

Sample Question Paper—E

Ans. 1. To protect them from the risk of fire or any type of sea perils or any other cause so that their insured may not suffer any financial loss. **1**

Ans. 2. WTO was established for promoting and regulating international trade in the interest of all the member nations. **1**

Ans. 3. Govt. Company. **1**

Ans. 4. Reserve Bank of India (RBI Act, 1935)

Unit Trust of India (UTI Act, 1964) **1**

Ans. 5. A company form of business organisation. **1**

Ans. 6. As their financing is done from the budget of the concerned ministry. **1**

Ans. 7. Statutory Corporations. **1**

Ans. 8. Securities Exchange Board of India (SEBI). **1**

Ans. 9. To refrain from indulging in profiteering, hoarding and creating artificial scarcity of goods. **1**

Ans. 10. Because India specialises in IT based services and BPO is mainly based on IT Sector. **1**

Ans. 11. Because of more imports & exports of goods & services due to international trade, the level of production, distribution, exchange & other related economic activities increases, increasing the number & growth of industries. **1**

Ans. 12. Objectives behind export trade :

(a) Making better utilisation of national resources.

(b) Earning of foreign exchange to meet import requirement. **1**

Ans. 13. Departmental stores enables the customers to purchase all the requirements under one roof and the customers need not go from shop to another for making purchases. This provides a great convenience to the customers and also saves their time and labour. **3**

Ans. 14. Goods are physical products, can be stored and delivered from the seller to the buyers and can be taken home whereas services are those intangible goods which cannot be taken home and are sold at the consumption point so there is no inventory made of services. **3**

Ans. 15. The 100 percent Export Oriented Unit Scheme was introduced as complementary to EPZ scheme. EOUs have been established with a view to generating additional production capacity for exports by providing an appropriate policy frame work, flexibility of operations and incentives. **3**

Ans. 16. Small Scale Industries face the following major problems :

(a) Scarcity of Finance and credit is the main reason behind their small scale of operations & weak financial health.

(b) They face the problem of getting adequate raw material power shortages, which increases their cost of operations.

(c) Because of limited financial resources, the technology of production they use is backward which further increases their cost of production.

(d) Competition with Large Scale domestic industries as well as Multinational problems has dislodged many of SSIs.

(e) There is lack of demand for the goods produced by SSIs.

(f) These industries are operated & managed by a single person who may not possess all the skills required for running a business. **3**

Ans. 17. A wholesaler provides following services to manufacturer :

(a) **Economies of Scale** : Wholesalers help the manufacturers to avail the benefits of large scale operations as they buy goods in large quantity. They buy in bulk which enables the manufacturer also to produce in bulk & avail benefits of largescale production.

(b) **Sales Promotion** : Wholesalers employ a sales force to reach retailers located in far corners of the country. The sales person of wholesaler perform the task of persuading the retailers to display and sell the goods at their retail outlets.

Services of Wholesalers to Retailers :

(a) **Regular Supply** : Wholesalers maintain a large stock of goods. Therefore whenever a retailer requires goods, these can be immediately supplied from the warehouse of wholesalers. Thus wholesaler acts as a warehouse keeper of retailer.

(b) **Financing** : Wholesalers sell goods to retailers on credit. Therefore retailers need not maintain large working capital. They can make payment after receiving the payment from the customers. **3**

Ans. 18. 3 situations under which a seller & a buyer may send a debit note :

(a) When the buyer has been undercharged for some items in the invoice by mistake, a seller may send a debit note to the buyer.

(b) When quantity of an item or more than one item dispatched is more than mentioned in the invoice the seller may write a debit note on buyer.

(c) When the seller has overcharged the buyer by mistake or the seller has to make an allowance to the buyer for damaged or defective goods, a buyer may send the debit note to the seller. **3**

Ans. 19. Problems faced by Small Scale Sector are :

(a) **Problem of Finance** : The initial investment comes from own sources and loans borrowed from non-banking and non-govt. sources at a very high rate of interest. Banks & Govt. sources are reluctant to advance loans to new SSIs.

(b) **Problem of Licence** : The procedure for obtaining licence from the industries department of the state is very lengthy & expensive. The bureaucracy is also unhelpful. Most of entrepreneurs drop their idea of running SSI due to this cumbersome process.

(c) **Problem of Modern Technology** : Absence of latest technology is one more problem faced by SSI. The use of old and obsolete technology becomes a major barrier for them to face competition.

(d) **Problem of Marketing** : Items manufactured by SSIs are not generally standardised and suffer from poor design & quality. It makes their marketability difficult.

Ans. 20. Values communicated here are :

(a) Concern for pollution control issue and promoting eco-friendly environment.

(b) Contributing to maintenance of natural beauty.

(c) Following ethically upright behaviour.

(d) Compliance of Govt. policies on pollution control.

(e) Fulfilling social responsibility.

(f) Restoration of ecological balance by reducing wastes.

(g) Protection of environment at the time of purchase of components discharge of wastes. **4**

Ans. 21. Yes, Risk is an inherent element of a business. According to Peter F. Drucker the famous US Management consultant "Bearing of risk is an essential element of the business. Risk is an essential part of every business as no business can avoid risk although the amount of risk may vary from business to business. Risk can be minimised but cannot be eliminated. For e.g. : Every business faces risk constantly from the time of its establishment and till the time it grows and expands and continues to exist in the market. There may be the risk of fluctuation of demand and supply, unfavourable tastes & preferences change in govt. policies etc. and many other risks causing losses or inadequate profits to the business therefore we can say that Risk is an inherent part of every business. **4**

Ans. 22. The membership of a co-operative society is voluntary. Its membership is open to all irrespective of their religion, caste and gender. Therefore exemplifying secularism, secondly in a co-operative society the power to take decision lies in the hands of an elected managing committee. The right to vote gives the members equal chance to choose the members of managing committee. This lends the co-operative society a democratic character. **4**

Ans. 23. Exporting & Importing : Exporting refers to selling & sending the domestically produced goods from home country to a foreign country. While importing is purchase of foreign products & bringing them into one's home country. There are two important ways in which a firm can export or import products : direct and indirect exporting/importing. When a firm itself approaches the overseas buyer/suppliers and looks after all the formalities related to exporting/importing activities it is known as direct importing/exporting & where the firm's participation in the export and import operation is minimum or carried out through middlemen it is known as indirect exporting/importing

Major advantages of exporting/importing :

(a) **Easiest mode of entry into International Trade** : As compared to other modes of entry, exporting/importing is the easiest way of gaining entry into international markets. It is less complex an activity than setting up joint ventures etc.

(b) **Less Investment/Involvement** : Exporting/importing is less involving in the sense that

business firms are not required to invest that much time & money as is needed when they desire to enter into joint venture or setting up manufacturing plants & facilities in host countries.

Limitations of Exporting and Importing :

(a) High Transportation Cost : Since the goods physically move from one country to another exporting/importing involves additional packaging, transportation & insurance costs etc. Taken together all these expenses & payments substantially increase product costs & make them less competitive.

(b) Not a feasible Option : In situations of import restrictions, firms have no alternative but to opt. for other modes such as licensing, franchising or joint ventures. **1+2+2=5**

Ans. 24. Business is essentially a social institution and not merely a profit making activity. It is supported through following points in favour of social responsibility :

(a) Justification for Existence & Growth : Though profit motive is an important justification for undertaking business activity, it should be looked upon as an outcome of the social objectives fulfilled by the business firm. The prosperity and growth of business is possible only through continuous service to society.

(b) Long-Term Interest of the Firm : The public image of any firm would be improved if the increasing number of members of society like workers, consumers, shareholders, govt. officials etc. feel that business enterprise is serving its best interest. Therefore it is in own interest of a firm fulfills its social responsibility.

(c) Avoidance of Govt. Regulation : It is believed that a business organisation can avoid the problem of undesired govt. regulations and actions by voluntarily assuming social responsibility which helps to reduce the need for new laws, which restricts their freedom.

(d) Maintenance of Society : When the stake holders of the business feel that they are cheated, exploited and not getting their dues from the business, may resort to antisocial activities, for which there is no protection by law. They may harm the business itself. Therefore, it is desirable that business enterprise should assume social responsibility.

(e) Availability of Resources with Business : This argument holds that the business firms have adequate & required financial resources & human resources which can be effectively used for solving social problems like - unemployment, availability of good quality goods etc. **1×5=5**

Ans. 25. Various types of on line transaction risks are :

(a) Transaction Risk : It involves the risks like default on order, default on delivery, delivery of inferior goods; on the part of the seller and default on payment by the customer when the customer refuses to pay the claims to the seller.

(b) Risk of impersonation : The possibility is impersonation is very high in online business transaction as a person/buyer may use stolen credit/debit card & buy the product. The seller has no means to authenticate the genuineness of such transaction.

(c) Fraudulent Practices by Businessmen : There are many fake websites who attracts innocent consumers by offering them lucrative offers. Before customers came to know about the reality of these websites, the website owner might have already defrauded them.

(d) Data Storage & Transmission Risk : Data are stored in invisible form. Therefore stealing or manipulating data is very easy for some person who may get unauthorised access to it. Further hacking of data during data transmission creates another risk.

These risks can be avoided by ensuring following safety measures while doing online business :

(a) By ensuring non-repudiation by the seller or the buyer when the online business transaction is conducted.

(b) Data encryption should be done as it leads to protection of data even if these are stolen either during storage process or transmission process.

(c) Affirming digital signature in the electronic document will overcome problems of online transaction. **3+2=5**

Ans. 26. The responsibility of business towards different stake holders are :

(1) Towards Consumers : Responsibilities towards consumers include :

(a) Production of safe items by maintaining quality standards.

(b) To ensure regular supply of goods & supply.

(c) To educate consumers regarding the use & content of the product.

(d) To refrain from profiteering, adulteration, misleading advertisements and unfair & unscrupulous trade activities.

(2) Responsibilities towards employees :

- (a) Providing fair & reasonable compensation and benefits.
- (b) Providing safe & good working conditions.
- (c) To provide them opportunities for personal growth and development.
- (d) Not to do favouritism and discrimination while appointing, promoting the employees.
- (e) To give them opportunity to participate in management and must respect their right to form unions.

(3) Responsibility towards the share holders/investors :

- (a) To ensure safety of investment & to maximise the wealth of the owners.
- (b) To ensure fair & regular return on investment.
- (c) To give complete information regarding the financial position of the business.
- (d) To make optimum utilisation of firms resources in the interest & for the benefit of investors.

(4) Responsibility towards the Govt. & Community :

- (a) To abide by rules, regulations and laws.
- (b) To pay tax & duties on time.
- (c) To give their required contribution in solving social problems.
- (d) To co-operate in implementing Govt. policies & plans.
- (e) To behave as good citizen and act according to the accepted values of the society.
- (f) To protect the environment & maintain natural beauty.
- (g) To preserve social & cultural values.
- (h) To provide employment opportunities & help in promotion of national integration.
- (i) Not to misuse or wastage national resources & conserve natural resources.

(5)

Ans. 27. Yes, a minor can be made a partner with the consent of other partners for the profits only. This partner is not regarded competent to enter into contract so he can't become the partner of the firm having unlimited liability. This partner has an agreement with the other partners that he will be the partner for profit only. This partner does not take part in the working of the firm. The minor is not personally liable for liabilities of the firm but his share in the partnership, property & profits of the firm will be liable for debts of the firms.

A minor has following status in partnership firm :

- (a) A minor has a right to such share of property and of profits of the firms as may be agreed upon by all the partners.
- (b) He may inspect the accounts of the firm or take note of account.
- (c) The personal property of minor is not liable for the debts of the firm. But his share in property of the profits is liable for the debts & obligations of firm.
- (d) So long as a minor remains a partner he can not file a suit against other partners for an account.
- (e) In case a minor decides to become a partner he will be personally liable to third parties for all acts of the firm since he was admitted to benefits of the firm.

OR

Ans. A company is a voluntary association of many persons who contributes money or moneys worth to a common stock and employ it in some trade or business, and who share the profits & losses arising therefrom.

In simple words a company is an artificial person being invisible, intangible and existing only in the contemplation of the law having perpetual succession and enjoying a separate legal entity from its members.

Features of a Company :

(a) Artificial Person : A company is created under law and exists independent of its members. Like a person a company can own property, own bank account, undertakes agreements with outsiders, raise capital, borrow money, sue others.

(b) Formation : A company is formed under Companies Act 1956. There are number of formalities & documentation to be completed before a company is formed. Therefore the formation of a company is complicated and time consuming process.

(c) Limited Liability : The liability of its shareholders is limited to the value of share subscribed by them. The company being separate legal entity can incur debts in its own name and the share holders will not be personally liable for that.

(d) Common Seal : A company being an artificial person can't put its signature. The law requires every company to have a seal & get its name engraved on it. The seal of the company is affixed on all important documents as token of signature.

(e) Separation of ownership and Management : The shareholders of a company are the owners of the company who invest their capital but may not be interested in its management. The Company is managed by Professional body known as Board of Directors. The right to manage company's affair is vested in the directors who are elected representatives of shareholders.
1+5=6

Ans. 28. Yes, it is necessary for a public company to get its share listed on a Stock Exchange. So that marketability & liquidity of investment made in shares and debentures can be possible for their holders. An application is made to atleast one stock exchange for permission to deal in its shares or debentures. If such permission is not granted before the expiry of ten weeks from the date of closure of subscription list, the allotment shall become void and all money received from the applicants will have to be returned to them within eight days. Its formation will not be completed then. The company will not be entitled to commence the business.

Securities and Exchange Board of India (SEBI) which is the regulatory authority in our country has issued guidelines for different Stock Exchanges for the enlistment of shares & debentures of different public ltd. company's to protect the interest of investors.

OR

Ans. Prospectus is any document described or issued as a prospectus including any notice, circular, advertisement or other document, inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares or debentures of a body corporate. In simple words it is an invitation to the public to apply for shares & debentures of the company or to make deposits in the company.

Purpose of the Prospectus :

1. Prospectus contains the printed summary of the company's past history, if any, its present status & its future prospectus.
2. It informs the public about the company & stimulates people to make an investment in the company.
3. It is an authentic record of terms and conditions on which the shares & debentures have been issued
4. It shows business policies and programmes of the company.

Consequences of Misleading Prospectus : The persons responsible for preparing false & misleading prospectus will face the civil and criminal liability.

(a) Civil Liability : In case misleading prospectus amounts to misrepresentation aggrieved party can repudiate the contract & can claim refund of their money.

(b) Criminal Liability : In case any deliberate concealment is made, directors will be punished with a fine of Rs. 5000 or imprisonment upto two years or both.
1+3+2=6

Ans. 29. Merits of issuing Equity Shares by the company are :

(a) Absence of fixed Liability : The company does not guarantee the rate of dividend on equity shares, so it has no fixed liability as in the case of debentures. In case of losses a company does not pay dividends.

(b) No change on Assets : Shares are issued without any security or charge on assets. In this way company procure funds without any charge on its assets or even pledging any security thus equity shares enhances firm's creditworthiness.

(c) Preferred by adventurous investors : Rate of dividend varies with the amount of profits earned by the company. Dividends may be paid at very high rate in case of sufficient profits. It is thus preferred by adventurous investors.

(d) No repayment of Liability : Funds raised by issue of shares need not be refunded. The shareholders can not claim the refund, so the company does not have any liability for the repayment of loan.

Demerits of Equity Shares :

(a) Danger of Over-capitalisation : As the funds are easily available without any charge on the assets and also without any guarantee of dividend. In this case there is possibility of over capitalisation.

(b) Danger of Manipulation : The management of the company may declare dividend at higher & lower rate. It will cause fluctuations in the value of shares. There is always danger of manipulation.

(c) Uncertainty of Dividends : The rate of dividend is not assumed even not regular. Investors are thus uncertain about their earnings.
3+3 = 6

OR

Ans. Following are the different types of Preference Shares :

(a) Cumulative and Non-cumulative Preference Shares : The preference share on which dividend gets accumulated are known as cumulative preference share. These shareholders get

dividend whenever company is earning profit, for example if a company is having loss for two years and in the third year it earns profit, the cumulative preference shareholders will get dividend of three years then.

Non-cumulative preference shares are those on which dividend not paid in any year is not accumulated. The dividends are paid to shareholders for only those years when the company is earning adequate profits.

(b) Participating and Non-participating Preference Shares : Participating preference shares carry two types of preferential rights : first, on these shares extra dividend may be paid of the surplus of profit is left after paying dividend on equity shares; second, in case of winding up of the company participating preference shares get a part of surplus of assets after paying to equity shareholders.

Non-participating preference shares get a fixed rate of dividend only. These shareholders do not enjoy such rights. They do not get share in the surplus profit left after paying fixed rate of dividend to preference and equity shareholders.

(c) Redeemable and Irredeemable Preference Shares : The preference shares which are redeemed (paid back) on expiry of a fixed period of time are known as redeemable preference shares. These shares are redeemed by the company after giving notice as per the terms of issue. The provision of Companies Act has laid down that preference shares must be repayable within twenty years from the date of issue.

Irredeemable preference shares are those which are not redeemed (paid back) during the life time of a company. These shares are refunded only at the time of winding up of the company.

Ans. 30. Principles of Insurance are explained below : (Any three)

1. Principle of Utmost good faith (Uberrimae Fidei) : This principle implies that the insured and the insurer must disclose all the material facts and informations to each other. Material facts here includes all the import information which could have affected the insurance policy as regards accepting the risk at the rate of premium. Concealment of the material fact will make the contract voidable at the discretion of the aggrieved part.

2. Principle of Insurable Interest : It is the basic and essential requirement of an insurance contract that the insured must have person & direct insurable interest in the subject matter of the policy. The person/insured is said to have

an insurable interest when he stands to gain with safe existence of the subject matter & would suffer personal loss due to the destruction of the subjectmatter.

3. Principle of Indemnity : All insurance contracts except life insurance are contracts of indemnity. The objective behind this principle is to place the insured person as far as possible in the same financial position which he had enjoyed before the loss. In the case of the loss, the insured is paid only the actual losses or the amount of policy whichever is lesser.

4. Principle of Litigation of Losses : In the event of mishappening, it is the duty of the insured that he must take all steps to minimise the loss in the same manner, which he would have done if the property was not insured.

5. Principle of Proxima Causa : According to this principle compensation is paid to the insured if causes responsible for loss were insured. In case the cause of the loss was not insured, compensation is not paid. The insured risk must be proximate or nearest not remote.

6. Principle of Subrogation : Doctrine of subrogation states that after making compensation for the loss, the insurer steps into the shoes of the insured. It means that the insurance company becomes entitled to exercise all the rights & remedies, which the insured had in respect of the property. (1×6=6)

OR

Ans. Features of following Banking Services :

(a) Bank Draft : Bankdraft is a facility allowed to customers for sending money to other places. In other words bank draft is a payment instrument which is drawn by a bank's branch instructing another branch to pay a specified amount to the person (organisation) named in bank draft. It is just like a bank cheque in format. Though in general, banks charge commission for issuing bank drafts, they may provide this facility to certain category of current account holders to issue draft up to a specified amount free of charge.

(b) Banker's Cheque : Banker's cheque is also known as 'pay order', is issued by a bank to its customers after receiving the required amount from him out of his account. Banker's cheque is safe for payee because it cannot bounce. Banker's cheque provides this guarantee. In case of payment through a personal cheque/issued by the party making the payment) there is a possibility that the cheque may bounce back either due to insufficient funds or technical reasons. The bank charges commission for this service as is done for

issuing draft. A banker's cheque is generally used for making local payments.

(c) **Cash Credit** : Under cash credit bank advances loans to the customer on the basis of his current assets receivables, or fixed assets by hypothecating them in favour of the banker. Ba-

(Extra Questions)

Ans. 30. Differences between Life, fire & marine insurance.

Basis	Life Insurance	Fire Insurance	Marine Insurance
1. Subject matter.	Human life is the subject matter.	Physical property or assets are insured.	Ship, cargo and freight are insured.
2. Element.	Life Insurance has got element of protection as well as investment both.	Fire insurance has no element of investment.	It has no elements of investment.
3. Presence of Insurable Interest.	There must be insurable interest at the time of affecting policy.	It must be present at the time of affecting policy and also when the claim falls due.	Insurable interest must be present at the time when claims fall due.
4. Duration.	Life Insurance policies cover longer period sometimes whole life as per contract.	It continues usually for a year.	It is also for a year or specific voyage.
5. Indemnity	Life insurance is not the policy of Indemnity only the sum assured is received in case of death/accident.	It is a contract of indemnity. Actual loss the sum assured whichever is less is received.	It is also a contract of indemnity.
6. Measurement of Loss	Loss is not measurable.	Loss is measurable.	Loss is not measurable.
7. Surrender value	Life insurance has surrender or paid up value.	There is no surrender/paid up value.	It has no surrender or paid up value.
8. Sum Assured	There is limit for insurance policy amount.	The amount of the policy can't exceed the value of subject matter.	The amount is restricted to the market value of ship or cargo.

(1×6=6)

OR

Short Notes on :

(a) **Postal Services** : Every country has well unit postal services provided by Department of Post & Telegraph or the courier service providers Postal Services are related to sending various communications through letters, telegrams and teleprint. Besides these services, post offices issue postal orders, send money orders, perform some banking services also.

Features of Postal Communication Services :

- All postal services are provided at national & international levels.
- Postal Services are relevant for providing communication ease.

sically cash credit differs from overdraft in two respects : security and duration. Generally cash credit is issued against current assets while overdraft is allowed against negotiable security. Further interest charged on overdraft may be lower because of lesser risk and service cost. (2×3=6)

• Post offices as well as courier operators in private sector both provide this service.

• In India Postal Services are provided by Post & Telegraph Department under the Ministry of Communication.

• Under it following other services are included — Ordinary post under postal certificate, registered post, parcel, speed post, greeting post, remittance of money, passport delivery facility, financial services etc.

Draw Back of Postal Services :

- Postal Services are very slow.
- The reliability factor is very low.

(b) E-banking Services : In the present age of e-business e-banking (electronic banking) has become very common throughout the world. E-banking also known as online or Internet Banking was started by Citi Bank and Chase Manhattan Bank of USA in 1981. Soon it was adopted by other banks & today most of the large banks operating in India & other countries are increasingly providing this facility.

E-banking involves conducting banking transactions by customers electronically.

Thus e-banking is a service provided by the banks that allows a customer to conduct banking transactions electronically. Such as checking accounts, withdrawing cash, paying bills etc.. The range of e-banking is EFT, ATM, Credit Card/ Debit Card and Digital Cash.

Benefits of E-Banking

- E-banking provides 24 hours all the days banking facility to customers.
 - It enables customers to conduct permitted banking transaction from any place, any time.
 - It inculcates a sense of financial discipline by ensuring recording of each & every financial transaction.
 - It provides customer satisfaction because of ease of banking transaction.
 - E-banking leads to competitive advantage in Banking sector.
 - It helps in promoting & spreading financial services by a Bank using it.
 - It enables a bank to reduce work loads on branches by centralising some accounting function.
- (3+3=6)



