing to the lessee to replace the asset.

4. Tax benifits—Lease rentals paid by the lessee are deductible for computing tax liabilities. It further reduces the cost of taking asset on lease.

Limitations of Lease financing (any 2)

1. Contractual constraints—A lease agreement may restrict the lessee to make any alteration or modification in the asset.

2. Renewal of Lease agreement—The normal business operations and growth of the business is badly affected in case the lease is not renewed.

3. No Capital Gains—The lessee never becomes the owner of the asset inspite of paying heavy lease rentals. It deprives him of the residual value of the asset. (2 + 2 + 2)

OR

Various types of Preference shares are as follows :

1. Redeemable and Irredeemable Preference shares—Redeemable preference shares are those which are redeemed on or after a specified date as per the terms of their issue. Preference shares which can't be redeemed during the life time of the company are known as Irredeemable preference shares.

2. Convertible and Non-convertible Preference shares—Preference shares which can be converted into equity shares within a specified time period are known as convertible preference

shares. The preference shares which do not carry such a right are known as non-convertible Preference shares.

3. Cumulative and Non-cumulative Preference shares—Preference shares on which arrears of dividend (outstanding dividends for a specific year not paid because of inadequate preofits) are paid in subsequent years are known as cumulative Preference shares. Non-cumulative Preference shares are those on which dividend not paid in any year is not accumulated.

4. Participating and Non-participating Preference shares—Participating preference shares gives preferential rights to their owners— (a) first, extra dividend may be paid if the surplus of profit is significant-after paying dividend on equity shares. (b) second, in the case of winding up of the company, participating preference share get a part of surplus of assets after paying to equity shareholders. Non participating preference shares donot have such rights. $1\frac{1}{2} \times 4 = 6$

Ans. 28. Global Enterprises are those enterprises which has its headquarters in one country but operate their business in many countries. Global enterprises are also called as Multinational Companies or transnational corporation. For ex-Coca-Cola, Hyundai, Nike etc.

Features/Characteristics of Multinational Companies :

(i) Giant size—The assets and sales of global enterprises are quiet large. These companies operate on largescale. Their physical assets includes huge investments.

(ii) Operations in several countries—These corporations operate in a number of countries. The parent corporation is in home country and production & marketing activities are carried on in a number of host countries.

(iii) Centralised Control—Global Enterprises have centralised management. The plans and policies are formed by the headquarters. i.e. by the parent company and subsidiaries & branches in host countries only implement them.

(iv) Professional Management—Since multinationals have large financial resources at their command, they appoint professional managers to undertake various activities, the professional managers are specialised, and experts in various fields to efficiently manage the affairs of these companies.

(v) Sophisticated Technology—Multinational companies make use of latest technology to supply world class products. They employ capital intensive technology and innovative techniques

of production to enjoy monopoly position in the market. (1 + 5)

OR

Rationale for giving Dominant role to public sector is explained below :

(i) **Infrastructure**—As the private sector hesitates to invest in infrastructure project due to huge and investment requirements & long gestation period so govt. set up various public sector enterprises to undertake the task of developing infrastructure of our country.

(ii) **Balanced Regional Development**—The private sector enterprises hesitate to setup industries in backward or remote areas due to lack of infrastructure. The govt. tries to locate new public sector enterprises in the backward areas so that such backward areas can come at par with the developed areas.

(iii) **Employment Generation**—Public sector enterprises provide employment to millions of people. These enterprises prefer to use labour-

intensive techniques and create more and more jobs, thereby solving the problem of unemployment & increasing per capita income.

(iv) **Defence Requirement**—Defence is the most sensitive department of every country. The govt. can't depend upon private sector for supply of arms & ammunitions. The govt invests in public sector to ensure secrecy and smooth supply of defence goods.

(v) **Social Utilities**—Private sector are keen to set up industries & trading concerns which bring quick and maximum profits. Public sector enterprise put emphasis on public welfare by offering essential goods & public/social utilities like water, electricity, gas etc directly or indirectly at lower price.

(vi) **Optimum Utilisation of Resources**—Public sector aims at optimum utilisation of scarce resources by undertaking large scale projects. Thus it achieves economies of scale resulting in lower per unit cost of product. This way available, scarce resources are used in most optimum way.

Ans. 29. Difference between Partnership and Company form of Organisation

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Basis	Partnership	Company
(1) Formation	Formed by signing an agreement by all the partners. Registration is not compulsory.	Formed by getting registration under Companies Act
(2) Number of members	Minimum-2 members Maximum-in case of banking 10; in case of any other business-20	Minimum-2 members in case of private company and 7 members in case of public company. Maximum 50 in case of private company. There is no maximum limit on members in public company
(3) Liability	Liability of partners is unlimited	The liability of members is limited to the extent of contribution in the share capital.
(4) Transfer of interest	Transfer of interest is not permitted.	Transfer of interest is possible by transfer of shares.
(5) Management	Managed by all the partners. No separate professional managers appointed due to lack of resources	Managed by highly professionalised experts & Board of Directors
(6) Continuity of Business	Partnership firm gets dissolved on the death insolvency or retirement of any partner.	Stable & perpetual succession of the company as death, insolvency etc. of members does not affect the existence of company.

1 × 6 = 6

OR

The various types of Partners are explained below :

(1) **Active Partners**—Partners who take active part in the management of the partnership

firm. They contribute capital & shares, profits & losses and bear unlimited liability.

(2) **Sleeping or Dormant Partners**—A sleeping partner is the one who contributes capital, shares profits & losses of the business, but

does not take part in the working of the concern. Sleeping partner is liable for the liabilities of the business like other partners.

(3) Secret Partner—Those partners whose association or relation with the firm is not known to the outsiders are known as secret partners. He contribute capital shares profits & losses, participates actively in the management, his liability is also unlimited.

(4) Nominal Partners—The nominal partners are not the real partners of the firm. These partners do not contribute capital, do not participate in the management, do not have unlimited liability, do not get any share in the profit on loss of the firm. The nominal partner only lends his name. He is liable to outsiders for the debts which outsiders have given to the firm believing he is a partner in that firm.

(5) Partner by estoppel—The person who accepts that he is a partner in the partnership firm by his own words or conduct is known as partner by estoppel. He does not contribute any capital, does not share profits & losses of the business but has unlimited liability towards third parties to pay back the loans, given to the firm believing that he is the partner to the firm.

(6) Partner by holding out—The partner who does not deny his acceptance as partner by third parties and does not object when others call him as a partner in the firm, then he is called partner by holding out. He will be liable to pay back the debts which the company got by using his name.

1 × 6 = 6

Ans. 30. Features of a Departmental Store are explained below :

(a) A departmental store is a large retail showroom requiring a large capital investment.

(b) A departmental store deals with a wide range of products from low priced to very expensive goods of different brands.

(c) The store is comprised of different departments and each department specialises in one line of product.

(d) A departmental store makes centralised purchases.

(e) A departmental store is located at a central place so that people from different parts of the city can easily be attracted.

(f) Departmental stores provide a number of

services & facilities to the customers like telephonebooth, restaurant, packing free home delivery etc.

(g) Departmental stores buy goods in large quantities directly from manufacturers & producers hence eliminating the middleman

(h) The departmental stores advertise on a large scale to attract customers from far and wide.

The major differences between a departmental store and chain store is that while a departmental store deals in wide variety of products of different brands, chain stores are specialised in only one line of product. They deal with limited range only. Secondly departmental stores are centrally located in big cities whereas chain stores are located in different localities. (4 + 2)

OR

No we can not dispense away the role of wholesalers as they provide following useful services to the manufacturers as well as to the wholesalers.

(a) Wholesalers facilitates large scale production by the manufacturers as various wholesalers procure the entire production volume of a producer. Large Scale production leads to economy of scale.

(b) The wholesalers undertake responsibility of distribution of goods to the retailers who inturn sell them to final consumers. Thus saving time, efforts and money in the process of distributing goods produced & ensuring regular supply of goods.

(c) Provides market information to the producer so that the producers can plan the production of the goods accordingly

(d) The wholesaler provides financial assistance to both the producers and the retailers thus arranging for their working capital requirements.

(e) Assumption of Risk—The wholesalers assume risk in the process of storing the goods. Sometimes this period may be quite long and any adverse fluctuations in the prices of these goods may cause him risk so he assumes risk on behalf of both the producer and the retailer.

(f) Promotion of Goods—Produced by the producers & distributed by the Retailers is very well done by the wholesalers as he can influence the opinion of retailers and consumers about the desirability of goods by presenting positive features.



