QB365 Student Learing Managemnet System
Exam Name: Pre Quarterly - Practice
Std: 11th Standard - Business Studies
Chapter: Business Service, Forms of Business Organisation, Emerging Modes of Business, Public, Private and Global Enterprises, Sources of Business Finance, Business, Trade and Commerce, Social Responsibilities of Business and Business Ethics, International Business, Internal Trade, Small Business and Entrepreneurship, Evolution and Fundamentals of Business, International Trade

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Answers Key:

Case Study Questions

1. **(i) Economic Objectives:**

(a) Profit earning	(b) Opening new branches

***(ii)* Social Objectives**
(a) Providing good working conditions to employees
(b) Sharing profits with employees.

2. **(a) Statutory Corporation**
(b) Merits:
(i) They have operational Flexibility.
(ii) They have an autonomous set up and hence they are free from interference.
(c) Demerits:
(i) Autonomy of these corporations is theoretical only. Practically there is lot of interference.
(ii) Members of Board of directors are appointed by the government who are civil servants, politicians and professionals. They also face pressure from government bodies.
(d) Reserve Bank of India, Life Insurance Corporation of India, Food Corporation of India, State Financial Corporation, Damodar Valley Corporation, State Bank of India etc.

3. (a) No, he cannot claim the compensation
(b) Principle of utmost good faith
(c) Principle of utmost good faith is not followed: According to this principle, it is the duty of the insurer and insured to voluntarily make full accurate disclosure of all facts, material to the insurance contract.
Principle of mitigation: If refers that the insured should try to minimize the loss of the subject matter of the insurer even if it is insured.

4. **1.**Departmental Store.
2.Three.
3. (a) Economies of large scale production
(b) Consumer services under one floor.
4. (a) Higher operational Cost
(b) Lack of personal touch.

Assertion and reason

5. (b) Statement 2 is true and 1 is false.
Explanation:
External sources of funds include those sources that lie outside an organisation, such as suppliers, lenders, and investors.

6. (a) Both the Assertion (A) and Reason (R) are true, and the Reason (R) is the correct explanation of the Assertion (A).
Explanation:
Despite their significant contribution to the economy, the full potential of Micro, Small, and Medium Enterprises (MSMEs) is often not realized. This is mainly due to various challenges and constraints that MSMEs face, such as limited access to finance, technology, and markets, as well as inadequate infrastructure, regulatory barriers, and skilled labour shortages.

7. (a) Statement 1is true and 2 is false.
Explanation:
Wholesalers collect small orders from a number of retailers and pass on the pool of such orders to the manufacturers and make purchases in bulk quantities. This enables the producers to
undertake production on a large scale and take advantage of the economies of scale.
The wholesale merchants deal in goods in their own name, take delivery of the goods and keep the goods purchased in large lots in their warehouses. In the process, they bear variety of risks such as the risk of fall in prices, theft, pilferage, spoilage, fire, etc.

8. (b) Both the Assertion (A) and Reason (R) are true, but the Reason (R) is not the correct explanation of the Assertion (A).
Explanation:
Producing solely for domestic consumption limits a country's potential for growth and employment because it reduces the demand for goods and services from other countries, which in turn limits the country's opportunities for trade and international investment. This results in a limited market for domestic producers, which can restrict their ability to grow and expand their businesses, ultimately limiting job opportunities within the country.

6 Marks

9. Characteristics of business are as follows:
1. An economic activity: All business activities are economic activities and are done for the sole purpose of earning money.
2. Production and procurement of goods and services: A business activity involves production or procurement of goods and services. A manufacturer is involved in production, while a shopkeeper is involved in procurement.

3. Sale and exchange of goods and services for the satisfaction of human needs: Sale and exchange of goods and services is done to satisfy human needs.
4. Dealing in goods and services on a regular basis: One time dealing in goods or services cannot be termed as a business. The business should happen on a regular basis.
5. Profit earning: Profit earning is the fundamental motive of doing a business. Other objectives cannot be attained without it.
6. Uncertainty of returns: Returns can never be certain in business activity. This happens because of external factors which are outside the control of the business organization.
7. Element of risk: An element of risk is always present in business activity

10. **Trade Credit:** Trade credit is the credit extended by the trader to another to purchase goods and services. It facilitates the purchase of supplies without immediate payment. In books of accounts they are shown as 'creditors' or 'bills payable'.
Merits of Trade Credit
1. It is a convenient and continuous source of finance.
2. It is readily available.
3. It helps in promoting sales of an organization.
4. If an organization wants to expand its inventory level so as to meet expected rise in demand, it may use trade credit.
5. It does not demand any security.
Demerits of Trade Credit
1. When easy and flexible trade credit is available, it may induce the firm to indulge in overtrading.
2. Trade credit can meet only limited financial needs. Funds required for inventory can be met through it but not others like plant and machinery, land and building or salaries of employees etc.
Bank Credit: Borrowings from banks are an important source of finance to companies. Bank lending is still mainly short term, although medium-term lending is quite common these days. Short term lending may be in the form of
(a) An overdraft, which a company should keep within a limit set by the bank. Interest is charged (at a variable rate) on the amount by which the company is overdrawn from day to day.
(b) A short-term loan, for up to three years.
(c) Medium-term loans are loans for a period of three to ten years. The rate of interest charged on medium-term bank lending to large companies will be a set margin, with the size of the margin depending on the credit standing and risk of the borrower. Aloan may have a fixed rate of interest or a variable interest rate, so that the rate of interest charged will be adjusted after the end of every three, six, nine or twelve months in line with recent movements in the Base Lending Rate.
Merits of Bank Credit
1. **Economical:** Rate of interest charged by banks is quite nominal and is therefore economical.
2. **Maintains business secrecy:** Banks maintain secrecy of the business. They do not disclose the information shared to any third party.
3. **Less formalities:** As compared to issue of shares, debentures or accepting public deposits, it has less legal formalities.
4. **Flexible source:** It can be increased or decreased as per the requirements of the business. It is not so that once a loan is taken it can't be reduced.
Limitations of Bank Credit
1. **Short-term financing:** It does not provide loans for long term as shares and debentures do.
2. **Difficult procedure:** As compared to commercial papers and trade credit, it involves many legal and paper formalities. It makes its procedure difficult.
3. **Restrictive clauses:** Bank credit has many restrictive clauses which includes mortgage on company's assets or ineligibility to raise funds from specific sources.

11. A Government Company is a company in which not less than 51% of the paid up share capital is held by the central government; or state government or jointly by both. Hindustan Insecticides Ltd., State Trading Corporation of India, Hindustan Cables Ltd.etc are some of the examples.
Features
1. It is registered or incorporated under Companies Act.
2. It has a separate legal entity.
3. Management is regulated by the provision of Companies Act.
4. Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of Association.
5. The Government Company obtains its funds from government shareholdings and other private shareholdings. It can also raise funds from capital market.
Merits
1. It can be easily formed as per the provision of Companies Act. Only an executive decision of government is required.
2. It enjoys autonomy in management decisions and flexibility in day to day working.
3. It can appoint professional managers on high salaries.
Limitations
1. It suffers from interference from government officials, ministers and politicians.
2. It evades constitutional responsibility, which a company financed by the government should have, as it is not directly answerable to Parlament.
3. The board usually consists of the politicians and civil servants who are interested more in pleasing their political bosses than in efficient operation of the company.

12. The following factors are important for taking decision about form of organization.
1. Cost and Ease in Setting up the Organization: Sole proprietorship is least expensive and can be formed without any legal formalities to be fulfilled. Company is most expensive with a lot of legal formalities.
2. Capital Consideration: Business requiring less amount of finance prefer sole proprietorship and partnership form, where as business activities requiring huge financial resources prefer company form.
3. Nature of Business: If the work requires personal attention such as tailoring unit, hair cutting saloon, it is generally set up as a sole proprietorship. Units engaged in large-scale manufacturing are more likely to be organized in company form.
4. Degree of Control Desired: A person who desires full and exclusive control over business prefers proprietorship rather than partnership or Co. because control has to be shared in these cases.
5. Liability or Degree of Risk: Projects which are not very risky can be organized in the form of sole proprietorship and partnership. Whereas the risky ventures should be done in company form of organization because the liability of shareholders is limited.

13. Following are the main differences between a debenture and a share:
1. Debenture holder is a creditor of the company and cannot take part in the management of the company while a shareholder is the owner of the company. It is the basic distinction between a debenture and a share.
2. Debenture holders will get interest on debentures and will be paid in all circumstances, whether there is profit or loss will not affect the payment of interest on debentures. Shareholder will get a portion of the profits called dividend which is dependent on the profits of the company. It can be declared by the directors of the company out of profits only.
3. Shares cannot be converted into debentures whereas debentures can be converted into shares.
4. Debentures will get priority in getting the money back as compared to shareholder in case of liquidation of a company.
5. There are no restrictions on the issue of debentures at a discount, whereas shares at discount can be issued only after observing certain legal formalities.
6. Convertible debentures which can be converted into shares at the option of debenture holder can be issued whereas shares convertible into debentures cannot be issued.
7. There can be mortgage debentures i.e. assets of the company can be mortgaged in favor of debenture holders. But there can be no mortgage shares. Assets of the company cannot be mortgaged in favor of shareholders.

14. Social responsibility of government towards different groups is explained below:
1. Shareholders or investors: Social responsibility of business towards its shareholders or investors is most important of all other obligations.If a business satisfies its funders, they are likely to invest more money in a project. As a result, more funds will flow in and the same can be utilised to modernize, expand and diversify the existing activities on a larger scale. Happy financiers can fulfill the rising demand of funds needed for its growth and expansion.
2. Personnel: Social responsibility of business towards its personnel is important because they are the wheels of an organization. Without their support, the commercial institution simply can't function or operate.
If a business takes care of the needs of its human resource (for e.g. of office staff, employees, workers, etc.) wisely, it will boost the motivation and working spirit within an organization. A happy employee usually gives his best to the organization in terms of quality labour and timely output than an unsatisfied one. A pleasant working environment helps in improving the efficiency and productivity of working people. A good remuneration policy attracts new talented professionals who can further contribute in its growth and expansion.
Thus, if personnel are satisfied, then they will work together very hard and aid in increasing the production, sales and profit.
3. Consumers or customers: Social responsibility of business towards its consumers or customers matters a lot from sales and profit point of view. Its success is directly dependent on their level of satisfaction. Higher their rate of satisfaction greater is the chances to succeed.
If a business rolls out good-quality products and/or delivers better quality services that too at reasonable prices, then it is natural to attract lots of customers. If the quality-price ratio is maintained well and consumers get worth for their money spends, this will surely satisfy them. In the long run, customer loyalty and retention will grow, and this will ultimately lead to profitability.
4. Government: Social responsibility of business towards government's regulatory bodies or agencies is quite sensitive from the license's point of view. If permission is not granted or revoked abruptly, it can result in huge losses to an organization. Therefore, compliance in this regard is necessary.
Furthermore, a business must also function within the demarcation of rules and policies as formulated from time to time by the government of state or nation. It should respect laws and abide by all established regulations while performing within the jurisdiction of state.
Some examples of activities a business can do in this regard:
(a) Licensing an organization,
(b) Seeking permissions wherever necessary,
(c) Paying fair taxes on time,
(d) Following labour, environmental and other laws, etc.
(e) If laws are respected and followed, it creates goodwill of business in the eyes of authorities. Overall, if a government is satisfied it will make favourable commercial policies, which will ultimately open new opportunities and finally benefit the organization sooner or later.
Therefore, satisfaction of government and local administrative bodies is equally important for legal continuation of business.
5. Local community: Social responsibility of business towards the local community of its established area is significant. This is essential for smooth functioning of its activities without any agitations or hindrances.
A business has a responsibility towards the local community besides which it is established and operates from. Industrial activities carried out in a local area affect the lives of many people who reside in and around it. So, as a compensation for their hardship, an organization must do something or other to alleviate the intensity of suffering.
(a) As a service to the local community, a business can build.
(b) A trust-run hospital or health centre for local patients.
(c) A primary and secondary school for local children.
(d) A diploma and degree college for local students.
(e) An employment centre for recruiting skilled local people, etc.
Such activities to some extent may satisfy the people that make local community and hence their changes of agitations against an establishment are greatly reduced. This will ensure the longevity of a business in the long run.
6. Environment: Social responsibility of business with respect to its surrounding environment can't be sidelined at any cost. It must show a keen interest to safeguard and not harm the vitality of the nature.
A business must take enough care to check that its activities don't create a negative impact on the environment. For example, dumping of industrial wastes without proper treatment must be strictly avoided. Guidelines as stipulated in the environmental laws must be sincerely followed. Lives of all living beings are impacted either positively or negatively depending on how well their surrounding environment is maintained (naturally or artificially). Humans also are no exception to this. In other words, health of an environment influences the health of our society.
Hence, environmental safety must not be an option else a top priority of every business.
7. Community: Finally, social responsibility of business in general can also contribute to make the lives of people a little better.
Some examples of services towards public include:
(a) Building and maintaining devotional or spiritual places and gardens for people,
(b) Sponsoring the education of poor meritorious students,
(c) Organizing events for a social cause, etc.

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(d) Such philanthropic actions create a goodwill or fame for the business organization in the psyche of general public, which though slowly but ultimately pay off in the due course of time.

3 Marks

15. An 'IEC number' refers to the 'Importer Exporter Code' number. It is a 10-digit number granted by the Directorate General for Foreign Trade (DGFT) to an import/export firm depending upon the firm's credibility. It is essential for an importer/ exporter to obtain this number as it is to be provided in various import/export documents.
In order to obtain this number, an export or import firm submits an application to the DGFI' or the Regional Import Export Licensing Authority along with documents and information such as the profile of the importer/exporter, fee receipt from a bank, nonresident's interest details, certificate from the banker on the prescribed form, two photographs attested by the banker and a declaration about the applicant's nonassociation with firms placed in the caution list. Once the final submission is done and authenticated, the DGFI' or the Regional Import Export Licensing Authority issues an IEC number to the importer/exporter, which helps the firm concerned in availing itself of benefits granted by the DGFI' to importers/exporters.
16. Letter of Credit is issued by the bank of an importer guaranteeing to honour a draft of a certain amount drawn on it by the exporter. It is an important document because, in international transactions, there is always a risk of the importer defaulting on payment once the goods are received. Thus, to minimise the risk of such defaults, the exporter often demands a letter of credit. A letter of credit enables the exporter to assess the credit worthiness of the importer. It is the most appropriate and secure method of payment for settling an international transaction.
17. Yes, we agree. Retained earnings are better than other sources of finance because:
(a) Retained earnings is a permanent source of funds which an organization can avail of.
(b) It enhances capacity of the business to absorb unexpected losses.
(c) It does not involve any explicit cost in the form of interest, dividend or flotation cost.
(d) It may increase the process of equity shares of a company.
(e) There is a greater degree of operational freedom and flexibility as the funds are generated internally.
18. Public relations is a potent tool for shaping consumer perception and building a company's image. Corporations that actively promote their social responsibility activities often take steps to publicise these efforts through the media. Getting the word out about corporate donations, employee volunteer programmes, or other CSR initiatives is a powerful branding tool that can build publicity for you in both online and print media.
19. In my opinion, these services are complementary to each other and hence, they have their own importance. I can't say that tourism or recreation (Personal Service) is less important than services of a charitable hospitals (Social Service) or vice-versa. Similarly, I can't say that banking (Business Service) is less important than services of restaurants (Personal Service) or vice-versa. Still if I have to choose one, I will select social services because:
(a) They benefit to a larger section of society.
(b) They are sometimes provided without a payment in lieu.
(c) They have long lasting effects on our society and economy.
20. The Public Private Partnership is that model of partnership wherein the tasks, obligations, responsibilities and risks are optimally allocated among the public and the private partners. In a PPP, the public partner may include government entities, such as ministries, government departments, municipalities, etc., whereas the private partner may include local or foreign businesses or investors with relevant technical or financial expertise.
21. The nature of business risk is explained below:
(i) It arises due to uncertainties: A business is started and operated on the basis of forecasts and assumptions about the likely future events which may or may not hold good. Therefore, the uncertainty of the expected or unexpected event may cause risk of loss to the business
(ii) Risk is an essential part of every business: Every business is exposed to one or the other kind of risk. Risks cannot be eliminated though they can be minimised by making suitable provisions in advance.
(iii) Profit is the reward of the risk: An entrepreneur undertakes risks of investing his capital under the expectation of higher profits. Profit is thus the reward for risk- taking
(iv) Degree of risk depends mainly upon the nature and size of business: The nature of the business (type of goods and services produced) and the size (volume of production) of the business determines the amount of risk. Larger the scale of business, higher will be the possibility of risk.
22. Every Business has risk element from which it cannot escape. Following are the main causes behind business risk.
(i) Natural causes: e.g., flood, earthquake, heavy rains, etc.
(ii) Human causes: carelessness, negligence of workers, riots, etc.
(iii) Economic causes: e.g., change in demand,change in technology, shortage of raw material,higher taxation etc.
(iv) Other causes: e.g, political disturbances,enactment of new laws, fluctuation in exchange rates, etc.

4 Marks

23. Obsolete technology and lack of marketing facilities.
24. Following are the objectives of WTO:
(i) To ensure reduction of tariffs and other trade barriers imposed by different countries.
(ii) To engage in such activities which improve the standard of living, create employment, increase effective demand and income and facilitate higher production and smooth trade.
(iii) Facilitate the optimum use of world's limited resources.
(iv) Promote an integrated, more viable and durable trading system.

Multiple Choice Question

25. (c) Lending of funds
26. (c) Company
27. (b) Cooking food for sale
28. (b) Government Company
29. (a) Departmental Undertaking
30. (a) Preference shares
31. (d) Generated within the business

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32. (d) Karta
33. (c) Former is wider than latter
34. (b) Intra B Commerce
35. (b) Mate receipt
36. (b) Broader than legal responsibility
37. (c) Ethics
38. (a) TRAI
39. Employment is an occupation where a person (called employee) is to work for another (called employer). There are certain terms and conditions of work like hours of work (how many hours day), duration of work (how many days or hours in a week or month etc.), leave facility, salary/wages, place of work etc. The employees get salary (normally paid on a monthly basis) or wage (normally paid on daily/weekly basis) in return of their work. This amount is normally predetermined, mutually agreed upon and may increase over time.
40. (a) Shipping bill

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