

Sample Question Paper—B

Ans. 1. Particular Partnership 1

Ans. 2. Speculative Risk 1

Ans. 3. Sole Proprietorship 1

Ans. 4. to decide whether a sick unit is to be restructured or closed down. 1

Ans. 5. Multinational Companies are those companies who registers themselves in their home country but operate in all the other countries of the world through their network of branches & subsidies. 1

Ans. 6. Outsourcing is a longterm contracting out of a core activities and of lately the non core activities to the capitive or third parties by a business house to gain from the expertise, knowledge of others. 1

Ans. 7. If the business enterprise does not mind dilution of control then it can raise to capital by issuing equity shares but if the control powers are not to be diluted then the business will chose debt capital. 1

Ans. 8. As they are autonomous organisations and free to frame their own policies and procedures within the powers assigned to them by the Act. 1

Ans. 9. The underwriters gives guarantee to the directors of the company that in case 90% of the issued capital is not subscribed by the public then remaining shares will be purchased by them. 1

Ans. 10. Because on owned capital the dividends are not given in case of inadequate profits or losses and also this capital is not repaid or redeemed during the life time of a company 1

Ans. 11. When the seller has overcharged the buyer in the invoice by mistake, then the buyer writes a debit note to the seller. 1

Ans. 12. Employees should be involved in developing ethical programmes because they will be adhering to prescription of code of conduct. 1

Ans. 13. Three points of difference between Business and Employment are given below :

Basis	Business	Employment
1. Mode of establishment	Business is started with entrepreneurs decision and other legal formalities it necessary	Appointment letter & service contract is required for employment.
2. Nature of work	Provision of production & exchange of goods & services to the public	Performing work as per service contract or rules of service
3. Motive	To earn profits	To earn remuneration in the form of wages or salaries

1 × 3 = 3

Ans. 14. GATT means General Agreement on Trade and Tariffs which was started in 1948 to promote & regulate International. Trade and remained in force till December 1994. It included those agreements which dealt with tariff barriers. Where as World Trade Organisation was established on Ist January 1995 replacing GATT as a modification over GATT. It operates with the purpose of liberalising trade & free flow of goods and services in the international market. 3

Ans. 15. Retail Trade refers to sale of goods in small lots to the final consumers. Retailing includes selling goods of different varieties door

to door, on television, on telephone on internet etc. Its main features are given below :

- Retailer is the last link in the distribution chain.
- In Retail Trade goods are sold directly to the final users.
- Retailer buys & sells a small quantity of goods.
- Retailer acts as a middleman between wholesalers & Customers. 3

Ans. 16. Small scale industries play a

significant role in Rural India. The major contributions are :

- SSIs are labour intensive. Next to agriculture, small business constitutes the most popular occupation of people in India
- By providing employment opportunities, the SSI provide more income to rural people which improves their economic condition.
- Small business set up in rural areas provide scope for the promotion of Artistic achievement & creativity that has been suppressed in rural areas. **3**

Ans. 17. Yes, Insurance involves sharing of risk. When the insured suffers a loss the insurance company pays him the compensation for the loss. Such loss is not actually paid by the insurer himself. He only distributes the loss suffered by an insured person among other policy holders who are exposed to a similar risk. So insurance is an arrangement of pooling of risk. **3**

Ans. 18. Three characteristics of multiple shops are :

1. Chain stores or multiple shops are the network of a number of identical retail shops located in different parts, owned and controlled by a single organisation.
2. Generally chain stores specialise in one line of product and variety of that line only is available at all shops.
3. The goods for all the chain stores are purchased by the head office to maintain uniformity in products sold at different retail showrooms. **3**

Ans. 19. The values affected here are :

- fraudulent activities to cheat the investors
- dishonest behaviour, Tax evasion, disrespect for law cheating the investors misleading the creditors & owners **4**

Ans. 20. The various characteristics of Debentures are explained below :

(a) Specified maturity period—Debentures are issued for a specified period. On the expiry of this period these are redeemed.

(b) Longterm Debt Instrument—Debentures are the part of longterm borrowed funds.

(c) Fixed rate of interest—Debentures carry fixed rate of interest. This rate is prescribed at the time of issue of debentures.

(d) No voting rights—Holders of debentures do not have any voting rights like shareholders.

(e) High Financial Risk—The borrowing company has to pay the fixed rate of interest as well as has to redeem the debentures on the maturity irrespective of the profits or losses amount so debentures increases financial risk. **4**

Ans. 21. Procedure for getting a Partnership firm registered involves following steps.

(a) Submission of application in the prescribed form to the Registrar of firms. The application should contain the following particulars : name & location of the firm, Names of the other places where the firm carries on business, the date when each partner joined the firm, Names & addresses of the partners duration of partnership. This application is signed by all the partners.

(b) Deposit of required fees with the Registrar of Firms.

(c) The Registrar after approval will make an entry in the register of firms and will subsequently issue a certificate of registration. **4**

Ans. 22. Four major functions performed by business Enterprises are :

(a) Production of goods and services—A business enterprise produces and provides the final goods and services by converting input into output to satisfy human wants.

(b) Marketing—It includes wide gamut of activities including market research, buying selling distribution of goods & services and promotion of the goods to maximise profits through consumer satisfaction.

(c) Selling—Is the activity of exchanging title of the ownership of a commodity for some consideration in the form of price.

(d) Distribution of goods—A business enterprise, has to make proper arrangements for the physical distribution of produced goods at the right place at the right time to the right persons. **4**

Ans. 23. Following forces are responsible for increasing concern of business enterprises towards social responsibility

(a) Threat of Public regulation—When a business institution operates in a socially irresponsible manner, action is taken by the Govt to regulate it for safeguarding peoples interest. This threat of public regulation forces business enterprises to feel concerned with social responsibility

(b) Pressure of Labour Movement—Labour unions have forced business enterprises to pay due regard to the welfare of workers instead of exploiting them by giving unfair wages, hire and fire policy etc

(c) Impact of consumer consciousness—

Fast developing mass media and education and increasing competition in the market have made consumers conscious of their rights and powers in determining marketing forces. So growing consumer awareness has forced business enterprises to follow customer oriented policies

(d) Development of social standards for business—

New social standards consider profit maximising objective as legitimate but with the condition that they must also serve social needs. As it is the society that permits business to exist & grow and it is on the basis of social standards that business functioning is to be ultimately justified.

(e) Development of business education—

Development of business education with rich content of social responsibility and ethical behaviour has made more & more people aware of the social purpose of business. Consumers investors, labours etc have become more sensitive towards social issues and have forced business enterprises to do business for social welfare also.

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Ans. 24. On line transactions are those business transactions which are conducted electronically through the network of computer. On line Transaction process can be understood through the given figure.

The process of online shopping from the buyer's perspective is as follows.

(i) Registration—Before online shopping one has to register with the online vendor by filling up a registration form. Registration means to have an account with online vendor. The buyer can login using his password.

(ii) Placing an order—Now the buyer can pick the selected items in shopping cart which is an online record of what he/she has picked up while browsing the online store. After being served of what the buyer wants to buy, the buyer can checkout and choose payment options.

(iii) Payment mechanism—The payment for the purchase through online shopping can be done in any of the following ways : (a) Cash-on-delivery (b) Cheque (c) Net banking Transfers (d) Credit or debit cards (e) Digital cash.

(iv) Delivery of goods—After making the payment through any of the above modes, the buyer takes the delivery of the goods, closing the transaction

Ans. 25. Wholesale Trade refers to buying and selling of goods & services in large quantities for the purpose of resale or intermediate use. Traders dealing in wholesale trade are called wholesale traders. Wholesalers serve as an important link between the manufacture & retailers. Distinctive features of wholesale trade are explained below :

(a) Wholesalers acts as a link between producer & retailer.

(b) Wholesalers deal with large quantities of goods.

(c) Wholesale trade is generally done by wholesalers in one line of product.

(d) Wholesale trade involves large amount of capital investment in maintaining stock of goods.

(e) In wholesale trade, wholesalers buys in large quantity from the manufacturer and sells in small lots to retailers and generally does not sell to the ultimate consumer.

(f) The margin of profits of wholesaler is low.

(g) Wholesalers deal in small number of items

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Ans. 26. Following important documents are used in import transactions :

(1) Trade Enquiry—A trade enquiry is a written request by an importing firm to the exporter for supply of information regarding the price and various terms & conditions on which the latter exports goods.

(2) Performa invoice—is a document that contains details as to the quality, grade, design, size, weight price etc of the export product.

(3) Import order or indent—It is a document in which the importer orders for supply of requisite goods to the exporter.

(4) Letter of credit—It is a document that contains a guarantee from the importer bank to the exporter is bank that it is undertaking to

honour the payment up to a certain amount of the bills issued by the exporters for exports of the goods to the importer.

(5) Shipment advice—The shipment advice document is sent by exporter to the importer informing him that the shipment of goods has been made.

(6) Bill of lading—It is a document prepared & signed by the master of the ship acknowledging the receipt of goods on board.

(7) Bill of entry—is a form supplied by the customs office to the importer containing information such as name, address of the importer, name of the ship, no. of packages, description of goods, name, address of exporter, port of destinations, customs duty payable. **5**

Ans. 27. Three types of cooperative societies are explained below :

(i) Consumer's Cooperative Society—The consumer cooperative society is formed to protect the interest of consumers. The members comprise of consumers desirous of obtaining goods quality products at reasonable prices. The society aims at eliminating middlemen to achieve economy in operations. It purchases goods in bulk directly from the wholesalers and sells goods to the members. Profits, if any are distributed on the basis of either then capital contribution to the society or purchases made by individual members.

(ii) Producers Cooperative Society—These societies are set up by small producers to protect their interest against large scale producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. The society aims to fight against the big capitalists and enhance the bargaining power of smaller producers. It supplies raw material, equipments & other inputs to its members and also buys their output for sale. Profits are distributed on the basis of their contribution to the total pool of goods produced or sold by the society.

(iii) Farmer's Cooperative Society—These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise of farmers who wish to jointly take up farming activities. The aim is to gain the benefits of large scale farming by solving the problem of fragmented land holdings and to increase the productivity. Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in cultivation of crops. **(2 + 2 + 2 = 6)**

OR

The important factors determining the choice of organisation are as under :

1. Cost and ease in setting up the organisation—From the point of view of initial setting up cost and legal formalities to form the business enterprise, sole proprietorship is preferred form as it involves least expenditure & least legal formalities on the other hand company form of organisation is the more complex and involves greater costs.

2. Liability—The liability of the owners or members in sole proprietorship & partnership business is unlimited where as in JHF business co-partners enjoy limited liability. The karta has unlimited liability. In cooperative societies & company form of organisation the liability of members is limited to the extent of share capital subscribed by them.

3. Continuity of business—In case the business needs a permanent structure, company form is more suitable for short term ventures proprietorship & partnership may be preferred. The continuity of business is not affected in JHF, cooperative societies and companies as these form enjoy separate legal entity from their members.

4. Management ability—Proprietorship or partnership may be suitable where simplicity of operations allow even people with limited skills to run the business. Its operations are complex requiring professionalised mgt, company form of organisation is a better alternative.

5. Capital Consideration—The resources of a sole trader is limited. Partnership firms also have advantage of combined resources. The company & cooperative societies can raise large amount of capital by issuing shares to large number of investors. Therefore from the point of view of expansion & scale of operation company is most advantageous and sole proprietorship is least advantageous.

6. Degree of control—It direct control over operations and absolute decision making power is required proprietorship may be preferred. But if the owners do not mind sharing control & decision making, cooperatives & company form of organisation is more suitable.

7. Nature of business—For small scale business requiring personal contact, proprietorship is more preferred whereas for large manufacturing units not requiring personal contact with the customers, company form of organisation may be adopted, similarly in cases where services of professional nature are required partnership form is most preferred. **6**

Ans. 28. Public sector was given dominant role to fulfill the following objections :

(a) Development of infrastructure—In pre-independence period infrastructure was not developed, and the private sector did not show any initiative to invest in heavy industries due to

lack of trained personal and finances. Therefore the public sector enterprises were established in the spheres near huge capital investment, complex and upgraded technology etc. to accelerate the pace of industrialisation.

(b) Maintaining Regional Balance—After 1951, the govt. laid down in its Five Year Plans that particular attention would be paid to those regions which were lagging behind. Therefore the govt. had to locate new enterprises in backward areas to accelerate economic development, provide employment to workforce and develop ancillary industries in these areas to remove regional disparity.

(c) Economics of Scale—Where large scale industries are required to be set up with huge capital investment the public sector had to step into to take advantage of economics of scale like Electric power plants natural gas, petroleum and telephone industries etc. These units required a larger base to functional economic which was only possible with govt. resources and mass scale production.

(d) Check over concentration of economic power—The sector acts as a check over the private sector monopolistic and exploitative trade practices which gave rise to inequalities in income. Therefore the public sector industries were established to promote healthy competition and to prevent concentration of wealth and economic power in the private sector.

(e) Import substitution—India was aiming to be self reliant in many sphere during second and third Five Year Plan period. At that time, public sector companies involved in heavy engineering which would help in import substitution were established. Simultaneously, several other public sector companies played an important role in expanding exports of the country to overcome the problem of foreign exchange required for meeting import commitments made for industrialisation.

(f) To have balanced industrial development—Govt. made investments to the core sectors where private sector enterprises were not functioning in the desired directions, but govt. wanted to promote and develop such sector on priority basis for economic development. Therefore a dominant role was given to public sector to establish a highly competitive market.

OR

A Govt. Company means any company in which not less than 51% of the paid up capital is held by the Central Govt or by any state Govt or partly by central Govt and partly by one or more state Govt for e.g., Steel Authority of India State Trading Corporation etc. The major features of Govt Companies are given below :

(a) Registration—The govt companies get

incorporated under the Companies Act 1956. All the provisions of Indian Companies Act are applicable on govt companies.

(b) Ownership—The Govt Company is wholly or partly owned by the Govt. The share capital of these companies is owned by the Govt of India in the name of the President.

(c) Management—The Govt Company is managed by Board of Directors who are nominated by the Govt & other share holders. Its management is regulated by the provisions of the Companies Act like any other public limited company.

4. Separate Legal Entity—The Govt Company enjoys separate legal entity from its members. The company can enter into a contract in its own name, can buy & sell property in its own name.

5. Staffing—The recruitment and remuneration of employees of govt company is independently decided by the Govt company itself as per their Memorandum & Articles of Association. They are not governed by civil service rules

6. Accountability—These companies are exempted from the accounting and audit rules & procedures. An auditor is appointed by the Central Govt and The Annual Report is to be presented & discussed in the Parliament or State Assembly.

OR

Merits & Limitations of Govt. Companies (Meaning features already given)

Merits of Govt. Companies

(a) Easy Formation—A Govt Company can be established by fulfilling the requirements of the Indian Companies Act. A separate Act in the Parliament is not required.

(b) Curbs Unhealthy Competition—By providing goods and services at reasonable prices these companies are able to control the market and curb unhealthy business practices.

Limitations :

(a) Govt. control—The govt. being the sole share holder of the management and administration rests in the hands of the govt. The main purpose of a govt company. Registered like other companies is defeated.

1+2+2+1 = 6

Ans. 29. The legal position of Promoters—

The Promoters undertake various activities to get a company registered and get it to the position of commencement of business. But they are **neither the agents nor the trustees of the Company.**

They can't be the agents as the company is yet to be incorporated. Therefore, they are personally liable for all the contracts which are entered by them, for the company before its incorporation, in case the same are not ratified by the company later on. Also promoters are not the

trustees of the company as they are not appointed by any one.

But Promoters of a company enjoy a **fiduciary position** with the company which they must not misuse. They have to disclose any private profits made by them. In the event of non-disclosure, the company can rescind the contract & recover the purchase price paid to the promoters and can claim damages for the loss suffered due to such secret profits made.

Promoters are not legally entitled to claim the expenses incurred in promotion of the company. However the company may choose to reimburse them. 6

OR

Various steps for getting a company incorporated are given below :

1. The promoters make an application for incorporation of the company. The application is to be filled with the Registrar of the state with in which they plan to establish the registered office of the company.

2. Preparation of necessary documents for registration includes the Memorandum of Association, Articles of Association, Statement in lieu of Prospectus, written consent of the proposed Directors, and an undertaking to purchase qualification shares, the agreement if any with the proposed Managing Director, a copy of the Registrars letter approving the name of the company, A statutory declaration affirming that all legal requirements for registration have been complied with, a notice about the exact address of the registered office.

3. Then the Promoter has to present the documentary evidence of payment of registration fees.

4. The Registrar upon submission of the application along with the required documents has to scrutinise that the documents are in order and that all the statutory requirements have been complied with.

5. When the Registrar is satisfied about the completion of formalities for registration, a certificate of incorporation is issued to the company which signifies the both of the company. 6

Ans. 30. The various services offered under factoring are as follows :

(a) Discounting of bills and collection of the clients debt—Under this the receivables on account of sale of goods or services are sold to the factor at a certain discount. The factor becomes responsible for the debt collection from the buyer.

(b) Providing information about credit worthiness of prospective client—Factors hold

large amounts of information about the trading histories of the firms. This factors provide financial consultancy services.

Two merits and one limitation of factoring is discussed below :

MERITS

(a) Cheaper—Obtaining funds through factoring is cheaper than financing through other means such as bank credit etc.

(b) Flexible Source of financing—Factoring as a source of funds is flexible and ensures a definite pattern of cash inflows from credit sales, thus reducing financial risk.

LIMITATION

(a) Not suitable for small scale organisations—This source is expensive as the advance finance provided by the factor firm is generally at a higher interest cost than the usual rate of interest. 2+2+1=5

OR

GDRs and ADRs as a source of International finance.

(a) Global Depository Receipts—GDRs are issued against issue of equity shares in the global market. These are indirect equity offerings. The equity shares issued against GDR are held by an international bank called depository banks. The depository banks issue depository receipts against these shares. Such depository receipts denominated in US dollars are known as GDR

Main features of GDR are :

- (i) Capital collected from the issue of GDR is in foreign currency.

- (ii) No voting rights are given to the holders of GDR

- (iii) GDRs are easily transferable at any foreign stock exchange

(b) American Depository Receipts—ADR as a negotiable financial instrument containing underlying equity shares of non-US companies and is traded in US Stock Exchange. It is similar to GDR except that it can be issued and traded only to American citizens and can be listed on a stock exchange of America.

Main features of ADR are :

- (i) Face value of an ADR is only in US dollar. In any other currency, face value of an ADR can't be expressed

- (ii) No voting rights given to the holders of ADRs.

- (iii) **Issued in USA**—ADRs can be issued in US financial market only and not through out the world. 3 + 3 = 6

