

Sample Question Paper—C

Ans. 1. Tertiary industries supplements the activities of primary & secondary industries. **1**

Ans. 2. Business Ethics refer to the set of moral values and standards which govern the activities of a businessman. **1**

Ans. 3. The Departmental Undertakings are head by the concerned Ministry **1**

Ans. 4. Advantage of mobile banking—Ease of making banking transactions through mobile phones.

Advantage of internet Banking—The customer can view his account balance, and recent bank transactions from his home or office also. **1**

Ans. 5. Sovereign immunity of a departmental undertaking implies that it can not be sued without the consent of the Govt. **1**

Ans. 6. A minor partner's liability is limited to the extent of capital contributed by him *i.e.* limited liability. **1**

Ans. 7. Examples of Statutory corporations—R.B.I, Life Insurance Corporation of India. Examples of Govt. company are Steel Authority of India Ltd, Bharat Heavy Electricals Ltd **1**

Ans. 8. Inter Corporate Deposits **1**

Ans. 9. Disinvestment is the act of selling the Equity shares of Public Enterprises to the private sector. **1**

Ans. 10. Two social objectives of business are :

- (a) Producing good quality goods & services
- (b) Fulfilment of Social responsibilities. **1**

Ans. 11. Merits of issuing equity shares are

- (a) Permanent source of funds.
- (b) No charge on assets of the company. **1**

Ans. 12. Two differences between a debentures and a bond are :

(a) Debentures may be issued without creating any charge on company's asset but bonds can be issued only by creating charge on the assets.

(b) A debenture can be redeemed in instalment while a bond is redeemed in lumpsum **1**

Ans. 13. The major reason behind trade between nations is that countries cannot produce equally well or cheaply all that they need. It is

because of the unequal distribution of natural resources among them or differences in their productivity levels. Moreover availability of raw material technology etc creates differences in the production costs among different nations due to various, socio-economic, geographical & political reasons. **1**

Ans. 14. Three features of SSIs are stated below :

(a) Limited Investment—The requirement of investment in small scale Industries is limited. The production process is not highly mechanised so investment needs are limited

(b) Small scale of operations—Small scale units normally operate in a limited area on small scale because of limited finance.

(c) Dominance of labour intensive technique—SSIs generally use labour-intensive techniques of production as their production process remains simple **3**

Ans. 15. The Automatic Vending Machines are very important because

(a) It does not require heavy fixed investment for distributing and trading the goods.

(b) Round the clock buying of goods is possible through vending machines

(c) Operating cost of this retail business is very low as it does not require any salesman. **3**

Ans. 16. Following are secondary functions of Commercial Banks

(a) Promotion of cheque facility and credit creation.

(b) Underwriting services to the companies issuing their shares and debentures in the capital market.

(c) Payment of premium, collection of dividend etc on behalf of their customers **3**

Ans. 17. Commerce embraces all those activities which are necessary for maintaining a free flow of goods and services. It is very important because it removes the following hindrances of trade to ensure smooth production & distribution of goods.

(a) Hindrance of person removed by trade there by making goods available to the consumers from the producers

(b) Hindrance of place removed by Transportation

(c) Hindrance of time removed by warehousing

(d) Hindrance of risk removed by Insurance

(e) Hindrance of information is removed by advertising

(f) Hindrance of finance is removed by banking & financial Institution

Ans. 18. Three documents used in Internal Trade are :

(a) **Proforma Invoice**—This document is prepared and sent to the prospective customer by the seller to inform him about the total amount he would have to pay for the specified goods.

(b) **Invoice**—is a document which shows the details of the transactions including the amount to be paid by the buyer for the goods bought in the transaction. An invoice includes the informations like, name, address of buyer & the seller, serial number, date, quantity & description of goods, terms of payment, total amount payable, errors & omissions expected etc.

(c) **Lorry Receipt**—Lorry is a truck or any other large motor vehicle which is used for transporting goods from one place to another through road. Lorry Receipt is a document issued by a road Transporter when goods to be transported are handed over by the consigner or the seller to the Transporter. **3**

Ans. 19. Finance is regarded to be the life blood of any business organisation because

(a) Finances are required for continuous and smooth functioning of business activities

(b) Finance is required for establishing the business to meet preliminary expenses, promotion cost etc

(c) Finance is needed to start the business by buying fixed and current assets.

(d) A business firm requires finances to diversify and modernise its production process

(e) Business finance are needed for the expansion and growth of the business **4**

Ans. 20. The value involved in launching special schemes for developing backward remote areas by the Govt of India are

(a) Balanced Regional development will be promoted

(b) Creating Employment opportunities in these areas

(c) Development of business and commercial activities to broad base industrialisation

(d) Optimum utilisation of locally available Resource

(e) Promotion of Entrepreneurial skills

(f) Support to the entrepreneurs and small producers both financial, and technical

(g) Increase in per-capita income, economic growth

(h) Better quality of life of the people living in such areas **4**

Ans. 21. Limitations of Partnership are explained below :

(a) **Unlimited Liability**—In case of the failure of the business the personal assets of the partners can be used to discharge the firms obligations. So the partners are jointly & individual liable bearing unlimited liability

(b) **Conflicts among Partners**—Difference in opinions on some issues may lead to disputes between partners, further the decisions taken by one partner are binding on other partners. Thus unwise decision by some one may result in financial ruin for all others.

(c) **Lack of continuity**—Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. This may result in lack of continuity of business :

(d) **Limited Resources**—As there is restriction on maximum number of partners, so the partnership firm has to conduct its business with the limited capital contributed by the partners. As a result partnership firms face problems in expansion beyond a certain size **4**

Ans. 22. Since a business has to balance a number of needs and goals, it requires multiple objectives. In fact objectives are needed in every area that influences the survival and Prosperity of business. It cannot follow only one objective and expect to achieve excellence. Objectives have to be specific in every area and sphere of business for example a business has to set targets for sales determine objectives for efficient production, for financial planning etc. Objectives are needed in every area where performance and results affect the survival and prosperity of business. So a business has to set multiple objectives—Social, economic etc. **4**

Ans. 23. WTO is a successor to the General Agreement in Tariffs and Trade (GATT) which had its origin in 1947 aimed at improving the standard of living, expansion and promotion of free trade etc WTO was officially established on

January 1st 1995 under the Marrakech Agreement to help producers of goods & services, exporters and importers to conduct their business operations smoothly WTO has 159 members (as on March 2, 2013) representing about 96% of

Total International Trade. There are 23 observer countries. The headquarters of WTO is located at Geneva. WTO is the only global international org. which deals with the rules & regulations of trade between different nations. It is said to be the WATCH-DOG OF International Trade. **5**

Ans. 24. Internal Trade refers to buying and selling of goods and services within the political boundaries of a nation. Differences between Internal Trade & International Trade are as follows :

Basis	Internal Trade	International Trade
1. Geographical limit	Limited within a country with buyers & sellers from the same country.	Extends beyond the geographical boundary of a country with buyers & sellers from different countries
2. Currency involved	Payments are made & received in home currency only	Payments are made & received in foreign currency
3. Risk	Less degree of risk is involved as it is subject to the political system of one single country only	High degree of risk is involved as different countries have different forms of political system
4. Customers heterogeneity across markets	Various other stake holders such as suppliers, employers, middlemen, shareholders etc are usually of same country	Various other stake holders such as suppliers, employers etc are from different nations
5. Business Regulations & Policies	Domestic business is subject to rules, laws & policies, taxation system etc of a single country	International business transactions are subject to rules, laws and policies, tariffs & quotas etc of multiple countries
6. Effect on foreign reserves	Internal Trade has no effect on foreign reserves of a country	External trade has direct impact on the foreign reserves of a country.

5

Ans. 25. Social Responsibility is about giving back to society the following points supports the above statement :

(a) Business—a part of society—Business can't work in isolation from the society. Inputs & outputs of the business enterprises are supplied and consumed by the members of the society. To survive and grow in society for longrun the business must come to the expectations of the members of society. So it is in the self interest of the business, to assume social responsibility for its existence & growth.

(b) Longterm interest of the firm—The public image of any firm improves when it supports social goals. When increasing number of members of society including workers, consumers, shareholders etc feel that business is not-serving its best interest, they will tend to withdraw their cooperation to the enterprise concerned. Therefore it is in its own interest of firm to fulfill its social responsibility to gain durable profits.

(c) Avoidance of Govt regulations—Govt intervention is undesirable because it restricts the business freedom of making decision. The Govt has power to take action against those business organisations which involve in activities against social interest. In order to avoid such actions & regulations it is preferable to adopt social responsibility.

(d) Better environment for doing Business—Social responsibility creates better environment for business operations as social responsibility improves the confidence of society and stakeholders like owners, consumers, govt, labour etc in the business. So there will not be any public agitation against business which can endanger its survival. Therefore the business enterprise should fulfil its social responsibility towards diff. stakeholders to have conducive & better environment for doing business.

(e) Converting problems into opportunities—As the business institutions have valuable financial and human resources at its disposal which can be effectively used for solving social problems also. A business who converts risky situations

into profitable deals with its resources can not only solve social problems but it can make these resources effectively useful by accepting the social challenge. **5**

Ans. 26. Scope of e-commerce is explained below : E-commerce includes :

(a) Business to Business Commerce (B2B)—It involves business transactions between two or more business organisations through computers or electronically B2B enables, the business partners to exchange information among them in an automatic way without human interaction. These B2B transactions involve—

Creation of utilities, collaborations, commercial negotiations inviting tenders and distribution of goods from manufacture to various distributors, etc.

(b) Business to consumer (B2C)—B2C involves bringing business & consumers closer to each other and creating a unique market place where goods & services may be bought and sold electronically. B2C is conducted by providing well designed websites which offer information about goods & services to be sold, displaying price, mode of payment & delivery system. Payment is also in electronic form. Services are often supplied electronically *e.g.* railway tickets.

(c) Consumer to consumer (C2C)—It involves electronic transactions between two consumers in which a consumer offer to sell his goods (old books, watches, computers etc) or services (like giving a house on rent) and the buyer who accepts this offer is also a consumer for *e.g.* -e-bay website provides such facility.

(d) Business to Government (B2G)—B2G involves dealing with govt agencies like foreign exchange clearance, paying of various taxes (excise duty, customs duty etc) and other types of payment or receipt of refunds electronically.

5. Intra Business Commerce—This refers to transactions between the different departments & sections of the same business organisation for *e.g.* if marketing department wants to change the design of the product on the basis of market research they can immediately do so by contacting electronically through internet computer transaction and in turn production department can take action accordingly.

OR

Such company is termed as Private Limited Company. Five privileges enjoyed by such company are :

1. Minimum Number of members—A private company can be formed by only two mem-

bers whereas seven members are needed to form a public company.

2. Prospectus—There is no need to issue a prospectus as public is not invited to subscribe to the shares of a private company.

3. Minimum Subscription—This clause is not applicable on private companies. A private company can do the allotment of shares without receiving the minimum subscription amount.

4. Commencement of business—A private company can commence its business as soon as it receives the certificate of incorporation, it does not require certificate of commencement of business.

5. Minimum number of Directors—A private company needs to have only two directors as against the minimum of three directors in case of public company.

6. Index of members—A private company is not required to keep an index of members. In the case of public company it is necessary. **6**

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Ans. 28. Public Private Partnership (PPP) refers to involvement of private enterprises in the form of management expertise and for financial contribution in Govt projects meant for public

benefits. A Public partner may be Central Govt a State Govt or a local body. A private partner may be either an Indian private enterprise or two or more enterprises of foreign private enterprise or enterprises. For *e.g.*-a number of highway projects have been taken up under PPP.

Features of PPP are explained below :

1. Contractual Relationship—PPP is a contract between public sector authority and private sector organisation in which private sector org. provides its services and bears financial, technical and operational risk for implementing a project meant for public benefits.

2. Pertaining to High Priority Projects and Projects for Public welfare—PPP is suitable for high priority projects such as infrastructure sector. PPP is used in the public welfare projects *e.g.* Delhi metro constructing bridge etc.

3. Choice of Partner by the Govt—Govt has the sole right to choose the partner to whom the contract may be given. For choosing the partner the Govt may adopt any one of the following methods-competitive bidding or competitive negotiation with suitable organisations and selecting the most suitable.

4. Payment mechanism—The Govt may pay to the private partner in alternative ways—contractual payment for implementing the project grants-in-aids to cover a part of the project cost or giving right to the partner to levy charge on the users of the facility (for *e.g.* toll tax on bridges constructed under PPP).

5. Sharing of Revenue—The revenue of PPP is shared between govt and private partner in agreed ratio. The main problem with PPP projects is that private investors get rate of return that is higher than the govt bond rate even though most of risk is borne by the public sector. **1+1×5=6**

Advantages of PPP

(a) Direct involvement of Govt : Govt. is involved in the PPP directly. It onto only prescribes various standards which the private partner has to adhere in implementing the project but also the service charge to be levied on the users of the facilities.

(b) Wider Choice : Govt. has the sole right to choose the partner to whom the contract may be given for choosing the partner, the Govt. may adopt any one of the following methods : competitive bidding inviting org. willing to work as partner and selecting the best or competitive negotiation with suitable organisation and selecting the most suitable.

(c) Economic Development Project : PPP is confined to operating, maintaining and managing such projects which are essential for economic development of the country, requiring considerable investment and project expertise.

(d) Increased Resources : PPP is generally between the Govt. and the private sector partner which are in similar business. The huge investment of public sector when combined with efficient management of private sector contributes to higher profits from these project. Thus PPP contributes to optimum utilisation of resources for public benefits. **1+1×5=6**

OR

Multinational corporation or Global Enterprises is a corporation which operates in addition to the country in which it is incorporated, in one or more other countries — by United Nations Commission. So a multinational company is one which has its head quarters in one country but operates its business in many countries through its branches, factories, subsidiaries etc. They play a very important role in the host country.

1. Employment Opportunities : MNCs create large scale employment opportunities in host countries. They increase the investment level and then by employment and income level.

2. Advanced Technology : Developing countries are generally technically backward. These countries have limited resources to carry out research and development activities. The MNCs bring the advanced technology to these countries helping the host country to improve the quality of product and reduce costs.

3. Foreign Capital : The host underdeveloped a developing countries suffer from the shortage of capital required for rapid industrialisation MNCs make direct foreign investment there by speeding the process of economic development.

4. Growth of domestic Firms : The MNCs stimulate the growth of local enterprises. These local enterprises can act as suppliers and ancillary units of MNCs.

5. Healthy Competition : MNCs increase healthy competition. They compell the domestic companies to improve their efficiency to face the competition with foreign companies.

6. Foreign Exchange : MNC help the host countries to increase then exports & reduce their dependence on imports. With this they can improve their Balance of Payment Status. **(6)**

Ans. 29. Yes auxiliaries to business activities are indispensable because they play a significant

role to support business activities and Trade, which is discussed below :

1. Banking : Banking includes all types of banks operating in a country — Commercial, Central Bank Specialised Bank and Co-operative Banks. Banking facilitates the smooth functioning of a business enterprise by providing them credit and accepting their deposits, assisting it in capital issue etc. Thus banking removes all the hindrances of finance.

2. Transportation : Transportation provides the physical means which facilitate the movement of people & goods & services from one place to another. Transportation creates place utility by transporting raw material supplying and finished goods to the market. Transportation removes the hindrance of place and leads to mobilisation of resources widening of markets, price stabilisation, economics of large scale development of industries producing perishable goods etc.

3. Insurance : Insurance services removes the hindrance of risk. Insurance is a contract under which insurers agrees in consideration of insurance premium to pay an agreed sum of money to the insured to make good for loss, damage or injury caused by some uncertain event or on expiry of contract period. The business assets as well as the goods produced can be subject to the risk of damage accident, fire, spoilage theft etc. Insurance services reduces the impact of such losses likely to be caused.

4. Warehousing : Warehousing refers to activities involving storage of goods on a large scale in a systematic and orderly manner and making them available when needed. Warehousing removes hindrance of time and creates time utility which is beneficial to all producers, traders and consumers. There are different types of warehouses providing various value added services, protection of goods etc.

5. Communication : Communication involves exchange of information and its understanding between two or more persons. All business activities involve some type of communication required to link producers, traders and consumers through exchange of information. The extent to which communication facilities like — landline telephones, mobiles, internet services etc. are developed in a country determines the effectiveness of its industry and trade.

6. Advertising : Advertising is an impersonal form of communication which is paid for by sponsors (producers) to promote their products. It is a means through which products features are

communicated to potential customers. In the present competitive & fast changing business environment, advertising has become a specialised job as well as an indispensable promotion tool. **6**

OR

Ans. The role of profits in a business are discussed here below :

(a) Incentive : Profit is a strong incentive for an entrepreneur to start and run a business. It provides a stimulus to establish and operate business. Profit is a return for investing capital and a reward for the labour of an entrepreneur.

(b) Survival of the Enterprise : Profit is essential for the survival of an enterprise. No unit can continue for long if it incurs losses for long. A unit needs replacement of old assets. It has to face adverse situation in the business. It is the profit which enables a unit to meet various expenditure needs & face situations like recession. Profit is a base for absorbing various shocks.

(c) Growth and Expansion : Using one's own profits for financing expansion and diversification is the best source. Profits are essential for not only expansion but also for attracting more capital from outside.

(d) Indication of Efficiency : Profits are the measure of efficiency of a business. Thus more profits means higher efficiency. However thus profit should not come through unethical practice only through assuming social responsibilities and ethical practices.

(e) Goodwill : Goodwill is directly proportionate to the rate of profits earned. Higher the profits, higher will be the reputation of business in the market & society. This reputation itself becomes the source of motivation to the entrepreneur to do better & better in his business.

(f) Social Objectives : Profits also help in fulfilling social goods. A business is expected to serve various segments of society such as labour, consumers, owners, govt. etc. The workers well expect better wages and consumers want quality goods at reasonable prices. All this will be possible only when business earns sufficient profits.

1×6=6

Ans. 30. For expansion of the company as a finance manager I will advise the directors to use long term sources of finance which are explained below :

(a) Equity Shares : Equity shares are the major constituents of owner's funds. Equity shares provides capital on permanent basis. There is no mandatory obligation of Dividend payment. Thus payment of dividend is linked to profitability of

the company. Equity shares provide base for obtaining loans. This source does not create any charge on assets of the company.

(b) Preference Shares : Preference shares are also part of owner's fund but their holders get 2 preferential rights for payment of dividend and repayment of capital. These shares have same merits like equity shares.

(c) Debentures & Bonds : A Debenture & a bond is a debt instrument carrying specified rate of interest which is issued by an org. to raise borrowed funds. A company issuing debentures & bonds enjoys the benefit of trading on equity, tax deductibility, flexibility in capital structure no dilution of managerial control and increases earning per shares. But this sources suffers from some limitations like — creates fixed financial burden, creates mortgage on assets, negative impact on credibility etc.

(d) Loans from Financial Institutions : are in the form of borrowed capital. For expansion of the business, loans are required to be taken for long term. There are various financial institutions in India like IDBI, IFCI, UTI, LIC etc. which provide loans on soft term in both domestic and foreign currency. They are easily repayable in instalments. Apart from financial assistance, specialised financial institutions provide technical advise to the borrowing business firms.

(e) Retained Earnings : Retained Earnings denote profits not distributed to owners of the company but used to make reserves to meet future contingencies. It is internal source of finding having many merits like — no charge on assets, free of cost and economic source of finance, creates no payment obligations, increases financial strength & improves public image of the company etc.

(f) Global Depository Receipt & American Depository Receipts : ADRs and GDRs are negotiable financial instruments that represents underlying shares of a company issued in foreign countries (America) and in foreign currency (Dollar). Since ADRs & GDRs are issued in America & in other foreign countries and in foreign currency, the issuer company gets required foreign exchange to meet import obligation. **1×6=6**

A company has to consider following factors while choosing a suitable source of finance :

(a) Cost : The floatation cost as well financing cost of raising funds is to be considered. The floatation cost is higher when funds are raised by issuing shares, debentures etc. The financing cost of borrowed capital is higher than owned capital sources. A company should choose the most economic source.

(b) Financial Strength : If the financial strength of the firm is good then it may prefer borrowed funds because it can repay the loan & can meet the interest liability. In case the financial position of the company is not sound then it should raise funds through issue of shares & through retained earnings.

(c) Time Period : Another factor which influences the choice of a source of funds is the time period. If the funds are needed for short periods then trade credit commercial paper, factoring etc. may be appropriate but if the funds are needed for longer period then shares, debentures or loans from financial institutions may be suitable source for funds.

(d) Risk Factor : Business should evaluate each source of finance in terms of risk involved. The owner should consider both financial risk as well as business risk while choosing the source. Financial risk is higher in borrowed funds.

(e) Flexibility in Capital Structure : Borrowed capital has to repaid after the stipulated time period but the share capital can't be redeemed during the lifetime of the company. Accordingly the company should choose the proportion of owned & borrowed capital.

(f) Control Consideration : Equity shareholders of a company are its owners and have control over its working through voting rights. If the managers do not want to dilute their control on working of company, borrowed funds is the best source as no voting rights are given.

There are various other factors like, tax benefits, claim over assets, market conditions etc. to be kept in consideration while determining source of finance. **1×6=6.**



