

**MAHA SUPER**

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**11<sup>th</sup> STD**

**COMMERCE**

**NEW SYLLABUS**

**2023-2024**

*Thanks to*

*My Amma*

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**MAHA PUBLICATIONS**

**BOOKS & GUIDES**

## **Preface**

**Dedicated to  
my students**

**Plus One Commerce English Medium  
Guide** helpful to students known about  
Management.

I sincere thank to A.V. Thiyagarasu sir  
Principal, Gobi Arts and Science College  
(Autonomous) Gobi, R. Sellappan sir Dean  
(Former Principal) Gobi Arts and Science  
College (Autonomous) Gobi and my  
professors for support and encourage me to  
prepare this Guide.

I sincere thank to my friends.

**Best Wishes**

**S. Mahalingam**

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**Forward**

The Guide Titled “**Plus One Commerce English Medium**” by **S. Mahalingam** is a very useful addition to the field of Management and Commerce.

The author took beautiful efforts in making the book a user guide which could be of great help for Commerce Candidates.

I congratulate the author for his wonderful effort in bringing out this useful Guide. I wish him to pursue his passion relentlessly and continue his hard and good work.

**Dr. R. Sellappan**

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## UNIT I FUNDAMENTALS OF BUSINESS

## CHAPTER 1

## HISTORICAL BACKGROUND OF COMMERCE IN THE SUB-CONTINENT

**I. Choose the Correct Answer**

**1. In Pandiyas Dynasty the place where the goods are sold is \_\_\_\_\_**

- a) Angadi
- b) Market
- c) Nalangadi
- d) Allangadi

**2. Hindrance of place is removed by \_\_\_\_\_**

- a) Transport b) Warehouse
- c) Salesman d) Insurance

**3. Who wrote “Arthasasthra” ?**

- a) Kautilya
- b) Kambar
- c) Thiruvalluvar
- d) Elangovadigal

**4. Trade and Commerce was common to \_\_\_\_\_ Dynasty.**

- a) Pallava
- b) Chola
- c) Pandya
- d) Chera

**5. \_\_\_\_\_ was first sultan who paved way in the dense forest and helped traders to move from one market place to others place for their commercial caravans.**

- a) Balban
- b) Vascoda Gama
- c) Akbar
- d) Alauddin Khilij

**Answers**

1. a 2. a 3. a 4. c 5. A

**II. Very Short Answer Questions**

**1. What is meant by Barter System?**

Barter system' in olden days goods were exchanged for goods.

**2. What is meant by Nalangadi?**

The place where the goods were sold was called 'Angadi' in their period. Day market was called as Nalangadi

**3. What is meant by Allangadi?**

The place where the goods were sold was called 'Angadi' in their period. the night market was called as Allangadi

**III. Short Answer Questions**

**1. Explain the meaning of the term “Vanigam”.**

The word vaniyam or vanipam would have had a Dravidian origin. The early Tamils produced their products and goods in their lands and bartered their surplus and that is how trade came into existence. The word 'Vanigam' has been widely used in sangam literature like Purananuru and Thirukkural. The Tamil – Brahmi inscriptions from Alagarmalai, Pugalur, Mangulam and Sri Lanka illustrate the fact that trade in gold, oil, plough, cloth etc. was conducted during the early age.

**2. State the meaning of Maruvurappakkam and Pattinappakkam.**

Big cities like Poompuhar had the 'Maruvurappakkam' (inland town) and 'Pattinappakkam' (coastal Town), had market and bazaars where many merchants met one another for the purpose of selling or buying different kinds of commodities and food stuff. Port towns like Tondi, Korkai, Puhar and Muziri were always seen as busy with marts and markets with activities related to imports and exports. In such a brisk trade, people of the coastal

region, engaged themselves in coastal trade and developed their intercontinental trade contacts.

### **3. What are the ports developed by Pandiya kingdom?**

Trade and commerce was so common to Pandiya Dynasty. Information collected from the diaries of foreign travellers, voyagers, mariners and adventurers of the ancient world highlighted the prosperity of trade in the Pandiya country. Trade in copper, cloth, salt, flower, sandal wood, fish, paddy, cereals, pearls, etc flourished during their period. Port towns like Tondi, Korkai, India imported horses, dry fruits, precious stones, glassware, high grade textiles, raw silk, corals, scented oil, velvets, etc.. from Kabul, Arabia, Europe, West Asia and China. Indian products were exported to East Africa, Malaya, China and Far East. Trade was conducted through overland routes with Afghanistan, Central Asia and Persia India conducted foreign trade via land route with Quetta, Khyber pass, Iraq and Bukhara. The traders of Malabar, Gujarat and foreign settlers in the ports of Calicut, Khumbat and Mangalore controlled a major business sector in port cities. Puhar and Muziri were always seen as busy with marts and markets with activities related to imports and exports.

## **IV. Long Answer Questions**

### **1. What are the hindrances of Commerce?** (any 5)

#### **1. Hindrance of person**

Manufacturers do not know the place and face of the consumers. It is the retailer who knows the taste, preference and location of the consumers. The chain of middlemen consisting of wholesalers, agents and retailers establish the link between the producers and consumers.

#### **2. Hindrance of place**

Production takes place in one centre and consumers are spread throughout the country and world. Rail, air, sea and land transports bring the products to the place of consumer.

#### **3. Hindrance of time**

Consumers want products whenever they have money, time and willingness to buy. Goods are produced in anticipation of such demands. They are stored in warehouses in different regional centres so that they can be distributed at the right time to the consumers.

#### **4. Hindrance of risk of deterioration in quality**

Proper packaging and modern air conditioned storage houses ensure that there is no deterioration in quality of products. Goods are protected against insects, rats, evaporation etc.

#### **5. Hindrance of risk of loss**

Fire, theft, floods and accidents may bring huge loss to the business. Insurance companies serve to cover the risk of such losses.

### **2.State the constraints in barter system.**

#### **1. Lack of double coincidence of Wants**

Unless two persons who have surplus have the demand for the goods possessed by each other, barter could not materialize

#### **2. Non – existence of common measure of value**

Barter system could not determine the value of commodities to be exchanged as they lacked commonly acceptable measures to evaluate each and every commodity.

#### **3. Lack of direct contact between producer and consumers**

It was not possible for buyers and sellers to meet face to face in many contexts for

exchanging the commodities for commodities.

#### 4. Lack of surplus stock

Absence of surplus stock was one of the impediments in barter system. If the buyers and sellers do not have surplus then no barter was possible.

#### 3. Briefly explain the coastal trade in ancient Tamilnadu.

Big cities like Poompuhar had the 'Maruvurappakam' (inland town) and 'Pattinappakkam' (coastal Town), had market and bazaars where many merchants met one another for the purpose of selling or buying different kinds of commodities and food stuff.

Port towns like Tondi, Korkai, Puhar and Muziri were always seen as busy with marts and markets with activities related to imports and exports. In such a brisk trade, people of the coastal region, engaged themselves in coastal trade and developed their intercontinental trade contacts. They were engaged in different kinds of fishing pearls, and conches and produced salts and built ships. Boats like 'Padagu', 'Thimil', 'Thoni', 'Ambu' 'Odampunai' etc... were used to cross rivers for domestic trade while Kalam, Marakalam, Vangam, Navai etc.. were used for crossing oceans for foreign trade.

## UNIT I FUNDAMENTALS OF BUSINESS

### CHAPTER 2 OBJECTIVES OF BUSINESS

#### I. Choose the Correct Answer

##### 1. The Primary objective of a business is

- a. Making Profit
- b. Not Making Profit
- c. Special skill
- d. None of the above

##### 2. Occupation of a Doctor is

- a) Employment
- b) Business
- c) Profession
- d) Sole Proprietor

##### 3. The following does not characterise business activity?

- a) Production of goods and services
- b) Presence of Risk
- c) Sale or exchange of goods and services
- d) Salary or wages

##### 4. Activities undertaken out of love and affection or with social service motive are termed as:

- a) Economic activities
- b) Monetary activities
- c) Non Economic Activities
- d) Financial Activities

#### Answers

1. a 2. c 3. d 4. C

#### II. Very Short Answer Questions

##### 1. What is meant by Economic Activities?

**Definition:** Economic activities are those activities which are undertaken to earn money or financial gain for livelihood.  
e.g., Fruit seller selling fruits

##### 2. What do you mean by Business?

**Business** refers to those economic activities which are concerned with the production or purchase and sale of goods or supply of services with the main object

of earning profits. Ex: farming , fishing etc.

### 3.What do you mean by Employment?

It refers to the occupation in which people work for others and get remuneration in the form of wages or salaries.

The one who is employed by others are called employees and the one who employs others is called employer. Managers, Clerks, Bank officials, Factory workers etc., are examples of employees.

### III. Short Answer Questions

#### 1. What do you mean by human activities? Explain.

Human activity is an activity performed by a human being to meet his/her needs and wants or may be for personal satisfaction. Human activities can be categorised into economic and non-economic activities.

#### I. Economic Activities

Activities undertaken with the object of earning money are called economic activities.

##### Examples:

- i. Production of goods by manufacturers
- ii. Distribution of goods by wholesalers
- iii. Selling by retailers
- iv. Medical advice rendered by physicians
- v. Accounting practice by chartered accountants

#### II.Non-Economic Activities

Activities undertaken to satisfy social and psychological needs are called noneconomic activities.

##### Examples:

- i. Cooking food for family
- ii. Celebrating festivals

- iii. Watching movies in a theatre
- iv. Doing meditation

### 2. Write short notes on:

#### a) Business b) Profession

##### a. Business

Business refers to any human activity undertaken on a regular basis with the object to earn profit through production, distribution, purchase and sale of goods and services.

##### b. Profession

A profession is something which is more than a job. It is a career for someone who is competent in their respective areas. It includes professional activities which are subject to guidelines or codes of conduct laid down by professional bodies.

### 3.Explain the classification of 'Business'

Business activities are classified on the basis of size, ownership and function.

#### 1. Activities on the Basis of Size

On the basis of size, business activities may be broadly grouped into two categories.

##### a. Small Scale

Small scale units require less capital. They employ small number of workers and produce the goods on small scale. Example: Manufacturing textiles in handlooms or power looms.

- (i) Extraction of edible oil from seeds like groundnut, sesame, through traditional wooden churner.

##### b. Large Scale

Large scale units require huge capital. They employ large number of workers and produce the goods on large scale.

Examples



(i) Manufacturing Textiles in a large Textile mill. Example. Raymonds, Ramraj Cotton

(ii) Extraction of edible oil from oil seeds in oil mills. Example. Suffola, Sunflower

## **2. Activities on the Basis of Ownership**

On the basis of ownership business activities may be broadly grouped into three categories.

### **a. Private Enterprises**

An enterprise is said to be a private enterprise where it is owned, managed and controlled by persons other than Government.

(i) Sole proprietorship. Example - Sundar Stationeries

(ii) Partnership firms. Example - Ramesh Bros.

### **b. Public Enterprises**

An enterprise is said to be a public enterprise where it is owned, managed and controlled by Government or any of its agencies or both. Public enterprises may be organized in several forms such as,

(i) Departmental undertaking - Public Works Department (PWD)

(ii) Public Corporation - Oil and Natural Gas Corporation (ONGC)

(iii) Government Company - State Trading Corporation (STC)

### **c. Joint Enterprises**

An enterprise is said to be a joint enterprise where it is owned, managed and controlled by Government and private entrepreneurs.

## **3. Activities on the Basis of Function**

On the basis of functions, business activities may be broadly grouped into two categories.

### **a. Industry**

Industry includes all those business activities which are connected with raising, producing or processing of consumer goods. Example -

bread, butter, cheese, shoes, or capital goods like machinery.

### **b. Commerce**

It establishes a link between the producers and consumers of goods and maintains a smooth and uninterrupted flow of goods from producers to consumers.

## **IV. Long Answer Questions**

### **1. Explain the characteristics of Business. (any 5)**

The essential characteristics of business are as follows:

#### **i. Production or Procurement of Goods**

Goods must be produced or procured in order to satisfy human wants.

#### **ii. Sale, Transfer or Exchange**

There must be sale or exchange of goods or services. When a person weaves cloth for his personal consumption, it is not business because there is no transfer or sale.

#### **iii. Dealing in Goods and Services**

Goods produced or procured may be consumer goods like cloth, pen, brush, bag etc., or producer-goods like plant and machinery.

Services refer to activities like supply of electricity, gas or water, transportation, banking, insurance etc.

#### **iv. Regularity of Dealings**

An isolated dealing in buying and selling does not constitute business. The transactions must be regular. For example, if a person buys a scooter for his use and



later on disposes it of at a profit, he cannot be said to have been engaged in business.

#### **\v. Profit motive**

An important feature of business is profit motive. Business is an economic activity by which human beings make their living.

### **2. Compare business with profession and employment. (any 5)**

Business	Profession	Employment
<b>1. Mode of Establishment:</b> Promoter's decision registration and other formalities as prescribed by law	Membership of a professional body or certificate of practice	Service contract or letter of appointment
<b>2. Nature of Work:</b> Goods and services provided to the public	Personalized service of expert nature	Performing work assigned by the employer
<b>3. Qualifications:</b> No minimum qualification is essential	Education and training in specialized field	Minimum qualification is essential
<b>4. Basic Motive:</b> Earning profits by satisfying needs of society	Rendering service	Earning wages or salary by serving the employer
<b>5. Capital:</b> Capital investment required as per size of the firm	Limited capital necessary for establishment	No capital required

### **3. Discuss the objectives of business.**

#### **A. Economic Objectives**

Economic objectives of business refer to the objective of earning profit

#### **B. Social Objectives**

Social objectives are those objectives of business, which are desired to be achieved for the benefit of the society.

#### **C. Organizational Objectives**

The organizational objectives denote those objectives an organization intends to accomplish during the course of its existence in the economy like expansion and modernization, supply of quality goods to consumers, customers' satisfaction, etc.

#### **D. Human Objectives**

Human objectives refer to the objectives aimed at the well-being as well as fulfilment of expectations of employees as also of people who are disabled, handicapped and deprived of proper education and training.

#### **E. National Objectives**

Being an important part of the country, every business must have the objective of fulfilling national goals and aspirations. The goal of the country may be to provide employment opportunity to its citizen, earn revenue for its exchequer, become self-sufficient in production of goods and services, promote social justice, etc.

## UNIT I FUNDAMENTALS OF BUSINESS

CHAPTER  
3CLASSIFICATION OF  
BUSINESS ACTIVITIES**I. Choose the Correct Answer**

**1. The industries engaged in extraction of**

**iron ore are known as**

- a. Construction Industries
- b. Manufacturing Industries
- c. Extraction Industries
- d. Genetic Industries

**2. Production which involves several stages for manufacturing finished products is known as**

- a. Analytical Industry
- b. Synthetic Industry

c. Processing Industry

d. None of the above

**3. Normally high level risk involved in**

- a. Industry
- b. Commerce
- c. Trade
- d. All of the above

**Answers**

1. c 2. c 3. a

**II. Very Short Answer Questions:**

**1. Define Commerce.**

According to Evelyn Thomas, “Commercial operations deal with the buying and selling of goods, the exchange of commodities and the contribution of finished products”.

**2. What do you mean by Industry?**

Industry refers to economic activities, which are connected with conversion of resources into useful goods. The production side of business activity is referred as industry.

**3. What is trade?**

The term ‘trade’ is used to denote buying and selling. It helps in making the goods produced available to ultimate consumers or users. Therefore, one who buys and sells is a trader

**III. Short Answer Questions:**

**1. What do you mean by tertiary industries?**

They do not produce goods. These industries produce utility services and sell them at a profit. They help trade, industry and commerce. This term also includes auxiliaries to trade like banking, insurance, warehouse, advertisement etc.

**2. Write a short note on Transportation.**

**Transportation**

Selling all the goods produced at or near the production place is not possible. Hence, goods are to be sent to different places where they are demanded. The medium which moves men and materials from one place to another is called transport.

**IV. Long Answer Questions:**

**1. Compare Industry, Commerce and Trade. (any 5)**

INDUSTRY	COMMERCE	TRADE
1. <b>Meaning:</b> Extraction, reproduction, conversion, processing and construction of useful products	Activities involving distribution of goods and services	Purchase and sale of goods and services
2. <b>Scope:</b> Consists of all activities involving conversion of materials and semi-finished products into finished goods.	Comprises trade auxiliaries to trade	Comprises exchange of goods and services
3. <b>Capital:</b> Generally large amount of capital is required	Need for capital is comparatively less	Small capital is needed to maintain stock and to grant credit
4. <b>Risk:</b> Risk involved is usually high	Relatively less risk is involved	Relatively less risk is involved
5. <b>Side:</b> It represents supply side of goods and services	It represents demand side of goods and services	It represents both supply and demand

**2. Write a short notes on:**

- a. Analytical industry
- b. Genetic industry

**c. Construction industry**

a. **Analytical Industry** which analyses and separates different elements from the same materials, as in the case of oil refinery.

**b. Genetic Industry**

These industries remain engaged in breeding plants and animals for their use in further reproduction.

The seeds, nursery companies, poultry, dairy, piggery, hatcheries, nursery, fisheries, apiary etc are classic examples of genetic industries.

**c. Construction Industry**

These industries are involved in the construction of building, dams, bridges, roads, as well as tunnels and canals.

**UNIT II FORMS OF BUSINESS ORGANISATION****CHAPTER 4****SOLE PROPRIETORSHIP****I. Choose the Correct Answer**

**1. Which is the oldest form of Business organisation?**

- a. Sole Proprietorship
- b. Partnership
- c. Co-operative Society
- d. Company

**2. In which form the owner, establisher and manager is only one?**

- a. Joint Enterprise
- b. Government Company
- c. Co-operative Society
- d. Sole Proprietor

**3. A major disadvantage of sole proprietor-ship is \_\_\_\_\_**

- a. Limited liability
- b. Unlimited liability
- c. Easy Formation
- d. Quick decision

**4. From the following which one is Noncorporate form of business?**

- a. Joint stock company
- b. Sole trading business
- c. Government company
- d. Co-operatives

**Answers**

1. a 2. d 3. b 4. b

**II. Very Short Answer Questions**

**1. Who is called a Sole Trader?**

Sole Proprietorship is a form of business organisation in which an individual introduces his own capital, uses his own skill and intelligence in the management of its affairs and is solely responsible for the results of its operations.

**2. What are the Non-Corporate enterprises?**

Non – corporate business, the ownership and business are not separated. Owner can have direct control over the business. 1. sole proprietorship 2. Partnership 3. joint Hindu family business

### 3. What are the Corporate enterprises?

Corporate enterprises, the ownership is separated from its management. The owner cannot take direct control over the business.

1. Government companies 2. Joint stock companies 3. Co-operatives.

### III. Short Answer Questions

#### 1. How is it possible to maintain secrecy in Sole Proprietorship?

##### Maintenance of Secrecy

A sole trader can maintain business secrets. He alone control over all affairs of the business. The sole proprietor is not expected to share his trade secrets with anybody else.

#### 2. What is unlimited liability?

When his business assets are not sufficient to pay off the business debts he has to pay from his personal property

#### 3. Give some examples of Sole trading business.

1. Handicrafts 2. Tailoring shops 3. Retail trade 4. Filigree work 5. Petty shop 6. Beauty parlour 7. Fruit seller

### IV. Long Answer Questions

1. Explain the characteristics of Sole trading business. (any 5)

#### i. Ownership by one man

This is owned by single person. The sole trader contributes the required capital.

#### ii. Freedom of work and Quick Decisions

Since the individual is himself as a owner, he need not consult anybody else. Hence he can take quick decisions

#### iii. Unlimited Liability

When his business assets are not sufficient to pay off the business debts he has to pay from his personal property.

#### iv. Enjoying Entire Profit

He strives tirelessly for the improvement and expansion of his business and enjoys all the benefits of his hard work.

#### v. Absence of Government Regulation

A sole proprietor concern is free from Government regulations. No legal Formalities.

#### 2. What are the advantages of Sole trading business. (any 5)

##### i. Easy Formation

No legal formalities are required to initiate a sole trading concern. Any person capable of entering into a contract can start it, provided he has the necessary resources for it.

##### ii. Incentive to Work hard

There is a direct relationship between effort and reward. The fact that the entire profit can be taken by himself without sharing with anybody else induces him to work ceaselessly.

##### iii. Small Capital

Small capital is an important as well as specific advantage of sole proprietorship. Sole proprietor can start business with small capital.

##### iv. Credit Standing

Since his private properties are held liable for satisfying business debts, he can get more financial assistance from others.

**v. Personal Contact with the Customers**

Since sole proprietor knows each and every customer individually he can supply goods according to their taste and preferences. Thus he can cultivate personal relation ship with the customers.

**3. What are the disadvantages of Sole trading business.****i. Limited Capital**

Since the capital is contributed by one individual only, business operations have necessarily to be on a limited scale

**ii. Limited Managerial Skill**

Single person's intelligence and experience may not help him beyond a certain stage.

Since he has to focus on each and every activity, his managerial ability is bound to be limited.

**iii. Unlimited Liability**

The creditors have the right to recover their dues even from the personal property of the proprietor in case the business assets are not sufficient to pay their debts.

**iv. Lack of Specialisation**

Since the business unit is small and the financial resources are limited, experts in different fields cannot be employed to secure maximum advantages.

**v. Hasty Decisions**

Sole proprietor is more likely to take hasty decision as he need not consult anybody else.

**UNIT II FORMS OF BUSINESS ORGANISATION****CHAPTER 5****HINDU UNDIVIDED FAMILY AND PARTNERSHIP****I. Choose the Correct Answer****1. The firm of Hindu Undivided Family is managed by whom?**

- a. Owner
- b. Karta
- c. Manager
- d. Partner

**2. In the firm of Hindu Undivided Family, how one gets the membership?**

- a. By Agreement
- b. By Birth
- c. By Investing Capital
- d. By Managing

**3. The members in the joint hindu family are called \_\_\_\_\_**

- a. Karta
- b. coparceners
- c. generations
- d. partners

**4. 'Only the male members in the family get the right of inheritance by birth' as \_\_\_\_\_**

- a. Hindu law
- b. Mitakshara Law
- c. Dayabhaga law
- d. None of these

**5. A partnership is formed by \_\_\_\_\_**

- a. agreement
- b. relationship among persons
- c. the direction of government
- d. Friendship

**Answers:**

1. b 2. b 3. b  
4. b 5. A

## II. Very Short Answer Questions

### 1. Who is called KARTA?

All the affairs of a Joint Hindu Family business are controlled and managed by the head of the family, is known as 'Karta'

### 2. What are the two schools of Hindu law?

Dayabhaga, Mitakshara

### 3. Who is called a Partner?

The persons who enter into partnership are individually called 'Partners' and collectively known as 'Firm'.

### 4. Who is a Sleeping partner?

Such a partner contributes capital and shares in the profits or losses of the firm but does not take part in the management of the business. He may not be known as a partner to the outsiders; yet he is liable to third parties to an unlimited extent as any other partner.

### 3. How many types of Dissolution?\*

**Answer**

When the relation present between all partners, comes to an end, it is known as dissolution of firm.

#### a) Dissolution of firm

#### b) Dissolution of partnership

## III. Short Answer Questions

### 1. Write any three features of HUF.

#### i. Governed by Hindu Law

The business of the Joint Hindu Family is controlled and managed under the Hindu law.

#### ii. Management

All the affairs of a Joint Hindu Family are controlled and managed by one person who is known as 'Karta' or 'Manager'.

The Karta is the senior most male member of the family. The members of the family have full faith and confidence in Karta. Only Karta is entitled to deal with outsiders.

#### iii. Membership by Birth

The membership of the family can be acquired only by birth. As soon as a child is born in the family, that child becomes a member

### 2. What is the minimum and maximum number of members in the partnership concern?

Partnership is the outcome of an agreement between two or more persons. The minimum number of member is 2 and maximum to 10 in the case of banking business 20 in the case of all other business

### 3. What is the meaning of Partnership Deed?

Though a partnership agreement need not necessarily be in writing, it is important to have a written agreement in order to avoid misunderstandings; it is desirable to have a written agreement. A carefully drafted partnership deed helps in ironing out differences which may develop among partners and in ensuring smooth running of the partnership business. It should be properly stamped and registered.

## IV. Long Answer Questions

### 1. What are the contents of Partnership Deed? (any 5)

A partnership Deed is a written agreement containing all the terms and conditions of partnership.

#### Content of partnership deed

1. Name of the firm
2. Names and addresses of all partners.
3. Nature of business proposed to be carried on by the firm



4. Arbitration of duties
5. Account keeping
6. capital contributed by each partner.
7. Withdrawal from firm.
8. Date of agreement and principal place of business.
9. Duration of partnership.
10. Interest on capital and interest on drawings.
11. Loan from partners
12. Profit / loss sharing ratio.
13. Procedure for admission or retirement of partner
14. Salary and commission to partner
15. Retirement
16. Goodwill valuation
17. Dissolution procedure

## **2. Explain the types of dissolution of partnership firm. (any 5)**

### **Dissolution of partnership firm. taken place in two ways.**

- a. without the order of the court and
- b. By order of the court.

#### **a. Without the order of the court**

##### **i. By agreement or mutual consent**

A firm may be dissolved when all the partners agree to close the affairs of the firm.

Just as a partnership is created by contract, it can also be terminated by contract.

##### **ii. By insolvency of all the partners but one**

If any of the partners adjudged an insolvent (or if all the partners become insolvent) it is necessary to dissolve the firm

##### **iii. When the objective becomes illegal**

When the business carried on by the partnership becomes illegal, the partnership firm is automatically dissolved.

##### **iv. By notice of dissolution**

In the case of partnership at will when any partner gives in writing to all the other

partners indicating his intention to dissolve the firm, the firm will be dissolved.

#### **v. On certain contingencies:**

Dissolution of partnership itself may involve the dissolution of the firm unless parties agree to continue it otherwise, it will take place.

- i. On the expiry of a specified period in case of partnership for a fixed term.
- ii. On the completion of a particular adventure for which it has been formed in case of particular partnership.
- iii. On the death of a partner.
- iv. On the retirement of a partner.
- v. On the insolvency of a partner.

In all the above cases if the business is not continued by the remaining partners, dissolution of the firm takes place automatically.

#### **b. Dissolution through court**

The court may order dissolution of a firm at a suit of a partner in any of the following circumstances.

- a. When a partner becomes insane
- b. Permanent incapacity of any partner
- c. Misconduct of any partner
- d. Breach of agreement which makes the business impracticable
- e. Transfer of interest to third person
- f. Continued loss
- g. When the court finds that it is just and equitable to dissolve the firm

## **3. Write the procedure for Registration of a Firm. (any 5)**

A statement should be prepared stating the following particulars.

- i. Name of the firm.
- ii. The principal place of business.
- iii. Name of other places where the firm carried on business.
- iv. Names and addresses of all the partners.
- v. The date on which each partner joined the firm.
- vi. The duration of the firm.

This statement signed by all the partners



should be produced to the Registrar of Firms along with the necessary registration fee. Any change in the above particulars must be communicated to the Registrar within 14 days of such alteration.

## UNIT II FORMS OF BUSINESS ORGANISATION

### CHAPTER 6 JOINT STOCK COMPANY

#### I. Choose the Correct Answer

1. The relationship between outsiders and the company is defined in \_\_\_\_\_

- a) Prospectus
- b) Articles of Association
- c) Memorandum of Association
- d) Certificate of Incorporation

2. Table A of the Companies Act is a \_\_\_\_\_

- a) Model minutes book
- b) Model form of Balance Sheet
- c) Model of AOA
- d) Model of MOA

3. Which of the following is created by a Special Act of Parliament or in State Assemblies?

- a) Chartered company
- b) Foreign company
- c) Government company
- d) Statutory company

4. The Board of directors of a company is elected by \_\_\_\_\_

- a) Creditors
- b) Debtors
- c) Debenture holders
- d) Share holders (members)

5. Companies established as a result of a charter granted by the King or Queen of a country is called \_\_\_\_\_

- a) Chartered companies
- b) Statutory companies
- c) Registered companies
- d) Foreign companies

#### Answers

1. c 2. c 3. d 4. d 5. A

## II. Very Short Answer Questions

### 1. What are the different types of companies?

1. Chartered companies
2. Statutory companies
3. Association not for profit

### 2. Define a Company.

“A company is an association of many persons who contribute money or money’s worth to a common stock and employ it in some trade or business, and who share the profit and loss (as the case may be) arising there from.”

- James Stephenson

### 3. What is meant by Limited liability?

The liability of the members of the company is limited to contribution to the assets of the company upto the face value of shares held by him.

### 4. Explain any two characteristics of a company.

#### i. Separate Legal Entity

Under Incorporation a company becomes a separate legal entity as compared to its members.

#### ii. Limited Liability

The liability of the members of the company is limited to contribution to the assets of the company upto the face value of shares held by him.

### 5. What is meant by Chartered Company?

Chartered companies are established by the King or Queen of a country. Powers and privileges of chartered company are specified in the charter. Power to cancel the charter is vested with King/Queen. Examples: East Indian Company, Bank of England, Hudson’s Bay Company. The

Companies Act does not apply to them. Such companies cannot be started in

India

## III. Short Answer Questions

### 1. What are the advantages of Companies? (any 3)

#### i. Large Capital

A company can secure large capital compared to a sole trader or partnership. Large amount of capital is necessary for conducting business on a large scale.

#### ii. Limited Liability

The liability of a shareholder is limited. In the case of a company limited by guarantee, his liability is restricted to the amount that he has guaranteed to contribute in the event of winding up of the company.

#### iii. Transferability of Shares

Transaction of Shares between two individuals is easy. So there is liquidity of investment. Any shareholder can easily convert his shares into money by selling his shares

### 2. What is meant by Government Company?

Section 617 of the Companies Act, 1956 defines “Government Companies” as any company in which not less than 51% of the [paid-up share capital] is held by.

1. The Central Government; or
2. Any State Government or Governments; or
3. Partly by the Central Government and partly by one or more State Governments.

### 3. What is meant by Foreign Company?

A foreign company means a company which is incorporated in a country outside India under the law of that country. After

the establishment of business in India, the following documents must be filed with the Registrar of Companies within 30 days from the date of establishment.

#### IV. Long Answer Questions

##### 1. What are the contents of Memorandum of Association? (any 5)

###### Contents

###### 1. Name Clause

The name clause requires to state the legal and recognized name of the company. The company name is allowed to be registered if it does not bear any similarities with the name of an existing company. companies only.

###### 2. Situation Clause

The registered office clause requires to show the physical location of the registered office of the company. It is required to keep all the company registers in this office. The registered office should be established prior to commencing business activities.

###### 3. Objective Clause

The objective clause requires to summarize the main objectives for establishing the company with reference to the requirements for shareholding and use of financial resources. It is required to state the ancillary objectives; that is, those objectives that are required to facilitate the achievement of the main objectives. The objectives should be free of any provisions or declarations that continued... contravene laws or public good.

###### 4. Liability Clause

The liability clause requires to state the extent to which shareholders of the company are liable to the debt obligations of the company in the event of the company dissolving. There are companies limited by shares and limited by guarantee.

###### 5. Capital Clause

The capital clause requires to state the

company's authorized share capital, the different categories of shares and the nominal value (the minimum value per share) of the shares. It is also required to list the company's assets under this clause.

##### 2. What are the contents of Articles of Association? (any 5)

###### Contents

- (i) Amount of shares, capital, value and type of shares
- (ii) Rights of each class of shareholders regarding voting, dividend, return of capital
- (iii) Rules regarding issue of shares and debentures
- (iv) Procedures as well as regulations in respect of making calls on shares.
- (v) Manner of transfer of shares
- (vi) Declaration of dividends
- (vii) Borrowing powers of the company
- (viii) Rules regarding the appointment, remuneration, removal of directors
- (ix) Procedure for conducting proxy, quorum, meetings etc.,
- (x) Procedures concerning keeping of books and audits
- (xi) Seal of the company
- (xii) Procedures regarding the winding up of the company.

##### 3. What is meant by Multi National Company?

###### Multi National Companies

A Multi National Company (MNC) is a huge industrial organisation which, (i) Operates in more than one country (ii) Carries out production, marketing and research activities on international Scale in those countries. (iii) Seeks to maximise profits world over. A domestic company or a foreign company can be a MNC.

**Examples:** Microsoft Corporation, Nokia

Corporation, Nestle, Coca-Cola, International Business Machine, Pepsico, Sony Corporation



### I. Choose the Correct Answer:

#### 1. Membership in a cooperative organization is:

- a) Not open to all b) Selective
- c) Open to all d) None of them

#### 2. Cooperative fails because of

- a) Unlimited membership
- b) Cash trading
- c) Mismanagement
- d) Loss-making

#### 3. All cooperatives are established with

- a) Philanthropic motive
- b) Service motive
- c) Profit motive
- d) Reform motive

#### 4. Consumers Co-operation was first successful in \_\_\_\_\_

- a) England b) USA
- c) Swiss d) India

#### 5. Rochdale society of equitable pioneers was started by \_\_\_\_\_

- a) Robert owen b) H.C.Calvert
- c) Talmaki d) Lambert

### Answers

1. c 2. c 3. b 4. a 5. A

### II. Very Short Answer Questions

#### 1. What do you mean by cooperative organization?

A cooperative is a private business organisation that is owned and controlled by the people who use its products, supplies or services.

#### 2. Define Cooperatives.

Cooperation is a form of organization in which persons voluntarily associate together as human beings on the basis of equality for themselves.

- *H.Calvert*

*Or*

Cooperation is “better farming, better business and better living”

#### 3. What is Credit cooperatives?

Cooperative credit societies are those formed for the purpose of providing shortterm financial help to their members. Agriculturists, artisans, industrial workers, salaried employees, etc., form these credit societies. Being unable to obtain financial accommodation from banks they are at the mercy of money-lenders who charge exorbitant rates of interest. Ending this exploitation and encouraging thrift among members is the objective of these societies. Credit societies may be agricultural credit societies or non-agricultural credit societies.

#### 4. Who are Rochdale Pioneers?

At first, the cooperative movement was started by Robert Owen, in the year 1844. He formed a consumer's cooperative society in England with 28 workers as members, called “Rochdale Society of Equitable Pioneers”.

### III. Short Answer Questions

#### 1. What are the disadvantages of Cooperatives? (any 3)

##### i. Limited funds

Co-operative societies have limited membership and are promoted by the weaker sections. The membership fees collected is low. Therefore the funds available with the cooperatives are limited.

##### ii. Over reliance on Government funds

Co-operative societies are not able to raise their own resources. Their sources of

financing are limited and they depend on government funds.

### **iii. Imposed by Government**

In the Western countries, co-operative societies were voluntarily started by the weaker sections. But in India, the co-operative movement was initiated and established by the government.

## **2. Write a note on Housing cooperatives.**

These cooperative housing societies are meant to provide residential accommodation to their members on ownership basis or on rent. People who intend to build houses of their own join together and form housing societies.

### **3. What is meant by Producers cooperative society?**

Producer cooperatives are established and operated by producers. Producers can decide to work together or as separate entities to help increase marketing possibilities and production efficiency. They are organized to process, market, and distribute their own products.

Example,  
Cooperative weavers' societies,  
Cooperative carpentering units, Cooperative match factories

## **IV. Long Answer Questions**

### **1. What are the principles of cooperatives? (any 5)**

#### **i. Voluntary and Open Membership**

Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

#### **ii. Democratic Member Control**

Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the

cooperative—who actively participate in setting policies and making decisions.

### **iii. Member's Economic Participation**

Members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.

### **iv. Autonomy and Independence**

Cooperatives are autonomous, self-help organizations controlled by their members. If the co-operative organisation enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative's autonomy.

### **v. Education, Training, and Information**

Cooperatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.

## **2. What are the advantages of cooperative society? (any 5)**

### **i. Voluntary organization**

The membership of a cooperative society is open to all. Any person with common interest can become a member.

### **ii. Easy formation**

Cooperatives can be formed much easily when compared to a company. Any 25 members who have attained majority can join together for forming a cooperative society by observing simple legal formalities.

### **iii. Democracy**

A co-operative society is run on the

principle of 'one man one vote'. It implies that all members have equal rights in managing the affairs of the enterprise. Members with money power cannot dominate the management by buying majority shares.

#### **iv. Equal distribution of surplus**

The surplus generated by the cooperative societies is distributed in an equitable manner among members. Therefore all the members of the cooperative society are benefited.

#### **v. Limited liability**

The liability of the members in a cooperative society is limited to the extent of their capital contribution. They cannot be personally held liable for the debts of the society.

### **3. What are the types of cooperative society. (any 5)**

#### **A. Consumers Cooperatives**

Consumer cooperatives are organized by consumers that want to achieve better prices or quality in the goods or services they purchase.

#### **B. Producers Cooperatives**

Producer cooperatives are established and operated by producers. Producers can decide to work together or as separate entities to help increase marketing possibilities and production efficiency. Students' cooperative stores, Cooperative provision stores and supermarkets set up on cooperative societies of India are examples of this type.

#### **B. Producers Cooperatives**

Producer cooperatives are established and operated by producers. Producers can decide to work together or as separate entities to help increase marketing possibilities and production efficiency. Example, Cooperative weavers' societies, Cooperative carpentering units, Cooperative

match factories.

#### **C. Marketing Cooperatives**

Cooperative marketing societies are associations of small producers formed for the purpose of marketing their produce. The marketing cooperatives perform certain marketing functions such as grading, warehousing, advertising etc.,

#### **D. Credit Cooperatives**

Cooperative credit societies are those formed for the purpose of providing shortterm financial help to their members. Agriculturists, artisans, industrial workers, salaried employees, etc., form these credit societies. Credit societies may be agricultural credit societies or non-agricultural credit societies.

#### **E. Housing Cooperatives**

These cooperative housing societies are meant to provide residential accommodation to their members on ownership basis or on rent.



## UNIT II FORMS OF BUSINESS ORGANISATION

CHAPTER  
**8**

### MULTI NATIONAL CORPORATIONS (MNCs)



#### I. Choose the Correct Answer

**1. A Multinational Corporation can be defined as a firm which**

- a) is beyond the control of any government
- b) is one of the top 200 firms in the world
- c) owns companies in more than one country
- d) All the above

**2. Centralised control in MNC's implies control exercised by**

- a) Branches
- b) Subsidiaries
- c) Headquarters
- d) Parliament

**3. Enterprises operating in several countries but managed from one country is termed as \_\_\_\_\_**

- a) Government company
- b) Multinational Company
- c) Private company
- d) Joint Venture

**4. Dispersal of decision making power to branches/affiliates/subsidiaries by head office represents \_\_\_\_\_**

- a) Centralisation b) Decentralisation
- c) Power d) Integration

**5. Coca-Cola company is an example of \_\_\_\_\_**

- a) MNC b) Government company
- c) Joint Venture d) Public company

#### Answers

1. c 2. c 3. b 4. b 5. A

#### II. Very Short Answer Questions

**1. Define Multinational Company.**

“A multinational corporation owns and

manages business in two or more countries.” -

*Neil H. Jacoby*

**2. Write any two advantages of MNC's.**

#### i. Low Cost Labour

MNC set up their facilities in low cost countries and produce goods/service at lower cost. It gains cost advantage and sells its products and services of good quality at low cost.

#### ii. Quality Products

MNCs research and development system which helps it in producing quality goods and services at least possible cost.

**2. Give two examples of MNC's.**

Bata Corporation - Bata India

Colgate Palmolive- Colgate India

#### III. Short Answer Questions

**1. Name the type of business enterprises which operates in more than one country.**

- 1. Microsoft corporation 2. Nokia corporation
- 3. Coca – cola 4. Sony corporation

**2. Write any three Indian MNC's**

Micromax

Informatics,

Hero

Motocorp,

Bajaj Pune

#### III. Long Answer Questions

**1. What are the advantages of MNC's? (any 5)**

#### i. Low Cost Labour

MNC set up their facilities in low cost countries and produce goods/service at lower cost. It gains cost advantage and sells its products and services of good quality at low cost.



**ii. Quality Products**

MNCs research and development system which helps it in producing quality goods and services at least possible cost.

**iii. Proper Use of Idle Resources**

MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country

2. What are the disadvantages of MNC's? (any 5)

**i. Low Cost Labour**

MNC set up their facilities in low cost countries and produce goods/service at lower cost. It gains cost advantage and sells its products and services of good quality at low cost.

**ii. Quality Products**

MNCs research and development system which helps it in producing quality goods and services at least possible cost.

**iii. Proper Use of Idle Resources**

MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country

**UNIT II FORMS OF BUSINESS ORGANISATION**

 CHAPTER  
**9**
**GOVERNMENT ORGANISATION**
**I. Choose the Correct Answer**

**1. The share capital of the government company must not be less than**

- a) 75 % b) 60 %  
c) 95 % d) 51 %

**2. The oldest form of organisation in public sector**

- a) Public Sector Undertakings  
b) Departmental Undertakings

- c) Multi National Corporations  
d) Statutory Corporation

**4. A Government company purchases shares in the name of**

- a) Prime Minister  
b) President  
c) Chief Justice of India  
d) State Chief Minister

**5. The primary objective of the state enterprises is to \_\_\_\_\_**

- a) Earn profit  
b) Provide Employment  
c) Serve the People  
d) All the Above

**Answers**

1. d 2. b 3. b 4. C

**II. Very Short Answer Questions**

**1. Give two examples of Public Corporation.**

Food  
Corporation of  
India (FCI),  
ONGC

**2. Give two examples of Departmental Undertaking.**

Indian Railway, Department of Food and Public Distribution

### 3. What is meant by Red-Tapism?

#### Red-tapism

There is too much of procedures which results in delay. Commercial organisation cannot afford delay in taking decisions

### III. Short Answer Questions

#### 1. What is meant by Departmental undertakings.

Department form of organisation of managing state enterprises is the oldest form of organisation. In those days, no distinction was made between the routine functions of the Government and that of the public enterprises. Therefore, most of the early state owned enterprises were the best examples of the departmental form of organisation. Under departmental form of organisation, a public enterprise is run as a separate full-fledged ministry or as a major sub-division of a department of the Government.

For example, the Indian Railways are managed by the Ministry of Railways. Post and Telegraph services are run as a department, under the Ministry of Communication. The Delhi Milk Scheme, All India Radio, Doordarshan are other examples of departmental undertakings.

#### 2. What is meant by Government Company?

A "Government company" is defined under Section 2(45) of the Companies Act, 2013 as "any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company".

### 3. What is meant by Public Corporations?

A public corporation is that form of public enterprise which is created as an autonomous unit, by a special Act of the Parliament or the State Legislature.

Since a public corporation is created by a Statute; it is also known as a statutory corporation.

The Statute defines the objectives, powers and functions of the public corporation. Life Insurance Corporation of India, the Indian Airlines, the Air India International, Oil and Natural Gas Commission etc. are some examples of public corporations in India.

### IV. Long Answer Questions

#### 1. What are the advantages of Departmental undertaking? (any 5)

##### Advantages

Following are the advantages of the departmental undertaking.

##### i. Easy Formation

It is easy to set up a departmental undertaking. The departmental undertaking is created by an administrative decision of the Government, involving no legal formalities for its formation.

##### ii. Direct and Control of Parliament or State Legislature

The departmental undertaking is directly responsible to the Parliament or the State legislature through its overall head i.e. the minister concerned.

##### iii. Secrecy Maintained

Strategic industries like defence and atomic power cannot be better managed other than government departments. Department undertakings can maintain secrecy in their working.

##### iv. Lesser Burden of Tax on Public

Earnings of departmental undertaking are

entirely paid into Government treasury, resulting in lesser tax burden on the public.

#### **v. Instrument of Social Change**

Government can promote economic and social justice through departmental undertakings. Hence, a departmental undertaking can be used by the Government, as an instrument of social change.

### **2. What are the features of Public Corporations? (any 5)**

#### **Features of Public Corporation**

##### **i. Special Statute**

A public corporation is created by a special Act of the Parliament or the State Legislature.

The Act defines its powers, objectives, functions and relations with the ministry and the Parliament (or State Legislature).

##### **ii. Separate Legal Entity**

A public corporation is a separate legal entity with perpetual succession and common seal. It has an existence, independent of the Government. It can own property; can make contracts and file suits, in its own name.

##### **iii. Capital Provided by the Government**

The capital of a public corporation is provided by the Government or by agencies controlled by the government. However, many public corporations have also begun to raise money from the capital market.

##### **iv. Financial Autonomy**

A public corporation enjoys financial autonomy. It prepares its own budget; and has authority to retain and utilize its earnings for its business.

##### **v. Management by Board of Directors**

Its management is vested in a Board of Directors, appointed or nominated by the Government. But there is no Governmental

interference in the day-to-day working of the corporation.

### **3. What are the features of Government Company? (any 5)**

#### **Features of Government Company**

##### **i. Registration Under the Companies Act**

A Government company is formed through registration under the Companies Act, 1956; and is subject to the provisions of this Act, like any other company. However, the Central Government may direct that any of the provisions of the Companies Act shall not apply to a Government company or shall apply with certain modifications.

#### **List of Public Corporations and their Logo**

Food  
Corporation of  
India (FCI)  
New Delhi  
ONGC New Delhi  
Tourism  
Corporation of  
India  
New Delhi

##### **ii. Executive Decision of Government**

A Government company is created by an executive decision of the Government, without seeking the approval of the Parliament or the State Legislature.

##### **iii. Separate Legal Entity**

A Government company is a legal entity separate from the Government. It can acquire property; can make contracts and can file suits, in its own name.

##### **iv. Whole or Majority Capital Provided by Government**

The whole or majority (at least 51%) of the capital of a Government company is provided by the Government; but the revenues of the company are not deposited

into the treasury.

#### **v. Majority of Government Directors**

Being in possession of a majority of share capital, the Government has authority to appoint majority of directors, on the Board of Directors of a government company

- (a) PNB
- (b) SBI
- (c) ICICI
- (d) RBI

#### **3. The Reserve Bank of India commenced its operations from April 1,**

- (a) 1936
- (b) 1935
- (c) 1934
- (d) 1933

#### **4. Bankers are not only dealers of money but also leaders in**

- (a) Economic development
- (b) Trade development
- (c) Industry development
- (d) Service development

#### **5. Which of the following is not a function of a central bank?**

- (a) Guiding and regulating the banking system of a country
- (b) Deal with the general public
- (c) Acts essentially as Government banker
- (d) Maintains deposit accounts of all other banks

#### **Answers**

1. (a) 2. (d) 3.(b) 4.(a) 5. (b)

#### **II. Very Short Answer Questions**

##### **1. What are the services included in Service businesses?**

1. Banking service 2. Insurance service  
3. Transportation services 4. Communication service  
5. Warehousing service 6. Advertising service

##### **2. Write the meaning of 'Bank'.**

According to Banking Regulation Act 1949, "Banking means the accepting for the purpose of lending or investment of deposits of money from the public,

#### **UNIT III SERVICE BUSINESS - I**

##### **CHAPTER 10 RESERVE BANK OF INDIA**



#### **I. Choose the Correct Answer**

##### **1. Which bank has the power to issue bank notes?**

- (a) Central bank
- (b) Commercial bank
- (c) Co-operative banks
- (d) Foreign banks

##### **2. The Central bank of India is**

repayable on demand or otherwise and withdrawable by cheque, draft, pay order or otherwise”.

### 3. Briefly explain about Central Bank

According to Banking Regulation Act 1949, “Banking means the accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, pay order or otherwise”.

### III. Short Answer Questions

1. What are the functions of RBI? (any 3)

#### Functions of RBI

The functions of the RBI can be grouped under three heads.

- A. Leadership and Supervisory Functions
- B. Traditional Functions and
- C. Promotional Functions.

#### A. Leadership and Supervisory Functions

India being the fastest growing economy in the world, India is expected to play a major role in the world affairs by many countries. RBI being the banking institutional head of India has to be a part of global institutions. It has to transform the quality and size of banks in India to the level of banks in developed countries. Such functions get prominence in current scenario.

#### 1. India's Representative in World Financial Institutions

In order to maintain consistency and harmony with international banking standards the RBI is associated with Basel Committee on Banking Supervision (BCBS, Switzerland) since 1997. RBI represents Government of India in International Bank for Reconstruction and Development (IBRD i.e. World Bank) and International Monetary Fund (IMF) in

which India is a member since December 27, 1945.

#### 2. Regulator and Supervisor of Indian Banking System

The broad guidelines for all banking operations in the country are formulated by the RBI. The RBI has power to issue licenses, control and supervise commercial banks under the RBI Act, 1934 and the Banking Regulation Act, 1949. It conducts inspection of the commercial banks and calls for returns and other necessary information from them.

#### 3. Monetary Authority

The RBI formulates, implements and monitors the monetary policy of the country in order to maintain price stability, controlling inflationary trends and economic growth. It provides advice to the Government concerning agricultural finance, resource mobilization for implementing plans and legislation affecting banking and credit and international finance.

#### 2. Explain the origin of RBI.

The Imperial Bank of India carried out the note issue and other functions of the central bank. In 1926 the Hilton-Young Commission or the Royal Commission on Indian Currency and Finance (J. M. Keynes and Sir Ernest Cable were its members) made recommendation to create a central bank. As a result, the RBI Act 1934 was passed and RBI launched its operations from April 1, 1935. RBI was established with a share capital of ₹5 crores divided into shares of ₹100 each fully paid up. The entire share capital was owned by private shareholders. Its head office was in Calcutta and moved to Mumbai in 1937.

After independence, the Government of India passed Reserve Bank (Transfer to



Public Ownership) Act, 1948 and took over RBI after paying appropriate compensation to the private shareholders. From January 1, 1949, RBI started functioning as a government owned central bank of India. It had three departments. The RBI was the central bank of Burma until 1947, and the central bank of Pakistan until June 1948.

### 3. Who are the persons involved in RBI administration?

The RBI is governed by a Central Board of Directors. The 21 member board is appointed by the Government of India. It consists of;

- a. one governor and four deputy governors appointed for a period of four years,
- b. ten directors from various fields
- c. two Government officials
- d. four directors - one each from local boards.

## IV. Long Answer Questions

### 1. Classify the various functions of Reserve Bank of India. (any 5)

#### Functions of RBI

The functions of the RBI can be grouped under three heads.

- A. Leadership and Supervisory Functions
- B. Traditional Functions and
- C. Promotional Functions.

#### A. Leadership and Supervisory Functions

India being the fastest growing economy in the world, India is expected to play a major role in the world affairs by many countries.

RBI being the banking institutional head of India has to be a part of global institutions.

It has to transform the quality and size of banks in India to the level of banks in developed countries. Such functions get prominence in current scenario.

### 1. India's Representative in World

#### Financial Institutions

In order to maintain consistency and harmony with international banking standards the RBI is associated with Basel Committee on Banking Supervision (BCBS, Switzerland) since 1997. RBI represents Government of India in International Bank for Reconstruction and Development (IBRD i.e. World Bank) and International Monetary Fund (IMF) in which India is a member since December 27, 1945.

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### 3. Monetary Authority

The RBI formulates, implements and monitors the monetary policy of the country in order to maintain price stability, controlling inflationary trends and economic growth. It provides advices to the Government concerning agricultural finance, resource mobilization for implementing plans and legislation affecting banking and credit and international finance.

### 4. Closely Monitoring Economic Parameters

Broad economic parameters such as employment level, price levels and production levels, trade cycles, foreign investment flows, balance of payments, financial markets, etc., are closely monitored by the RBI in order to achieve economic stability and growth. The Board of Financial Supervision (a committee of

the Central Board of Directors) of the RBI meets at least once in a month (at times every day) to closely monitor all these current developments in the country.

### **5. Promptly Responding to New Challenges**

Whenever challenges arose before Indian Banking System, RBI promptly attend them by issuing Master Circulars and by organising committees to analyse, review and strengthen Indian Banking. A wealth of information can be found in every Master Circular or committee report. Example: Gopalakrishnan Committee on “Information security, Electronic Banking”, April, 2010

## **B. Traditional Functions**

### **1. Banker and Financial Advisor to the Government**

The RBI accepts money into the Central and State Governments’ accounts and make payments on their behalf. It manages Government debt and is responsible for issue of new loans. It advises the government on the quantum, timing and terms of new loans. It provides ‘ways and means advances’ to the Governments to tide over temporary financial needs. It takes up the responsibility of investment of the surplus Government funds. Inter Government and inter departmental account adjustments are carried out by the RBI.

### **2. Monopoly of Note Issue**

The RBI is the sole authority for the printing and issue of all currency notes in India except one rupee note. It is the duty of the RBI to ensure that sufficient number of good quality currency notes is available to the public. It exchanges currency and coins not fit for circulation. One rupee note and all coins are issued by the Ministry of Finance. Currency notes are printed at Nasik, Dewas, Salboni, Mysore and Hoshangabad. (Currency notes are never printed outside India).

### **3. Banker’s Bank**

The relationship between RBI and other banks in the country is just like the relationship of a commercial bank with its customers. The RBI maintains the current accounts of all commercial banks in the country. All scheduled banks should deposit a percentage of cash reserve with RBI. All banks can receive loans from RBI by rediscounting of bills and against approved securities.

### **4. Controller of Credit and Liquidity**

Controlling the credit money in circulation and the interest rate in the country is a major function of RBI. For this purpose, the RBI uses quantitative and qualitative methods of credit control. Ensuring the availability of sufficient cash and credit (liquidity) for business transactions and investment purposes in the economy is the responsibility of RBI.

## **UNIT III SERVICE BUSINESS - I**

### **CHAPTER 11**

### **TYPES OF BANKS**



## **I. Choose the Correct Answer**

### **1. Which bank is not a Industrial Bank?**

- (a) ICICI
- (b) HSBC
- (c) SIDBI
- (d) IDBI

### **2. The Local Area Banks are promoting**



- (a) Rural savings
- (b) Business savings
- (c) Industrial development
- (d) Agricultural development

### 3. Foreign banks are begun their operation since

- (a) 1978
- (b) 1979
- (c) 1980
- (d) 1981

#### Answer

1. (b) 2. (a) 3. (c)

## II. Very Short Answer Questions

### 1. Give the meaning of Commercial Banks.

Banks which accept deposits from the public and grant loans to traders, individuals, agriculture, industries, transport, etc. in order to earn profit. They also provide other services like remittance of funds, safe keeping of valuables, collection of cheques, issue of letters of credit, etc.

#### Examples:

- i. State Bank of India
- ii. Karur Vysa Bank
- iii. Standard Chartered Bank

### 2. What do you mean by Industrial Banks.

Huge finance required for investment, expansion and modernisation of big industries and others are granted by a separate type of banks called development Banks. They are also called industrial banks.

Their aim is to develop the country and create employment opportunities.

Finance is provided by them for medium

and long terms ranging from five to twenty years.

### 3. What are Foreign Banks?

Banks which have registered office in a foreign country and branches in India are called foreign banks

#### Examples:

- i. Bank of America - The USA
- ii. Barclays Bank - The UK
- iii. Deutsche Bank – Germany

## III. Short Answer Questions

### 1. Write a short note on Local Area Banks. Give two examples.

Local Area Bank (LAB) scheme was introduced by the RBI in August 1996. LABs are small private sector banks established in rural and semi-urban areas. Each bank serves two or three adjoining districts only. Their main objective is to mobilise rural savings (accept deposits) and invest them in the same areas. They have to follow the priority sector lending targets, including the targets on loans to weaker sections.

#### Exmaples:

- i. Coastal Local Area Bank, Vijayawada, Andhra Pradesh.
- ii. Krishna Bhima Smruddhi Local Area Bank, Mahabubnagar, Telangana

### 2. What are the objectives involved in Regional Rural Banks?

Their objective is to develop rural economy and play supplementary role to cooperative societies. They mobilise deposits from the rural public and provide finance to rural artisans, small entrepreneurs and farmers and try to avoid their dependency on money lenders. Give two examples.

- i. Pallavan Grama Bank, Salem, Tamil Nadu

- ii. Pandian Grama Bank, Thirumangalam, Madurai District, Tamil Nadu

#### IV. Long Answer Questions

##### 1. Explain the various types of banks based on the Functions. (any 5)

##### A. Based on the functions of banks

##### 1. Central Bank

##### 2. Commercial Banks

Banks which accept deposits from the public and grant loans to traders, individuals, agriculture, industries, transport, etc. in order to earn profit. Their lending is in comparatively small amounts and mostly for short and medium period. They also provide other services like remittance of funds, safe keeping of valuables, collection of cheques, etc., issue of letters of credit, etc. They operate with a head office and a network of branch offices spread throughout the country. They also issue guarantees to businessmen. When a businessman or industrialist buys machinery on credit or applies for a big contract bank guarantees that in case the customer fails the bank will make the payment.

##### Examples:

- i. State Bank of India
- ii. Karur Vysa Bank
- iii. Standard Chartered Bank

##### 3. Development Banks

Huge finance required for investment, expansion and modernisation of big industries and others are granted by a separate type of banks called development Banks. They are also called industrial banks.

The objective of development banks is not profit. Their aim is to develop the country and create employment opportunities. Finance is provided by them for medium and long terms ranging from five to twenty

years. Development banks do not accept deposits from the public. They subscribe the shares and debentures of the industries. They provide technical and managerial consultancy services to industrialists. IDBI Bank established as the apex development bank in 1964 and was transformed into public sector commercial bank in 2004. Currently it performs both development bank and commercial bank functions. Its name changed into IDBI Bank Limited in 2008. When a development bank is established for the development of agriculture industry it is called agricultural development bank. National Bank for Agriculture and Rural Development is such a bank

##### Examples:

- i. Industrial Finance Corporation of India - IFCI
- ii. Small Industries Development Bank of India - SIDBI
- iii. MUDRA bank (for the development of micro industries)

##### 4. Cooperative Banks

All cooperative banks in India are owned by its customers or members who are farmers, small traders and others. Cooperative banks in India are either urban based or rural based. Rural cooperative banking structure in India has three tier structure for short term loans and two tier structure for long term loans (refer chart). For both these structures the apex body is National Bank for Agricultural and Rural Development -

NABARD. All cooperative banks in Tamil Nadu are registered under Tamil Nadu Cooperative Societies Act 1983. They are controlled by both RBI and the State Government. Their foremost objective is providing service to its members for rural and agricultural development and not profit earning. They are set up in towns and villages rather than cities. Compared to the commercial banks they offer less variety of services as the bye laws do not permit all commercial bank activities.

National Cooperative Development Corporation (NCDC) established in 1963 is providing loans and grants to State Governments for financing cooperative societies.

NCDC concentrates on projects like water conservation, irrigation, agri-insurance, rural sanitation, etc.

**Examples:**

- i. National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) was set up in 1958 and registered under the Multi State Cooperative Societies Act.
- ii. Tamil Nadu State Apex Cooperative Bank - Head Office, Chennai
- iii. Madurai District Central Cooperative Bank Ltd.
- v. Batlagundu Cooperative Urban Bank Ltd. Dindigul District

### 5. Foreign Banks

Banks which have registered office in a foreign country and branches in India are called foreign banks. These banks open their offices in big cities and port towns only. Mostly they serve the interests of the multinational companies, employees and other business institutions. Their profitability is higher than Indian banks. In 2017, there were 42 Foreign Banks in India and all of them were scheduled banks. They have to oblige both their home country banking regulations and the RBI regulations.

**Examples:**

- i. Bank of America - The USA
- ii. Barclays Bank - The UK
- iii. Deutsche Bank – Germany

### 2. Explain the types of banks based on Ownership pattern.

#### BANKS OWNED BY GOVERNMENT

Any bank in which not less than 51 percent ( MORE THAN 51 %) of shares are owned by the Government are called

Government banks or public sector commercial banks.

All nationalized banks (19 banks, in 2017), SBI and IDBI Ltd. are public sector commercial banks. Each corporation type bank is established by a separate Act of Parliament and is fully owned by Government of India.

#### BANKS OWNED BY PRIVATE PEOPLE

IFCI, SIDBI, EXIM Bank, etc.

All banking companies owned by private people are called private sector commercial banks.

Their objective was to earn more profits. Government paid the share capital of those banks to the private owners and took over as Government banks.

**Nationalised Banks:** Indian bank, Indian Overseas Bank, Oriental Bank of Commerce.

**Public Sector Banks:** State Bank of India, IDBI Bank Ltd. and all nationalized banks

**Private Sector Banks:** Lakshmi Vila Bank, Karur Vysya Bank, Kotak Mahindra bank

### UNIT III SERVICE BUSINESS - I

#### CHAPTER 12 FUNCTIONS OF COMMERCIAL BANKS



#### I. Choose the Correct Answer

1. Electronic banking can be done through
  - (a) Computers (b) Mobile phones
  - (c) ATM (d) All of the above
2. Minimum how much amount can be transferred through RTGS?
  - (a) Any amount (b) 50,000
  - (c) 2 lakh (d) 5 lakh

3. The largest commercial bank of India  
(a) ICICI (b) SBI  
(c) PNB (d) RBI

4. In which kind of account, it is compulsory to deposit certain amount at certain time?  
(a) Saving deposit  
(b) Fixed deposit  
(c) Current deposit  
(d) Recurring deposit

5. Which of the following is not a type of advance provided by commercial bank?  
(a) Collecting and supplying business information  
(b) Overdraft  
(c) Cash credit  
(d) Discounting of bills

### Answers

1. d 2. c 3. b 4. d 5. a.

### II. Very Short Answer Questions

#### 1. What is Mobile Banking?

Most of the commercial banks have designed computer programs called apps which can be downloaded in smartphones. With this app in the smartphone a customer can operate his account transactions from anywhere. This service is known as mobile banking.

#### 2. Write a short notes on Debit card.

ATM card is also called debit card. This card is more useful in purchase of goods and services anywhere in India, if the shop maintains a swiping machine facility. VISA card and Maestro card services are offered.

#### 3. Write a short notes on Credit card.

Banks issue credit cards to customers

and other eligible persons. With this card, the holder can purchase goods and services on credit at any shop in India

#### 4. What do you mean by ATM?

A customer can withdraw money anytime, anywhere in India from the ATM machine using the ATM card given by his/her bank.

### III. Short Answer Questions

#### 1. What is E-Banking?

1. Banking through internet is known as EBanking or internet banking.  
2. Transfer of fund directly from one account to another, rather than by cheque or cash. This facilitates the customer in Transfer of funds, Online payment, Account enquiry, Request for statement, etc.,  
3. E- banking comprises of - NETF, RTGS, ECS, CORE BANKING, Mobile banking

#### 2. Write a short note on – RTGS.

It was launched by the RBI in 2013. The transactions are settled on real time basis. Gross settlement means the transaction is settled between one bank and another bank without adding any other transactions.

#### 3. Explain – NEFT.

This was launched by the RBI in 2005. Under this electronic funds transfer system, bulk transfer of transactions are settled in batches during specific timings across India. Individuals and institutions which maintain accounts with a NEFT enabled bank branch are eligible for using NEFT.

### IV. Long Answer Questions

1. Discuss the various primary functions performed by the Commercial Banks. (any 5)

The primary functions of a commercial bank

are of three types. They are:

- I. Accepting Deposits
- II. Granting Loans and Advances.
- III. Creation of Credit

### **I. Accepting Deposits**

The basic deposit accounts offered by commercial banks are listed below. In these days banks compete with each other to attract customers by adding facilities to these deposit accounts. Broadly deposit accounts can be classified into demand deposits and time deposits.

#### **1. Savings Deposits**

General public deposit their savings into this account. This account can be opened in one individual's name or more than one name.

#### **2. Current Deposits**

This account is suitable for business institutions. Individuals too can open this account. A higher minimum balance should be kept in this account.

### **B. Time Deposits**

#### **1. Fixed Deposits (FD)**

Certain amount is deposited for a fixed period for a fixed rate of interest. FDR (fixed deposit receipt) is given to the depositor. Rate of interest is higher than savings account.

#### **2. Recurring Deposits (RD)**

Certain sum is deposited into the account every month for one year or five years or the agreed period. Interest rate is more than savings deposits and almost equal to fixed deposits.

### **II. Granting Loans and Advances**

#### **A. Advances**

##### **1. Overdraft**

It is a credit facility extended mostly to current account holding business community customers. It is an arrangement

reached between the banker and the credit worthy customers.

Such customers are allowed to overdraw (when there is no balance money in the account) up to a certain amount usually for 3 months period.

#### **2. Cash Credit**

It is a secured credit facility given mostly to business institutions. Stock in hand, raw materials, other tangible assets, etc. are provided as collateral.

A certain sum is allowed as credit for a short period. Interest is payable on the actual amount withdrawn and not on the entire credit facility. It is repayable on demand.

#### **3. Discounting of Bills**

Business customers approach banks to discount the commercial bills of exchanges and provide money. It is a short term credit instrument.

### **B. Loans**

Short term and medium term loans are provided by commercial banks against eligible collaterals to business concerns.

#### **1. Housing Loan**

Taking the title deeds of the house as collateral security, based on the monthly income of the borrowing customer, banks advance medium and long term loans.

#### **2. Consumer Loans**

Consumer durables like refrigerator, air conditioner, laptop, washing machine, television, etc. can be purchased by customers with consumer loans from banks.

#### **3. Vehicle Loans**

Two wheelers, cars, buses and other vehicles can be purchased by individuals as well as institutions obtaining vehicle loans from the banks.



#### 4. Educational Loan

Loan is provided by banks to students for studying undergraduate, post graduate or professional courses. Loan may be received in instalments to pay the educational fees every year. After completion of the course one year is allowed for the student to get employed.

#### 5. Jewel Loan

Customers pledge their gold jewels and obtain loans from banks.

### III. Creation of Credit

Apart from the currency money issued by the RBI, the credit money in circulation created by commercial banks influence economic activities of a country to a large extent.

#### 2. Explain the various secondary functions of Commercial banks. (any 5)

##### I. Agency Functions

##### 1. Transfer of Funds

Banks issue demand drafts, bankers' cheques, travelers' cheques, etc. and help in transfer of funds from one place to another.

Customers need not carry cash.

##### 2. Periodic Payment of Premiums, Rent, etc.

After instruction from the customers, banks undertake the monthly payment of insurance premium, rent, telephone bill, etc. from the accounts of customers.

##### 3. Collection and Payment of Cheques

On behalf of customers bank collect the cheques deposited into the accounts of customers from other banks and deposit cash in the customers' accounts.

Similarly cheques issued by a customer is honoured and the amount paid as directed by the customer.

##### 4. Acting as Executors, Trustees and Attorneys

Banks act as executors of will of the customers and implement their will after their death. As a trustee a bank takes care of the funds of the customers.

Banker signs transfer deed of the properties of the customers in the capacity of attorney to customers.

#### 5. Conduct Share Market Transactions

A Demat account should be opened with Depository Participant and that demat account should be linked with savings bank account by the customer.

Then the customer can ask the bank to conduct online purchase or sale of securities, on behalf him.

#### 6. Preparation of Income Tax Return

Banks prepare the annual income tax return on behalf of the customers and provide income tax related advices to them.

#### 7. Dealing in Foreign Exchange

Banks buy and sell foreign currencies on behalf o customers.

#### 8. Acting as Correspondent

Banks act as correspondent of customers and receive travel ticket, passport, etc.

### UNIT III SERVICE BUSINESS - I

#### CHAPTER 13 WAREHOUSING



#### I Choose the Correct Answer

##### 1. Warehouses remove the hindrance of \_\_\_\_\_

- a) Person
- b) Time
- c) Risk
- d) Knowledge

##### 2. A warehouse holds goods as a \_\_\_\_\_ center.

- a) Marketing b) sorting
- c) distribution d) selling

3. \_\_\_\_\_ can be given as a collateral security for getting financial assistance from bank.

- a) Dock warrant
- b) Warehouse receipt
- c) Dock receipt
- d) Warehouse warrant

4. \_\_\_\_\_ warehouses are licensed by the government and are permitted to accept the goods on bond.

- a) Bonded b) Cold Storage
- c) Public d) All the Above

5. \_\_\_\_\_ warehouses are used for storing perishable goods like fruits, vegetables etc.

- a) Bonded b) Private
- c) Cold storage d) Co-operative

#### Answers

1. b 2. c 3. d 4. a 5. c 6. C

#### II Very Short Answer Questions

1. What is Warehouse?

It is a place where goods are stored for future use and act as distribution centres.

2. List the various types of warehouses.

##### I. On the basis of ownership

1. Private warehouses 2. Government warehouses 3. Public warehouses 4. Cooperative warehouses

##### II. On the basis of commodities stored

1. General warehouses 2. Special commodity Warehouses

3. Give any two functions of warehouses.

- (i) Storage
- (ii) Price Stabilization
- (iii) Equalization of Demand and Supply

4. Give a note on FCI.

The FCI was set-up under the Food Corporation Act 1964.

It provide storage facilities for food grains

#### III Short Answer Questions

1. Differentiate the warehouse warrant from the warehouse receipt. (any 3)

<b>Warehouse Warrant</b>	*
<b>Warehouse Receipt</b>	

- 1. It is a document of title of goods  
It is not a document of title of goods
- 2. It can be negotiated or transferred to others  
It cannot be transferred to others
- 3. It can be given a collateral security for getting financial assistance  
It cannot be given as collateral security.

2. Explain Cold storage warehouse.

Goods are transported in refrigerated containers and stored in refrigerated warehouses. These warehouses are used for storing perishable goods like fruits, vegetables, eggs, butter, fish, meat, etc. Goods stored in cold storages without deterioration in quality, can be made available throughout the year.

#### IV. Long Answer Questions

1. Explain the different types of warehouses. (any 5)

A. On the Basis of Ownership

- (a) Private Warehouses
- (b) Government Warehouses
- (c) Public Warehouses
- (d) Co-operative Warehouses
- (e) Bonded Warehouses
- (f) Institutional Warehouses

(g) Distribution Centre Warehouses  
B. On the Basis of Commodities Stored

- (a) General Warehouses
- (b) Special Commodity Warehouses
- (c) Cold Storages or Refrigerated Warehouses



## (d) Climate Controlled Warehouses

**A. On the Basis of Ownership****a. Private Warehouses**

Private warehouses are built and owned by private business enterprises in order to store the products produced by them.

**b. Government Warehouses**

They are created and operated by the Government to implement the programmes of the Government.

**c. Public Warehouse**

It is open for public at large. Most of the business organisations, especially small and medium scale units cannot afford to have their own warehouses.

**d. Co-operative Warehouses**

There are warehouses owned and managed by the marketing co-operative societies or agricultural co-operative societies.

**B. On the Basis of Commodities Stored****a. General Warehouses**

They are ordinary warehouses which are useful for storing most of the dry food grains, fertilisers, etc. Protective measures against rat, insects, etc. are undertaken by them.

**b. Special Commodity Warehouses**

These warehouses are specially constructed for storing specific type of commodities like tobacco, cotton, wool etc.

**c. Cold Storages or Refrigerated Warehouses**

Goods are transported in refrigerated containers and stored in refrigerated warehouses.

**2. Explain the advantages of warehousing functions.**

1. It safeguards the stock of the merchants who do not have storing place.

2. Warehouses reduce distribution cost of the traders by storing the goods in bulk and allow the trader to take the goods in small lots to his shop.

3. It helps in selection of channel of distribution. The producer will prefer whether to appoint a wholesaler or retailer.

4. It assists in maintaining the continuous sales and avoids the possibilities of “out of stock” position.

5. It creates employment opportunities for both skilled and unskilled workers, to improve their standard of living.

**UNIT III SERVICE BUSINESS - I**CHAPTER  
**14****TRANSPORTATION****I. Choose the Correct Answer****1. Transport removes the hindrance of**

- a. Time
- b. Place
- c. Person
- d. Knowledge

**2. Air consignment note is prepared in \_\_\_\_\_ forms**

- a. One b. Two.
- c. Three d. Four

**3. \_\_\_\_\_ is a document acknowledging the receipt of goods by a carrier**

- a. Waybill
- b. Consignment note
- c. Charter party
- d. Bill of lading

**4. Which is the fastest means of transport?**

- a. Rail b. Road
- c. Sea d. Air

Answers

1. b 2. c 3. a 4. D

**II. Very Short Answer Questions**

1. Define Transport.

According to K.K. Sexena, “the transport system acts with reference to the area it serves in the same way as a candle does in a dark room”.

2. State any two services rendered by transport.

- a) It increases the efficiency of production
- b) It develops and expands the market

3. Write any two advantages of water transport.

- a) It is cheapest mode of transport
- b) It is most suitable for heavy loads.

**III. Short Answer Questions**

1. What is bill of lading?

Bill of Lading is a document containing the terms and conditions of the contract of carriage

2. What is Charter Party?

When goods are to be consigned in large quantity, it is advantageous to hire the whole or substantial part of the ship. The document through which this contract is made is known as ‘Charter Party’

**IV. Long Answer Questions**

1. Explain different types of transport. (any 5)

**A. Surface Transport**

Transport of people and goods by land vehicles is known as Surface transport. It is also called as ‘Land Transport’.

**1. Pack Animals**

Animals like horse, mule, donkey camel, and elephant etc., are used for carrying small loads in backward areas, hilly tracks, forest regions and deserts known as pack animals.

**2. Bullock Carts**

It constitutes the predominant form of rural road transport in India for goods traffic and to some extent for passengers’ traffic.

**3. Road Transport**

Road Transport is one of the most promising and potent means suitable for short and medium distances.

**B. Water Transport**

“Water is a free gift of nature’.

- (i) Inland Waterways
- ii). Ocean Waterways

**(i) Inland Waterways**

Inland Waterways comprise of rivers, canals and lakes. It is also known as internal water transport.

**Types of Ocean Transport**

**a) Coastal shipping**

Coastal shipping constitutes an important means of transport in all countries having a long coastline.

**b) Overseas shipping**

It means the passengers’ and goods have to cross ocean. Example India export goods to America.

**Ocean going ships may also be divided into two, namely Liners and Tramps:**

rainy or shinny weather conditions.

### (i) Liner

An ocean liner is a passenger ship primarily used as a form of transportation across seas or oceans.

### (ii) Tramps

Tramps are essentially cargo vessels. They have no set routes. They do not follow any timetable

### C. Air Transport

Air transport is the fastest and the costliest mode of transport.

Air travel can be grouped into two general classifications: national/domestic and international flights.

### Advantages of Air Transport

- It provides a regular, convenient, efficient and quick service.
- Perishable goods like fruits, vegetables, egg, meat, etc., can be transported quickly.
- It does not require huge investment for construction and maintenance of track like railways.

### 2. Discuss the advantages of Railway transport. (any 5)

- Railways are well suited for carrying heavy and bulky goods over long distances.
- It can provide long distance travel throughout the day and night with unbroken services.
- It can provide better production and safety to the goods than motor transport. The goods generally carried in closed wagons are not exposed to sun, rain etc.
- Though initial investment is large, in the long run the operating expenses will be very low in railways and it will prove a cheaper mode of transport. It requires less time than motor transport for carrying goods over long distance with greater speed
- It has regular schedule of timing and is available throughout the year.
- It provides unaffected services whether

### UNIT III SERVICE BUSINESS - I

#### CHAPTER 15 INSURANCE



### I. Choose the Correct Answer

#### 1. The basic principle of insurance is

- Insurable Interest
- Co-Operation
- Subrogation
- Proximate causa

#### 2. \_\_\_\_\_ is not a type of general insurance

- Marine Insurance
- Life Insurance
- Fidelity Insurance
- Fire Insurance

#### 3. Which of the following is not a function of insurance?

- a) Lending Funds
- b) Risk sharing
- c) Capital formation
- d) Protection of life

**4. Which of the following is not applicable in insurance contract?**

- a) Unilateral contract
- b) Conditional contract
- c) Indemnity contract
- d) Inter-personal contract

**5. Which one of the following is a type of marine insurance?**

- a) Money Back Policy
- b) Cargo Insurance
- c) Hull Insurance
- d) both b & c

#### Answers

**1. a 2. b 3. d 4. c 5. D**

#### II. Very Short Answer Questions

**1. List any five important types of policies.**

- i) Whole Life Policy
- ii) Endowment Life Assurance Policy
- iii) Joint Life Policy (JLP)
- iv) Annuity Policy
- v) Children's Endowment Policy

**2. What is health insurance?**

Health insurance policy is a contract between an insurer and an individual or group.

Health insurance is taken as safeguard against rising medical costs. It provides risk coverage against unforeseen health expenditure that may result in financial hardship.

#### III. Short Answer Questions

**1. Define Insurance.**

“Insurance is a plan by themselves which

large number of people associate and transfer to the shoulders of all, risk that attacks to individuals”

*- According to John Merge*

**2. Give the meaning of Crop insurance.**

This policy is to provide financial support to farmers in case of a crop failure due to drought or flood. It generally covers all risks of loss or damages relating to production of rice, wheat, millets, oil seeds and pulses etc.

**3. Write a note on IRDAI.**

This policy is to provide financial support to farmers in case of a crop failure due to drought or flood. It generally covers all risks of loss or damages relating to production of rice, wheat, millets, oil seeds and pulses etc.

#### IV. Long Answer Questions

**1. Explain the various types of Insurance.**

**(any 5)**

- 1. Life Insurance (or) Life Assurance
- 2. Non-life Insurance (or) General Insurance

##### 1. Life Insurance

Life Insurance may be defined as a contract in which the insurance company called insurer undertakes to insure the life of a person called assured in exchange of a sum of money called premium.

##### 2. Non – Life Insurance

###### (a) Fire Insurance

Fire insurance is a contract whereby the insurer, in consideration of the premium paid, undertakes to make good any loss or damage caused by a fire during a specified period upto the amount specified in the policy.

**b) Marine Insurance**

Marine insurance is a contract of insurance under which the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed against marine losses.

**(c) Health Insurance**

Health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed upon price (premium).

Disability resulting from illness or accident may be peril to family because it not only cuts off income but also creates large medical expenses. Health insurance is taken as safeguard against rising medical costs.

## 2. Explain the principles of Insurance. (any 5)

**1. Utmost Good Faith**

According to this principle, both insurer and insured should enter into contract in good faith.

**2. Insurable Interest**

The insured must have an insurable interest in the subject matter of insurance. Insurable interest means some pecuniary interest in the subject matter of the insurance contract.

**3. Indemnity**

Indemnity means security or compensation against loss or damages. In insurance, the insured would be compensated with the amount equivalent to the actual loss and not the amount exceeding the loss.

**4. Causa Proxima**

The word 'Causa proxima' means 'nearest cause'. According to this principle, when the loss is the result of two

or more cause, the proximate cause, i.e. the direct, the most dominant and most effective cause of loss should be taken into consideration.

**5. Contribution**

The same subject matter may be insured with more than one insurer then it is known as 'Double Insurance'. In such a case, the insurance claim to be paid to the insured must be shared or contributed by all insurers in proportion to the sum assured by each one of them.

## UNIT IV SERVICE BUSINESS - II

CHAPTER  
**16**

**EMERGING SERVICE  
BUSINESS IN INDIA**

**I. Choose the Correct Answer**

**1. A continuing relationship which provides a licence privileges to do business and provides training, merchandising for a consideration is called \_\_\_\_\_**

- a) Franchising
- b) Factoring
- c) Supply Chain Management
- d) Exchange

**2. Buying and selling of goods through electronic network is known as \_\_\_\_\_**

- a) E-commerce
- b) internet
- c) Website

d) Trade

**3. An organization carrying out activities to move goods from producer to consumer is**

- (a) Transport
- (b) Logistics
- (c) Channels
- (d) Marketing

**4. The main benefit of Logistics is**

- (a) Productivity
- (b) Cost Minimisation
- (c) Profitability
- (d) Storage

**5. The main benefit of outsourcing is**

- (a) Productivity
- (b) Cost reduction
- (c) Skill
- (d) Units

### Answers

1. a 2. c 3. a  
4. b 5. B

## II. Very Short Answer Questions

**1. Who is a Franchisee?**

**Franchisee:** The individual who acquires the right to operate the business or use the trademark of the seller is known as the franchisee.

**2. State two disadvantages of Franchising.**

- a) Fixed royalty payment
- b) Danger of image tarnishing
- c) Lack of freedom

**3. What is meant by BPO?**

Transferring Non Core Activities to Outsiders 2. Outsourcing Involves Contracting  
3. Operational Efficiency through Outsourcing  
4. Improved Customers Satisfaction

**4. What is meant by Logistics?**

Logistics can be viewed as a logical extension of transportation and related areas to achieve an efficient and effective goods distribution system.

## III. Short Answer Questions

**1. What are the types of Franchising?**

**a) Product/ trade name franchising:** In this type, the franchisee exclusively deals with a manufacture's product. Examples include Kidzee, French Loaf outlets, Bharat Petroleum bunks, Patanjali products, etc.

**b) Business format franchising:** When a franchisor awards rights covering all business aspects as a complete business package to the franchisee it is called as business format franchising.

**2. List the steps in factoring process. (any 3)**

Whenever goods are sold on credit basis, an invoice is raised and a copy of the same is sent to the factor.

- a) The debt amount due to the firm is transferred to the factor through assignment and the same is intimated to the customer.
- b) On the due date, the amount is collected by the factor from the customer.
- c) After retaining the service fees, the remaining amount is sent to the firm by the factor

**3. What is the impact of e-commerce on buyers? (any 3)**

It enable the Buyers to access global information about variety of products in the market The price of product bought through e- commerce is lower than the conventional shop.



Individuals could sell their used products through e – commerce mode with relative ease.

- (i) Franchise relationship is based on an agreement which lays down terms and conditions of this relationship.
  - (ii) The term of franchise may be for 5 years or more. The franchise agreement may be renewed with the mutual consent of the parties.
  - (iii) The franchisee gives an undertaking not to carry any other competing business during the term of the franchise; and the franchiser gives an undertaking not to terminate the franchise agreement before its expiry except under situations which may justify the termination of the franchise agreement.
  - (iv) The franchisee agrees to pay specified royalty to the franchiser, as per terms of the franchise agreement.
  - (v) Franchise means selling the same product and maintaining a similar type of shop decor (i.e. style of interior decoration) for which franchiser provides assistance to franchisee in organising, merchandising and management.
- The franchiser virtually sets up the business for the franchisee.

#### IV. Long Answer Questions

1. Enumerate the advantages of Franchising.  
(any 5)

##### Advantages of franchising

- a) **Reduced risk:** The franchisee will acquire the right of running an already established business, thus eliminating the risk of starting a new business.
- b) **Business expansion:** Franchising provides an opportunity to expand business at regional, national and global levels without incurring additional expenditure. Thus rapid growth of franchisor's business is facilitated.

c) **Cost of advertising:** The cost of advertising for the franchisor will be reduced since this cost will be shared by the franchisee. Moreover, it enables the franchisor to reap the benefits of increased visibility across regional and national boundaries.

d) **Operational support:** The franchisee is provided assistance in not only obtaining finance, but also in deciding business location, decor /design, staff training, and handling day to day operations.

#### 2. Elucidate the features of factoring

##### Features of Factoring

###### a) Maintenance of book-debts

A factor takes the responsibility of maintaining the accounts of debtors of a business institution.

###### b) Credit coverage

The factor accepts the risk burden of loss of bad debts leaving the seller to concentrate on his core business

###### c) Cash advances

Around eighty percent of the total amount of accounts receivables is paid as advance cash to the client.

###### d) Collection service

Issuing reminders, receiving part payments, collection of cheques form part of the factoring service.

###### e) Advice to clients

From the past history of debtors, the factor is able to provide advices regarding the credit worthiness of customers, perception of customers about the products of the client, etc.

- (a) Increase profit
- (b) Decrease profit
- (c) Sustainability
- (d) Equilibrium

**4. Socially Responsible business provides goods at**

- (a) high price
- (b) low price
- (c) reasonable price
- (d) moderate price

**5. Social Responsibility towards employees represents the following except**

- (a) reasonable remuneration
- (b) proper facilities
- (c) Social security
- (d) exploitation

#### Answers

1. c 2. d 3. c 4. c 5. D



#### I. Choose the Correct Answer

**1. Which type of Responsibility gives the benefit to the Society out of its profits earned?**

- (a) Legal
- (b) Ethical
- (c) Moral
- (d) Economic

**2. The Stakeholders of Socially Responsible business units are except**

- (a) Share Holders
- (b) Employees
- (c) Government
- (d) Company

**3. Assuming Social Responsibility of business helps the enterprise in**

#### II. Very Short Answer Question

**1. Give the meaning of Social power.**

Businessmen have considerable social power. Their decisions and actions affect the lives and fortunes of the society.

They collectively determine for the nation such important matters as level of employment, rate of economic progress and distribution of income among various groups.

**2. What is free enterprise?**

A business enterprise which accepts and discharges social obligations enjoys greater freedom.

For example, the government has passed the Consumer Protection Act to prevent businessmen from indulging in adulteration, black marketing and other antisocial practices

### 3. What is Ethical responsibility?

This includes the behaviour of the firm that is expected by society but not codified in law. For example, respecting the religious sentiments and dignity of people while advertising for a product.

### III. Short Answer Question

#### 1. Define the concept of Social Responsibility.

“Social Responsibility requires managers to consider whether their action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony”.

- Peter F. Drucker

#### 2. List the kinds of Social Responsibility. (any 3)

##### 1. *Economic Responsibility*

A business enterprise is basically an economic entity and, therefore, its primary social responsibility is economic i.e., produce goods and services that society wants and sell them at a profit.

##### 2. *Legal Responsibility*

Every business has a responsibility to operate within the laws of the land. Since these laws are meant for the good of the society, a law abiding enterprise is a socially responsible enterprise as well.

##### 3. *Ethical Responsibility*

This includes the behaviour of the firm that is expected by society but not codified in law. For example, respecting the religious sentiments and dignity of people while advertising for a product.

### IV. Long Answer Questions

#### 1. Explain the need for Social Responsibility. (any 5)

#### Need for Social Responsibility

Business is expected to be responsible to society due to the following reasons

##### 1. Self-Interest

A business unit can sustain in the market for a longer period only by assuming some social obligations. Normally businessmen recognise that they can succeed better by fulfilling the demands and aspirations of society. People who have had a higher standard of living and have been exposed to an environment conducive to healthy growth make better employees and customers for business than those who are poor, ignorant and oppressed. For example, provision of higher wages and good working conditions motivates workers to work hard and produce more. Labour turnover and absenteeism are reduced.

##### 2. Creation of Society

Business is a creation of society and uses the resources of society. Therefore, it should fulfil its obligations to society. Businessmen should respond to the demands of society and should utilise the social resources for the benefit of the people at large. In the long run a successful business can be built on the foundations of a happy community and a satisfied work force.

##### 3. Social Power

Businessmen have considerable social power. Their decisions and actions affect the lives and fortunes of the society. They collectively determine for the nation such important matters as level of employment, rate of economic progress and distribution of income among various groups. Businessmen should assume social obligations commensurate with their social power. The government controls and regulations intervene in the social power of business in the absence of business taking up social responsibility. It is, therefore,

the moral and right thing for business enterprises to assume social obligations.

#### 4. Image in the Society

A business can improve its image in public by assuming social obligations. Good relations with workers, consumers and suppliers help in the success of business. Social obligations improve the confidence and faith of people in a business enterprise.

#### 5. Public Awareness

Now-a-days consumers and workers are well informed about their rights. Consumers expect better quality products at reasonable prices. Similarly, workers desire fair wages and other benefits. They exercise pressure on the employer's through-trade unions. There will be industrial unrest and conflict in society, if business does not fulfil its obligations.

## 2. How do you classify the Social Responsibility?

### Kinds of Social Responsibility

#### 1. Economic Responsibility

A business enterprise is basically an economic entity and, therefore, its primary social responsibility is economic i.e., produce goods and services that society wants and sell them at a profit. There is little discretion in performing this responsibility.

#### 2. Legal Responsibility

Every business has a responsibility to operate within the laws of the land. Since these laws are meant for the good of the society, a law abiding enterprise is a socially responsible enterprise as well.

#### 3. Ethical Responsibility

This includes the behaviour of the firm that is expected by society but not codified in law. For example, respecting the religious sentiments and dignity of people while advertising for a product. There is an element of voluntary action in performing this responsibility.

#### 4. Discretionary Responsibility

This refers to purely voluntary obligation that an enterprise assumes, for instance, providing charitable contributions to educational institutions or helping the affected people during floods or earthquakes. It is the responsibility of the company management to safeguard the capital investment by avoiding speculative activity and undertaking only healthy business ventures which give good returns on investment.

### SOCIAL RESPONSIBILITY OF BUSINESS AND BUSINESS ETHICS

CHAPTER  
18

BUSINESS ETHICS AND  
CORPORATE GOVERNANCE



### I. Choose the Correct Answer

#### 1. Which of the following helps in maximising sale of goods to society?

- a) Business success
- b) laws and regulations
- c) Ethics
- d) Professional management

#### 2. Ethics is important for

- a) Top management
- b) Middle level managers
- c) Non managerial employees
- d) All of them

#### 3. Which of the following does not ensure effective ethical practices in a business enterprise

- a) Publication of a code
- b) Involvement of employees
- c) Establishment of compliance

mechanisms  
d) none of them

**4. The role of top management is to guide**

**the entire organisation towards**

- (a) General behaviour
- (b) Organisavtion behaviour
- (c) Ethically upright behaviour
- (d) Individual behaviour

**5. The ethical conduct of employees leading to standard practices results in**

- (a) good behaviour
- (b) bad behaviour
- (c) ethical behaviour
- (d) correct decision making

**Answers**

1.c 2.d 3.a 4.c 5.d

**II. Very Short Answer Questions**

**1. What is Ethics?**

Business ethics may be defined as a set of moral standards to be followed by owners, managers and business people.

**2. Write any two key elements of Business Ethics.**

- 1. Top Management Commitment**
- 2. Publication of a "Code"**

**3. Define Corporate governance.**

**'The proper governance of companies will become as crucial to the world economy as the proper governing of countries.'**

*Jeames Wolfenson,  
President of World Bank, 1999*

**III. Short Answer Questions**

**1. What do you mean by the concept of Business Ethics?**

It is a set of moral standards to be followed by owners, managers and business people.

These standards determine the conduct and behavior of business people.

Business ethics reflects the conduct in the context of business.

**2. Why MNC's in India? (any 3)**

**Why MNC's in India**

The reasons for so many MNC's in Indian are as follows

- 1. India has a huge market
- 2. It is one of the fastest growing economies in the world.
- 3. Favorable policies of the government towards FDI.

**IV. Long Answer Questions**

**1. Explain the different key elements of Business Ethics.**

**1. Top Management Commitment**

Top management has a very important role to guide the entire organization towards ethical behaviour

**2. Publication of a "Code"**

Generally organisations formulate their own ethical codes for the conduct of the enterprise; it should followed by the employees of the organisation. The organisation principles are defined in the written document called code.

**3. Establishment of Compliance Mechanism**

To make sure that actual decisions match with a firm's ethical standards, suitable mechanism should be established.

**4. Involving Employees at All Levels**

It is the employees at different levels who implement ethics policies to make ethical business a reality.

**5. Measuring Results**

The organisations from time to time keep a check on ethical practise followed. Although it is difficult to accurately measure the end results of ethics



programmes, the firms can certainly audit to monitor compliance with ethical standards.

## 2. What are the benefits of Corporate Governance? (any 5)

1. Good corporate governance enables corporate success and economic development.
2. Ensures stable growth of organizations.
3. Aligns the interests of various stakeholders.
4. Improves investors' confidence and enables raising of capital.
5. Reduces the cost of capital for companies.
6. Has a positive impact on the share price
7. Provides incentive to managers to achieve organizational objectives.



### I. Choose the Correct Answer

1. What is defined as the provision of money at the time when it is required?

- a. finance
- b. bank
- c. cash management
- d. none of these

2. Internal sources of capital are those that are \_\_\_\_\_

- a. generated through outsiders such as suppliers
- b. generated through loans from commercial banks
- c. generated through issue of shares
- d. generated within the business

3. Debenture holders are entitled to a fixed rate of \_\_\_\_\_

- a. Dividend
- b. Profits
- c. Interest

d. Ratios

4. Public deposits are the deposits which are raised directly from \_\_\_\_\_

- a. The public
- b. The directors
- c. The auditors
- d. The owners

5. Equity shareholders are the \_\_\_\_\_ of a company

- a. Creditors
- b. Owners
- c. Debtors
- d. Employees

### Answers

1. a 2. d 3. c 4. a 5. B

### II. Very Short Answer Questions

1. Write a short notes on Debentures.

Debentures are an important instrument for raising long term debt capital. A company can raise funds through issue of debentures which bear a fixed rate of interest.

2. Name any two sources of funds classified under borrowed funds.

Debentures, loans from banks and financial institutions, public deposits, trade credit

3. Write any two examples of Post Office Savings Schemes.\*

### III. Short Answer Questions

1. Define Business Finance.

“The finance function is the process of acquiring and utilizing funds by a business.” –

R.C. Osborn

2. What is Pledge?

A customer transfers the possession of an article with the creditor (banker) and



receives loan.

## **2. Classify the sources of business finance on the basis of period.**

1) Short term finance 2) Medium term finance 3) Long term finance

### **IV. Long Answer Questions**

#### **1. Explain the kinds of sources of short term finance. (any 5)**

##### **Sources of Short Term Finance**

Short term funds are those sources which are required by the business firms for a period of within one year. Some of the important sources of short term finance are briefly explained below.

##### **1. Loans and Advances**

Loan is a direct advance made in lump sum which is credited to a separate loan account in the name of borrower. The borrower can withdraw the entire amount in cash immediately. It can be repaid in one or more installments. But the interest on loans and advances is calculated on the whole of the amount borrowed right from the date of sanction. It may be secured or unsecured. Loans and advances are usually sanctioned by pledge of specific assets like Fixed Deposit Receipts, Document of Title to the Goods, Shares, Debentures, etc.

##### **2. Bank Overdraft**

Bank overdraft refers to an arrangement whereby the bank allows the customers to overdraw the required amount from its current deposit account within a specified limit. Interest is charged only on the amount actually overdrawn.

##### **3. Discounting Bills of Exchange**

When goods are sold on credit, the suppliers generally draw bills of exchange upon customers who are required to accept it.

The duration of such bills of exchange may be ranging from 15 days to 180 days. Instead of holding the bills till the date of maturity, borrowers generally prefer to get them discounted with the bank. Discounting bills of exchange refers to an act of selling a bill to obtain payment for it before its maturity.

##### **4. Trade Credit**

Trade credit is the credit extended by one trader to another for the purpose of purchasing goods and services. Purchaser need not pay money immediately after the purchase. Such credit appears in balance sheet as Trade Creditors, or Accounts Payable. Trade credit is very simple and convenient method of raising short term finance. There is no formality involved in availing this facility. There is no need to give any security for trade credit. It is said to be more economical than bank loans.

##### **5. Pledge**

A customer transfers the possession of an article with the creditor (banker) and receives loan. Till the repayment of loan, the article is under the custody of the borrower. If the debtor fails to refund the loan, creditor (banker) will auction the article pawned and adjust the outstanding loan from the sale proceeds.

#### **2. Explain any five personal investment avenues.**

##### **1. Public Provident Fund (PPF)**

It is the safest long-term investment option for the investors in India. It is totally taxfree.

PPF account can be opened in bank or post office. The money deposited cannot be withdrawn before 15 years and an investor can earn compound interest from this account. However the investor can extend the time frame for the next five years if the investor does not opt to withdraw the amount matured for payment at maturity date. PPF investor can take

loan against PPF account when he/she experiences financial difficulties.

## 2. Mutual Funds

An individual investor who wants to invest in equities and bond with a balance of risk and return generally can invest in mutual funds. Nowadays people invest in stock markets through a mutual fund. Systematic investment plan is one of the best investment options in India.

## 3. Direct Equity or Share Purchase

An individual can opt for investment in shares. But he has to analyse the market price of various shares traded in stock exchange, reputation of the company, consistency in the payment of dividend, the nature of the project undertaken by the company, growth prospects of industry in which a company is operating, before investing in shares. If the investment is made for a long time, it may yield good return. However there is equally risky to invest in shares as there is no guaranteed return therein.

## 4. Real Estate Investment

Real estate is one of the fastest growing sectors in India. Buying a flat or plot is supposed to be the best decision amongst the investment options. The value of the real asset may increase substantially depending upon the area of location and other support facilities available therein. However an investor in real estate has to be cautious and circumspect in verifying the genuineness of the title deeds before investing in real estate assets and also the reputation of seller of real assets.

## 5. Investing in Metals

Investment in metals like gold, silver and platinum is one of the oldest and evergreen investment products. The values of the metals rise slowly and steadily in line with the dynamic market conditions. But investors can liquidate the metals immediately in the market without any loss. Besides an investor

can opt for investment format, like gold deposit scheme, gold ETF (exchangetraded fund), Gold Bar, Gold mutual fund etc., to get benefit in the short period of time.

### UNIT VI BUSINESS FINANCE

CHAPTER  
20

### INTERNATIONAL FINANCE



#### I. Choose the Correct Answer

1. An instrument representing ownership interest in securities of a foreign issuer is called \_\_\_\_\_

- an ownership certificate
- a depositary receipt.
- an ownership receipt
- None of the above.

2. Issuance of DRs is based on the increase of demand in the

- International market
- Local market
- Existing shareholders
- All of the above

3. ADRs are issued in

- Canada
- China
- India
- The USA

4. Depositary receipts that are traded in an international market other than the

**United States are called**

- Global Depositary Receipts
- International Depositary Receipts.
- Open Market Depositary Receipts
- Special Drawing Rights.

**5. \_\_\_\_\_ bond is a special type of bond issued in the currency other than the home currency.**

- Government Bonds
- Foreign Currency Convertible Bond
- Corporate Bonds
- Investment Bonds

**Answers**

1. b 2. a 3. d 4. a 5. B

**II. Very Short Answer Questions****1. Who are Foreign Institutional Investors?**

FDI is an investment made by a company or an individual in one country with business interests in another country.

**2. What is a Depositary Receipt?**

A depositary receipt is a negotiable financial instrument issued by a bank to represent a foreign company's equity shares or securities.

**3. What is a Global Depositary Receipt (GDR)?**

GDR is an instrument issued abroad by a company to raise funds in some foreign currencies and is listed and traded on a foreign stock exchange.

**4. What is American Depositary Receipt (ADR)?**

ADR is a dollar denominated negotiable certificate representing a non-US company in US market which allows the US citizens to invest in overseas securities

**III. Short Answer Questions****1. Explain the importance of international finance. (any 3)**

1. International finance helps in calculating exchange rates of various currencies of nations and the relative worth of each and every nation in terms thereof.
2. It helps in comparing the inflation rates and getting an idea about investing in international debt securities.
3. It helps in ascertaining the economic status of the various countries and in judging the foreign market.

**2. What is meant by Foreign Currency Convertible Bonds?**

Foreign currency convertible bond is a special type of bond issued in the currency other than the home currency. In other words, companies issue foreign currency convertible bonds to raise money in foreign currency.

**3. Explain any three disadvantages of FDI.****1. Exploiting Natural Resources:** The FDI

Companies deplete natural resources like water, forest, mines etc. As a result such resources are not available for the usage of common man in the host country.

**2. Heavy Outflow of capital**

Foreign companies are said to take away huge funds in the form of dividend, royalty fees etc.

This causes a huge outflow of capital from the host country.

**3. Not Transferring Technology**

Some foreign enterprises do not transfer the technology to developing countries. They mostly transfer second hand technology to the host country.

#### IV. Long Answer Questions

##### 1. Distinguish between GDR and ADR. (any 5)

Basis	Global Depository Receipts GDR	American Depository Receipts ADR
Denomination	It is denominated in terms of any freely convertible currency	It is denominated only in US dollar
To whom it is issued	It is issued to investors in one or across more markets simultaneously	It is issued only to investors who are residents of the United States of America.
Listed in	Non-US Stock Exchange such as London Stock Exchange or Luxembourg Stock Exchange.	American stock exchange
Approval	Issue of GDR does not require foreign regulatory clearances.	Issue of ADR requires approval from the Securities Exchange Commission (SEC) of United States of America.
Mode of expression	GDRs are normally co-related to equity shares of the issuing company expressed in whole numbers.	In many cases ADRs co-related to equity shares of the company expressed as a fraction
Negotiation	It is negotiable all over the World.	It is negotiable only in America

##### 2. State any five features of FCCB. (any 5)

- 1) FCCB is issued by an Indian company in foreign currency.
- 2) These are listed and traded in foreign stock exchange and similar to the debenture.
- 3) It is a convertible debt instrument. It carries interest coupon. It is unsecured.
- 4) It gives its holders the right to convert for a fixed number of shares at a predetermined price.
- 5) It can be converted into equity or depository receipt after a certain period.

#### BUSINESS FINANCE

##### CHAPTER 21 MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) AND SELF HELP GROUPS (SHGs)



#### I. Choose the Correct Answer

##### 1. MSME Act was enacted in the year

- (a) 2004 (b) 2007  
(c) 2006 (d) 2008

##### 2. MSMEs are important for the nation's economy because they significantly contribute to

- (a) industrial production  
(b) exports  
(c) employment  
(d) all the above

##### 3. Self help groups convert the savings into a common fund known as

- (a) Common fund  
(b) Group corpus fund  
(c) Group fund  
(d) none of the above

##### 4. There are \_\_\_\_\_ distinct modes of credit to Self Help Groups.

- (a) 1 (b) 2  
(c) 3 (d) 4

##### 5. Investment limit of a micro enterprise under manufacturing sector does not

exceed \_\_\_\_\_ lakhs

(a) 10 (b) 20

(c) 25 (d) 50

### Answers

1.c 2.d 3.b 4.c 5.c

## II. Very Short Answer Questions

### 1. Give some examples for micro enterprises.

Micro enterprises are engaged in low scale activities such as clay pot making, fruits and vegetable vendors, transport (three wheeler tempos and autos), repair shops, cottage industries, small industries, handlooms, handicraft works etc.

### 2. What is the aim of NEEDS?

To providing entrepreneurship development training to educated young entrepreneurs.

\* Helping them to tie up with financial institutions to set up new business ventures.

### 3. What is a Self Help Groups?

Self Help Group is a small informal voluntary association created for the purpose of enabling members to reap economic benefit out of mutual help, solidarity, and joint responsibility. The benefits include mobilization of savings and credit facilities for the pursuit of group enterprise activity.

## III. Short Answer Questions

### 1. List out the products produced by MSME in Tamil Nadu.

Textiles, Leather Products, Chemicals, Plastics, Garments, Jewellery.

### 2. What is the role and significance of MSMEs in Indian Economy?

### 1. Employment Potential

MSMEs generate more employment opportunities than large business concerns. They are mostly labour intensive, thus they provide more employment opportunities to a larger number of people in India.

### 2. Low Production Cost

MSMEs do not require skilled labourers or professionals to run the organisation. It employs cheap labour and thus minimizes the overhead.

These units are more cost efficient than large scale units, thus facilitates production of goods at low cost.

### 3. Low Investment

MSMEs do not require a huge capital to start the unit. It can employ locally available resources within the reach of the owner. They help to perfect and promote traditional family skills and handicrafts.

These industries facilitate the growth of local entrepreneurs and self employed professionals in small towns and villages.

### 3. Explain any three features of Self Help Group.

1. The motto of every group members should be "saving first – credit latter"
2. Self Help Group is homogeneous in terms of economic status.
3. The ideal size of a Self Help Group ranges between 10 and 20 members.

## IV. Long Answer Questions

1. Explain MUDRA Bank.

### Micro Units Development Refinance Agency (MUDRA bank)

The Government of India has launched MUDRA Bank with a capital amount of ₹20,000 crore, and credit guarantee corpus of ₹3,000 crore, to help Micro Small and Medium Enterprises (MSMEs) and startups to resolve problems relating to financing.

MUDRA Bank refines micro-Finance Institutions through a Pradhan Mantri Mudra Yojana (PMMY). These measures will greatly increase the self confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs.

**2. What are the objectives of SHGs? (any 5)**

1. Focusing on empowerment of women.
2. Saving people from the clutches of money lenders
3. Building capacity of women and to enable them to participate in generating activities.
4. Creating the habit of saving in the minds of the people who are economically backward.
5. Promoting entrepreneurship skills among women.

**UNIT VII TRADE**

**CHAPTER 22 TYPES OF TRADE**



**I. Choose the Correct Answer**

**1. The purchase of goods from a foreign country is called-----**

- a. Import
- b. Export
- c. Entrepot
- d. Re-export

**2. When goods are imported for the purpose of export it is called as-----.**

- a. Foreign Trade
- b. Home Trade
- c. Entrepot
- d. Trade

**3. ----- acts as a connective link between the producer and the consumer.**

- a. Trade
- b. Industry
- c. Commerce
- d. Business

**4. The aim of home trade is -----**

- a. To raise the standard of living
- b. To provide the essential goods and services economically
- c. To raise the national income
- d. To obtain all types of goods.



### 5. Internal trade can be classified into -----categories

- a. Three b. Four  
c. Two d. Five

#### Answers

1. a 2. c 3. a 4. b 5. C

## II. Very Short Answer Questions

### 1. Give the meaning of Trade.

The buying and selling of goods and services consists of trade

### 2. What is International Trade?

Foreign trade is a trade between a seller and buyer of different countries

### 3. What is Import Trade?

Import trade means buying goods from a foreign country for domestic use.  
Example.

India imports petroleum products from Gulf Countries.

### 4. Explain the meaning of Entrepot Trade.

Entrepot trade means importing of goods from one country and exporting the same to foreign countries. It is also known as 'Reexport trade'.

## III. Short Answer Questions

### 1. Explain the types of Internal trade.

1. Wholesale trade and 2. Retail trade

2. Give three examples of India's Import and Exports items.

**Export items**

**Import**

1. Petroleum Products 1. Mineral fuels including oil

2. Jewellery 2. Gem , precious metals

3. Automobile 3. Electrical Machinery and equipments

## IV. Long Answer Questions

### 1. What are the features of Internal trade? (any 5)

- The buying and selling of goods takes place within the boundaries of the same country.
- Payment for goods and services is made in the currency of the home country.
- It involves transactions between the producers, consumers and the middlemen.
- It consists of a distribution network of middlemen and agencies engaged in exchange of goods and services.
- In home trade the risk of transportation is very less when compared to the foreign trade.
- In home trade the laws prevailing in that country only have to be followed.
- The aim of home trade is to provide the goods and services economically

### 2. Explain briefly the different types of Foreign Trade

#### A. Import Trade

Import trade means buying goods from a foreign country for domestic use.

Example.

India imports petroleum products from Gulf Countries. India imports machinery, equipment, materials etc.

#### B. Export Trade

Export trade means the sale of domestic goods to foreign countries.

**Examples:**

- Export of Iron ore from India to Japan
- Selling of Tea from India to England.

**C. Entrepot Trade**

Entrepot trade means importing of goods from one country and exporting the same to foreign countries. It is also known as 'Reexporttrade'.

E.g. Indian diamond merchants in Surat import uncut raw diamonds from South Africa. They cut and polish the diamonds in their units in India and re-export them to the International Diamond Market in Amsterdam.

**UNIT VII TRADE****CHAPTER 23 CHANNELS OF DISTRIBUTION****Choose the Correct Answer**

**1. Trade middleman who acts as a link between wholesaler and customers refers to a -----.**

- a. Producer b. Broker  
c. Retailer d. Customer

**2. Who is the first middleman in the channel of distribution?**

- a. Wholesaler b. Producer  
c. Retailer d. Customer

**3. -----buy the goods from the producer and sell it to the retailers.**

- a. Manufacturer  
b. Wholesaler  
c. Retailer  
d. consumers

**4. ----- are agents who merely bring the buyer and the seller into contact.**

- a. Broker  
b. Commission agent  
c. Selling agent  
d. stockiest

**5. Merchant middlemen can be classified into ----- categories.**

- a. Three b. Two

c. Five d. Four

**Answers**

1. c 2. a 3. b 4. a 5. B

**II. Very Short Answer Questions**

**1. Who is a middleman?**

The term 'Middlemen' refers to all those who are in the link between the primary producer and the ultimate consumer in the exchange of goods or service.

**2. Define Retailer.**

According to Cundiff and Still "a retailer is a merchant or occasionally an agent whose main business is selling directly to the ultimate consumers".

**3. Who is a Broker?**

A Broker is one who bargains for another and receives commission for his service.

He is paid 'brokerage' for his services.

**4. What are the classification of the merchant middlemen?**

Merchant middleman can be further subdivided into:

1. Wholesaler, 2. Retailer  
Brokers, Factors, Commission Agents,  
Del- Credere Agents, Auctioneers,  
Warehouse keepers.

**5. Who are the mercantile agents?**

Mercantile Agents are also called functional middlemen.

A businessman appoints a person to buy and sell goods on his behalf and gives him the right to borrow money on the security of goods.

He is known as mercantile agent.

**III. Short Answer Questions**

**1. Explain the types of mercantile agents.**

**i). Broker:**

A Broker is one who bargains for another and receives commission for his service. He is paid 'brokerage' for his services.

**ii). Factor:**

A factor is a mercantile agent to whom goods are entrusted for sale by a principal.

**iii). Commission Agents:**

A commission agent buys and sells goods on behalf of the principal for a fixed rate of commission for all his transactions.

**2. Explain any three characteristics of wholesalers.**

1. Wholesalers buy goods directly from producers or manufacturers,
2. Wholesalers buy goods in large quantities and sell in relatively smaller quantities,
3. Wholesalers sell different varieties of a particular variety of product,

**IV. Long Answer Questions****1. What are the characteristics of retailers?**

Retail trade is a trade that deals with the distribution of goods in small quantities to the end consumers

1. Retailer generally involves dealing in a variety of items. A retailer makes purchases from producers or wholesalers in bulk for sale to the end consumers in small quantities.
2. Retail trade is normally carried on in or near the main market area.
3. Generally, retailers involve buying on credit from wholesalers and selling for cash to consumers.
4. A retailer has indirect relation with the manufacturer (through wholesalers) but a direct link with the consumers

**2. What are the functions of Wholesalers? (any 5)**

**a. Collection of Goods:** Wholesaler collects the goods from manufacturers or producers in bulk.

**b. Storage of Goods:** Wholesaler collects and stores them safely in warehouses, till they are sold out. Perishable goods like fruits, vegetables, etc. are stored in cold storage facility.

**c. Distribution:** Wholesaler sells goods to different retailers. Thus he performs the function of distribution.

**d. Financing:** Wholesalers provide financial support to producers and manufacturers by providing money in advance to them. He also sells goods to retailer on credit. Thus, at both ends wholesaler acts as a financier.

**e. Risk Taking:** Wholesaler buys finished goods from the producer and keeps them in the warehouses till the time they are sold and assumes the risk arising from price, spoilage of goods, and changes in demand.

**3. What are the functions of Retailers? (any 5)**

**1. Buying:** A retailer buys a wide variety of goods from different wholesalers after estimating customer's demand. He selects the best merchandise from each wholesaler and brings all the goods under one roof. So, he performs the twin functions of buying and assembling of goods.

**2. Storage:** A retailer maintains a ready stock of goods and displays them in the shop.

**3. Selling:** The retailer sells the goods in small quantities according to the demand taste and preference of consumers. He employs efficient methods of selling to increase his sales turnover.

**4. Grading and Packing:** The retailer grades the goods which are not graded by manufacturers and wholesalers. He packs goods in small lots for the convenience of consumers

**5. Risk-bearing:** A retailer always keeps stock of goods in anticipation of demand and bears the risk of loss due to fire, theft, spoilage, price fluctuations, etc.



### I. Choose the Correct Answer

**1. Retailers deal in \_\_\_\_\_ quantity of goods**

- a) Small b) Large  
c) Medium d) Limited

**2. Small scale Fixed retailers include \_\_\_\_\_**

- a) General stores b) Pedlars  
c) Cheap Jacks d) Hawkers

**3. Small shops which deal in a particular line of products are called as \_\_\_\_\_**

- a) Market traders  
b) Single line stores  
c) Sugar market  
d) Street stalls

**4. \_\_\_\_\_ are mobile traders who deal in low priced articles with no fixed place of business.**

- a) Shopping malls  
b) Super markets  
c) Street stalls  
d) Itinerant traders

### Answers

1. a 2. a 3. b 4. D

## II. Very Short Answer Questions

**1. State the meaning of Multiple shops.**

A number of identical retail shops with similar appearance normally deal in standardized and branded consumer products established in different localities owned and operated by manufacturers are called as Multiple Shop

**2. What is meant by Vending machines?**

Automatic vending machine is a new form of direct selling. It is a machine operated by coins or tokens. The buyer inserts the coin or the tokens into the machine and receives a specified quantity of a product from the machine. AVMs are placed at a convenient location such as railway stations, airports, petrol pumps, etc.

*Example* Aavin Dairy Milk through AVMs

**3. What are Specialty stores?**

Speciality Stores deal in a particular type of product under one product line only. For example, Sweets shop specialised in Tirunelveli Halwa, Bengali Sweets, etc.

## III. Short Answer Questions

**1. Explain the characteristics of Super markets. (any 3)**

The important characteristics of a super market are listed below:

1. Supermarkets are generally situated at the main shopping centres.
2. The goods kept on racks with clearly labelled price and quality tags in such stores,
3. The customers move into the store to pickup goods of their requirements, bring them to the cash counter, make payment and take home delivery.

## 2. Explain the demerits of Multiple shops. (any 3)

### i. Limited variety

Multiple shops deal only in limited range of products.

### ii. Absence of services

Customers do not get credit, home delivery and other facilities.

### iii. Lack of personal touch

The owner loses direct personal contact with the customers. The paid staffs do not take personal interest in each and every customer.

## IV. Long Answer Questions

1. State the features of Departmental stores.

### i. Large Size:

A department is a large scale retail showroom requiring a large capital investment by forming a joint stock company managed by a board of directors. There is a Managing Director assisted by a general manager and several department managers.

### ii. Wide Choice:

It acts as a universal provider of a wide range of products from low priced to very expensive goods (Pin to Car) to satisfy all the expected human needs under one roof.

### iii. Departmentally organised

Goods offered for sale are classified into various departments. Each department specialises in one line of product and operates as a separate unit.

### iv. Facilities provided:

It provides a number of facilities and services to the customers such as restaurant, rest rooms, recreation, packing, free home delivery, parking, etc.

### v. Centralised purchasing

All the purchases are made centrally and

directly from the manufacturers and operate separate warehouses whereas sales are decentralised in different departments.

## 2. Explain the different types of Retailers. (any 5)

### I. Itinerant or Mobile Traders

The traders who have no fixed place of sale are called **Itinerants**. They move from one place to another place in search of customers. They are also known as Mobile traders. **Mobile traders** deal in low price, daily usable items such as fruits, vegetables, fish, clothing, books, etc. They require itinerants are as follows:

#### a. Peddlers and Hawkers

**Peddlers** are individuals who sell their goods by carrying on their head or shoulders moving from place to place on foot.

**Hawkers** are petty retailers who sell their goods at various places such as bus stop, railway station, Public Park and gardens, residential areas and other public places using a convenient vehicle to carry goods from place to place.

#### Street Vendors

The traders sit on the footpath of the road or at the end of the road (pavement) and sell their goods such as fruits, vegetables, books, etc. are called Street vendors.

#### c. Market Traders

Small traders open their shops at different places on fixed days or dates such as every Sunday or alternative Wednesdays and so on (Varasandhai - weekly market). They deal in one particular line of merchandise and in low priced consumer items of daily use. Examples Pollchi, Manapparai, Ranipet, etc

#### d. Cheap Jacks

Those retailers who have independent shops of temporary nature in a business



locality are depending upon the potentiality of the area.

They deal in consumer goods and services such as shoes and chappals, plastic items, repair of watches, etc.

## II. Fixed Shop Retailers

The retailers who maintain permanent establishment to sell their goods are called **Fixed Shop Retailers**. They do not move from place to place to serve their customers. The fixed shop retailers can be classified into two types on the basis of the size of their operations. They are: a. Fixed Shop Small Retailers and b. Fixed Shop Large Retailers

### I. Street Stalls

These small shop-keepers are commonly found at street crossings or other busy street corners attract floating customers and deal in cheap variety of goods like hosiery products, toys, soft drinks, etc. They get their supplies from local suppliers and wholesalers

### 2. General Stores

General Stores sell a wide variety of products under one roof, most commonly found in a local market and residential areas to satisfy the day-to-day needs of the customers residing in nearby localities. They remain open for long hours at convenient timings and often provide credit facilities to their regular customers. For example, a provision store deals in grocery, bread, butter, toothpaste, soaps, washing powder, soft drinks, confectionery, stationery, cosmetics, etc.

### 3. Single-line Stores

Single-line Stores are small shops which deal in a particular line of products such as garments, stationery, textiles, medicines, shoes, etc. They are generally situated in market places and deal in a variety of goods in that line of product.

### 4. Speciality Stores

Speciality Stores deal in a particular type of product under one product line only. For example, Sweets shop specialised in Tirunelveli Halwa, Bengali Sweets, etc.

### 5. Seconds Shops

These shops deal with second-hand goods or used articles in a low price such as books, furniture, utensils, clothes, automobiles, etc. and also new defective goods.

## UNIT VIII INTERNATIONAL BUSINESS

CHAPTER  
25

## INTERNATIONAL BUSINESS



### I. Choose the Correct Answer

**1. Movement of goods , services, intellectual property, human assets, technology and so on among the countries.**

- (a) International Trade
- (b) International business
- (c) Entrepot Trade
- (d) Internal trade

**2. Goods are imported for purpose of re-export to another country is termed as\_\_\_\_\_.**

- (a) Import Trade
- (b) Export Trade
- (c) Entrepot Trade
- (d) International trade

**3. Movement of goods , services among the countries.**

- (a) International Trade
- (b) International business
- (c) Entrepot Trade
- (d) Internal trade

**4. Selling of goods from home country to foreign country is called**

- (a) Home Trade
- (b) Entrepot Trade
- (c) Foreign Trade



(d) Joint Venture

### Answers

1.a 2.c 3.b 4.c

## II. Very Short Answer Questions

### 1. What do you mean by International business?

International business denotes all those business activities which take place beyond the geographical limits of the country

### 2. What is meant by Export Trade?

When the firm of country sells goods and services to a firm of another country it is called export trade.

### 3. What is meant by Import Trade?

When the business firm of a country purchases goods from the firm of another country it is called import trade

### 4. What is meant by Entrepot Trade?

When the firm of country imports goods for the purpose of exporting the same goods to the firms of some other country with or without making any change in the goods meant for export it is known as entrepot trade

## III. Short Answer Questions

### 1. Explain any three features of International business.

#### (a) Involvement of Countries.

International business can take place only when transactions occur across different countries

#### (b) Use of Foreign Exchange.

Where countries trade with one another, it has to exchange the goods and services on the basis of foreign currency.

#### (c) Legal Obligations.

Foreign trade is to be conducted strictly in accordance with the export and import policy of the country concerned. The consent of the government is to be mandatorily obtained with reference to export and import of certain goods and services. Thus government intervention is direct in respect of international transactions.

### 2. Explain the features of Entrepot trade.

- a) Import duty is not levied on such goods
- b) These goods are reprocessed and repacked for re-export
- c) Such goods are kept in the Bonded warehouse till they are re-export

## IV. Long Answer Questions

### 1. List out the advantages of International trade. (any 5)

#### 1. Geographical Specialization

Countries across the world differ significantly in terms of natural resources, capital equipment, manpower, technology and land and so on.

Some countries are rich in mineral resources hydro-electric power metallic resources, and so on while some other countries may possess advanced technique of manufacturing, efficient working population, capital equipment and so on. International business is required to exchange the surplus resources resulting from geographical specialisation for deficit resources in other countries

#### 2. Optimum use of Natural Resources

International business operates on a simple principle that a country which can produce more efficiently and trade the surplus production with other countries. More efficiently.

This enables the countries to optimally utilize the scarce resources available with them

#### 3. Economic Development.

International business helps the developing countries greatly in achieving rapid economic development by importing machinery, equipment, technology, talent, and so on.

For example., China, India, Brazil and South Korea which were once slower in their economic development are achieving faster economic development due to international business.

Even the developed countries like Japan, USA, UK, etc., have achieved remarkable economic progress through the import of raw materials and export of manufactured goods.

#### 4. Generation of Employment.

International business generates employment opportunities by assisting the expansion and growth of agricultural and industrial activities.

It provides direct employment to those people who are hired by export and import firms and generates indirect employment to number of intermediary firms like, clearing and forwarding agent, indent houses transport organizations, outsourcing agencies, etc.

#### 5. Higher Standard of Living.

On account of international business, the citizens of the country can buy more varieties of goods and services which cannot be produced cost effectively within the home country.

This exchange of goods and services among the countries enhances the standard of living of people.

#### 2. Distinguish between internal and international trade. (any 5)

Basis	Domestic Business	International Business
1. Meaning	Domestic business refers to business transactions transacted within the geographical boundaries of a country	International business refers to the business transactions transacted in beyond the boundaries of a country
2. Participants in Business	People / organizations within the country participate in business activities	People/organizations outside the country participate in business activities
3. Mobility of Factor of Production	The factors of production i.e. labour, capital, technology, material, etc., move freely within the boundaries of the country	The factors of production i.e. labour, capital, technology, material, etc., move across the boundaries of the country.
4. Nature of Consumers	Consumers are relatively homogenous in nature in terms of culture, behavior ,taste, preferences, legal system, customs and practices, etc.,	Consumers are relatively heterogeneous in nature in terms of culture, behavior ,taste, preferences, legal system, customs and practices, etc. prevailing across the countries,

5. Business System	Domestic business is governed by the rules, laws, policies taxation system of a single country	International business is governed by rules, laws and policies ,tariffs and quotas etc., of multiple countries
6. Currency Used	Domestic business transactions are settled by local currency of a country.	International business transactions are settled by foreign currencies.
7. Mode of Transport	The goods involved in domestic business are mainly transported by roadways and railways.	The goods involved in international business is mainly transported by water and airways.
8. Risk Exposure	The risks involved in domestic business are relatively less.	The risks involved in international business are more due to distance, difference in socio-economic and political conditions. change in foreign exchanges value, etc.,
9. Scope of Market	The scope of market is limited to national boundaries of a country.	The scope of international business is very wide and extends beyond the frontiers of a country.
10. Payment of Excise duty	Payment of excise duty involves simple procedures and it is relatively low in domestic trade	The process of payment of excise is complicated in international business and the rate of excise duty is relatively high.

## UNIT VIII INTERNATIONAL BUSINESS

CHAPTER  
26EXPORT AND IMPORT  
PROCEDURES**I. Choose the Correct Answer****1. EPC stands for**

- a) Export processing commission
- b) Export Promotion Council
- c) Export Carriage council
- d) Export Promotion Congress

**2. STC is expansion for**

- a) State Training Centre
- b) State Training Council
- c) State Trading Centre
- d) State Trading Corporation

**3. An ----- is document prepared by importer and sent to the exporter to buy the goods**

- a) Invoice
- b) Indent
- c) Enquiry
- d) Charter Party

**4. The ----- receipt is an acknowledgement of receipt of goods on the ship issued by the Captain**

- a) Shipping Bill
- b) Bill of Lading
- c) Mate's Receipt
- d) Consular Invoice

**5. The Exporters appoint the ----- agent to fulfill the customs formalities**

- a) Clearing Agent
- b) Forwarding Agent
- c) Commission Agent
- d) Factor

**Answers**

1. b 2. d 3. b 4. b 5. B

**II. Very Short Answer Questions****1. What is meant by Indent?**

An indent actually points to an order

received from abroad for export of goods.  
i.e. sale of goods.

The indent contains the details in the box.

**2. Mention the types of Indent.**

Open Indent  
Closed Indent  
Confirmatory Indent

**3. What is meant by Letter of Credit?**

Letter of Credit (LC) is an undertaking by its issuer that bills of exchange drawn by the foreign dealer on the importer will be honored upon its presentation by exporter's bank up to a specified amount.

**III. Short Answer Questions****1. What are the contents of Indents? (any 3)**

1). Quantity of goods sent, 2). Design of goods, 3). Price, 4). Nature of packing shipment, 5). Mode of shipment 6). Period of delivery, 7). Mode of payment

**2. What is meant by Mate's Receipt?**

It is the document issued by the captain of the ship acknowledging the receipt of goods on board.

This contains details like quantity of goods shipped, number of packages condition for packing.

Where the Mate is satisfied with packing he/she issues clean receipt.

If he/she is not satisfied with packing, he/she issues foul receipt.

**3. What are the documents used in Import Trade? (any 3)****1. Obtaining Import License**

Importer has to secure Import and Export Code (IEC) from the Director General of

Foreign Trade or its Regional Authority. The Indian Institute classification (ITC) –Harmonized System (HS) classified the goods into three categories, namely Restricted, Canalised and Prohibited. Goods not specified in the above categories can be freely imported without any restrictions.

Import license is not required to import the goods not mentioned in the above classification. An import license is valid for 24 months for capital goods and 18 months for other goods.

Importer has to submit the copy of IEC to customs authorities at the time of clearance of goods. The second copy of IEC is used to obtain foreign exchange from RBI.

## **2. Trade Enquiry**

Having obtained IEC, the intending importer has to make enquiry from exporter or his agents. Importer makes request by e-mail or postal mail to supply the details given below.

- a. Specification of goods like size, design, quality etc.,
  - b. Quantity goods available
  - c. Price per unit
  - d. Terms of shipping
  - e. Terms of payments i.e. Letter of credit Documents against Acceptance (D/A) or Documents against Payment (D/P)
  - f. Probable delivery time
  - g. Validity of offer period
- Importer responds to enquiry by sending proforma invoice

## **3. Obtaining Foreign Exchange**

Since importer has to settle import bills in foreign currency, he has to obtain foreign exchange. Importer has to provide IEC code in the form supplied by authorized dealer to get foreign exchange.. The importer has to submit an application along with necessary documents to the Exchange Control Department of RBI. After scrutinising the said application, the Reserve Bank of India will sanction the release of foreign exchange.

## **IV. Long Answer Questions**

### **1. What are the objectives of Import trade?**

#### **Objectives of Import Trade**

Objectives of import trade have been highlighted hereunder.

#### **1. Achieving Rapid Industrialization**

Developing countries can achieve rapid industrialisation by importing advanced technology scarce raw materials, capital goods like machinery equipment, etc., and talents from other countries.

#### **2. Meeting Consumer Demand**

Certain goods are either not available or cannot be manufactured / produced adequately to meet the growing demand in home country. Hence import is necessary to meet the short supply of those goods.

#### **3. Upgrading Standard of Living of the People**

Consumers are able to use a wide variety of goods like cell phone, car laptop. Television audio system, washing machine, perfume, soaps, etc., manufactured in foreign countries and enhance their standard of living through import trade.

#### **4. Meeting Shortage Situation**

During famine, earthquake, flood draught, tsunami, abnormal price-increase situations and so on food grains, vegetables and other essential commodities are imported from foreign countries and bad situation arising from the above situations are thus overcome.

#### **5. Strengthening Defence**

Many countries around the world import defence equipments for its armed force. Such imports enable the country to ensure its sovereignty and territorial integrity

### **2. Distinguish between Bill of Lading and Charter Party.**

Basis	Bill of Lading	Charter Party
1. Meaning	This represents a document acknowledging receipt of goods on board for carrying them over to specified port of destination	It refers to an agreement whole or major part of ship goods take exported is heavy
2. Transferable	It can be transferred to third party by endorsement and delivery	It cannot be transferred to third party
3. Loan	Loan can be raised against it	Loan cannot be raised against it
4. Crew	Master and crew remain the agent of ship owner	Master and crew become the agent of exporter for a temporary period
5. Lease	It is not a lease of ship	It is a lease of ship

## UNIT VIII INTERNATIONAL BUSINESS

CHAPTER  
27

FACILITATORS OF  
INTERNATIONAL BUSINESS



### 1. General Agreement on Tariff and Trade was signed on

- 30-October-1947
- 29-October-1947
- 28-October-1947
- 26-October-1947

### 2. WTO was established on

- 1-1-1996
- 1-1-1997
- 1-1-1995
- 1-1-1994

### 3. The headquarter of WTO is located at

- New York
- London
- Geneva
- Brazil

### 4. The day to day administration of WTO

is entrusted with

- Executive Council
- General Council
- Administrative Council
- General Body

### 5. World bank is located at

- Washington DC
- New York
- Tokyo
- Hongkong

### Answers

1. a 2. c 3. c 4. b 5. A

### II. Very Short Answer Questions.

#### 1. What is WTO?

The World Trade Organisation (WTO) was established on 1st January 1995. The GATT was renamed as WTO with some



changes.

WTO has 164 member countries as on 29th July 2016 . Regulating and controlling trade relation across the countries around the world.

It laid down rules and regulations for conducting international trade.

## **2. What do you mean by World Bank?**

International Bank for Reconstruction and Development is commonly known as World Bank.

It was set up in 1944 in order to reconstruct and rehabilitate first world war affected countries of Europe and assist in the development of developing countries. It is located at Washington DC.

## **3. What is Special Drawing Rights?**

SDR was created by the IMF in the year 1969 as supplementary international reserve asset. It is described as paper gold.

### **III. Short Answer Questions**

#### **1. Write any three objectives of IMF.**

##### **Objectives of IMF**

The objective of IMF are mentioned below.

- a. Promoting international monetary cooperation
- b. Ensuring balanced international trade
- c. Ensuring exchange rate stability

#### **2. Mention the functions of SAARC. (any 3)**

1. Monitoring and co-ordinating the development programme
2. Determining inter-sectoral priorities
3. Mobilizing cooperation within and outside the region.
4. Dealing with modalities of financing

#### **3. Write any three benefits of WTO**

1. WTO is promoting international peace and creating a conducive environment for conducting international trade
2. It settles the trade disputes amicably among the member countries.
3. It promotes the standard of living of people by increasing their income level from free trades

### **IV. Long Answer Questions.**

#### **1. Point out the objectives of WTO. (any 5)**

1. Improving the standard of living of people in member countries
2. Making optimum utilization of world's resources for sustainable development of member countries.
3. Promoting an integrated more viable and durable trading system in the sphere of international business
4. Expansion of trade in goods and services
5. Ensuring full employment and large steady growth volume of real income and effective demand
6. Protecting the environment

#### **2. Write down the functions of IMF. (any 5)**

##### **Functions of IMF**

The functions of IMF are enumerated below

1. It acts as short term credit institution at the international level.
2. It provides machinery for ordinary adjustments of exchange rates.
3. It has a reservoir of currencies of the member countries from which a borrower can borrow currencies of other nations.
4. It promotes economic stability and global growth by encouraging countries



adopt sound economic and financial policies.

5. It offers technical assistance and training to help member countries strengthen and implement effective policies. Technical assistance is offered in formulating banking, fiscal, monetary and exchange policies.

6. It helps member countries correct their imbalance in balance of payment

## UNIT VIII INTERNATIONAL BUSINESS

CHAPTER  
**28**

### BALANCE OF TRADE AND BALANCE OF PAYMENTS



#### **I. Choose the Correct Answer**

**1. The Statement which discloses a record of transactions between the residents of one country and residents of foreign country.**

- (a) Balance of Payment
- (b) Balance of Trade
- (c) Statement of Receipts and Payments
- (d) Accounting Statement

**2. The Balance of Payments councils consists of**

- (a) Current Account
- (b) Capital Account
- (c) Receipts and Payments Account
- (d) Both Current Account and Capital Account

**3. Foreign capital long- term loan and foreign currency reserve are recorded under**

- (a) Official Capital
- (b) Private Capital
- (c) Banking Capital
- (d) Both Private and Official Capital

**4. The term official capital includes**

- (a) RBI holdings of foreign currencies
- (b) Special Drawing Rights held by the Government
- (c) Both A and B
- (d) Foreign Investment

**5. Balance of payments surplus indicates**

- (a) Exports are more than the Imports
- (b) Imports are more than Exports
- (c) Exports and Imports are at Equilibrium
- (d) Exports and Imports are above Equilibrium

**Answer**

1. (a) 2. (d) 3. (b) 4. (c) 5. (a)

**II. Very Short Answer Questions****1. What do you mean by Balance of Payments?**

Balance of payment refers to a systematic record of all economic transactions between the residents of one country and the residents of foreign countries during a particular period of time. For example, one year.

**2. What do you mean by Balance of Trade?**

Balance of trade denotes the difference between the value of import and the value of export during a year.

**III. Short Answer Questions****1. What are the credit items shown in current accounts? (any 3)**

1. Goods Export(visible)
2. Invisible Exports
  1. Transport service sold abroad
  2. Banking service sold abroad
  3. Insurance service sold abroad
  4. Income received on loan and investment made in foreign countries

**3. State the components of Capital account.**

Capital account consists of three components

1. Private Capital
2. Banking Capital
3. Official Capital

**IV. Long Answer Questions****1. Write any five features of Balance of Payments.****Features of Balance of Payments**

The main features of balance of payments are as follows.

1. It is a systematic record of all economic transactions between one country and certain other countries of the world
2. It is prepared for a period of three months or twelve months, i.e., usually 12 months
3. It contains all receipts and payments both visible and invisible
4. It includes all economic transactions both recorded on current account and capital account
5. Economic transactions are recorded according to double entry principle of book keeping. Accordingly receipts are recorded on credit side and payments are recorded on debit side
6. It indicates a country's position in foreign Trade

**2. Distinguish between balance of payment and balance of trade. (any 5)**

Nature	Balance of Payment	Balance of Trade
1. Meaning	It is a systematic record of all economic transactions happened between the resident of one country and resident of foreign countries during a particular period.	Balance of trade is statement showing the net effect of export and import of a country
2. Nature of Transactions recorded	It records both the transactions relating to goods and services	It records only transactions relating to merchandise, i.e. goods transactions
3. Capital Transactions	It records capital transactions	It does not record capital transactions
4. Structure	It includes balance of trade, balance of services, balance of unilateral transfer and balance of capital transactions	It is part of current account of BOP
5. Net Position	It always remains balanced in the sense that receipt side is made equal to payment side	It may be at favorable or unfavourable or in equilibrium state.
6. Indicator Economic Status	It is true indicator of economic performance of an economy	It is not true indicator of economic prosperity or economic relations of country.
7. Correcting Unfavourableness	Unfavourable balance of payment leads to deficit in balance of payment situation.	Unfavourable balance of trade can be converted into favorable balance of payment

## UNIT IX THE INDIAN CONTRACT ACT

CHAPTER  
29

## ELEMENTS OF CONTRACT

**I Choose the Correct Answer****1. An agreement enforceable by law is a**

- (a) Enforceable acceptance
- (b) Accepted offer
- (c) Approved promise
- (d) Contract

**2. Every promise and every set of promises, forming the consideration for each other, is an**

- (a) Agreement
- (b) Contract
- (c) Offer
- (d) Acceptance

**3. Void agreement signifies**

- (a) Agreement illegal in nature
- (b) Agreement not enforceable by law
- (c) Agreement violating legal procedure
- (d) Agreement against public policy.

**4. Acceptance to be valid must**

- (a) Be absolute
- (b) Be unqualified
- (c) Both be absolute & unqualified
- (d) Be conditional.

**5. A contract with or by a minor is a**

- (a) Valid contract
- (b) Void contract
- (c) Voidable contract
- (d) Voidable at the option of either party.

**Answers**

1.d 2.a 3.b 4.c 5.b

**II Very Short Answer Questions****1. What is Law?**

Law means a 'set of rules' which governs our behaviour and relating in a civilized society. So there is no need of Law in a uncivilized society.

**2. What is meant by Contract?**

As per the Indian Contract Act, 1872, a "contract" is an agreement enforceable by Law

**3. How many parts of Indian Contract Law are classified?****There are two parts of Indian Contract Act namely**

- a. General Contracts
- b. Special Contracts

**III Short Answer Questions****1. What is meant by Offer.**

There must be two parties to an agreement namely one party making the offer

**Offer (i.e. Proposal) [section 2(a)]**

When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other person either to such act or abstinence, he is said to make a proposal.

**2. What do you mean by Agreement?**

**Agreement 2(e)** Every promise and set of promises forming consideration for each other is an agreement. In short, Agreement = Offer + Acceptance

**3. What is meant by Voidable Contract?****Voidable Contract 2(i)**

An agreement which is enforceable by law at the option of one or more parties but not at the option of the other or others is a voidable contract. This is the result of coercion, undue influence, fraud and misrepresentation.

**IV Long Answer Questions**

## 1. Explain the essentials of a Valid Contract. (any 5)

### 1. Offer and Acceptance

There must be two parties to an agreement namely one party making the offer and the other party accepting it.

### 2. Legal Relationship

The parties must have the intention to create legal relationship between them. An agreement of Social or domestic nature is not at all a contract.

### 3. Lawful Consideration (quid pro quo)

As per Contract Act under Sec.2 (d) Consideration means something in return. A contract without consideration becomes invalid. It may be in cash or kind or in any form as specified in the act. Consideration must not be unlawful, immoral or opposed to the public policy.

### 4. Lawful Object (Section 23)

The object of agreement should be lawful and legal. It must not be immoral, illegal or opposed to public policy. Two persons cannot enter into an agreement to do a criminal act.

### 5. Free Consent (Section 13 & 14)

Consent of the parties must be free and genuine. Consent means agreeing upon same thing in the same sense at the same time i.e. there should be consensus – ad – idem.

Consent is said to be free when it is not caused by coercion, undue influence, fraud, misrepresentation or mistake

## 2. Difference between Contract and Agreement.

S.No	Basis	Contract	Agreement
1	Definition	A contract is an agreement enforceable by law.	An Agreement is every promise or every set of promises forming consideration
2	Enforceability	Every contract is enforceable	Every promise is not enforceable.
3	Inter relationship	A contract includes an agreement.	An agreement does not include a contract.
4	Validity	Only legal agreements are called contracts.	An agreement may be both legal and illegal.
5	Legal Obligation	Every contract contains a legal obligation.	It is not necessary for every agreement to have legal obligation.

3. Explain the classification of Contract on the basis of the Performance.

## III. On the Basis of Performance

### 1. Executed Contract

A contract in which both the parties have fulfilled their obligations under the contract.

For example X contracts to buy a car from Y by paying cash, Y instantly delivers his car.

### 2. Executory Contract

A contract in which both the parties are yet to fulfil their obligations, it is said to be an executory contract.

For example A agrees to buy B's cycle by promising to pay cash on 15th June. B agrees to deliver the cycle on 20th June.

### 3. Unilateral Contract

A unilateral contract is a one sided contract in which only one party has performed his promise or obligation, the other party has to perform his promise or obligation.

For example X promises to pay Y a sum of Rs.10,000 for the goods to be delivered by Y. X paid the money and Y is yet to deliver the goods.

### 4. Bilateral Contract

A contract in which both the parties commit to perform their respective promises is called a bilateral contract.

For example R offers to sell his fiat car to S for Rs.10,00,000 on acceptance of R's offer by S, there is a promise by R to Sell the car and there is a promise by S to purchase the car, there are two promises.

## UNIT IX THE INDIAN CONTRACT ACT, 1872

### CHAPTER

# 30

## PERFORMANCE OF CONTRACT

### I Choose the Correct Answer

**1. On the valid performance of the contractual obligations by the parties, the contract**

- Is discharged
- Become enforceable
- Becomes void
- Becomes legal

**2. Which of the following persons can perform the contract?**

- Promisor alone
- Legal representatives of promisor
- Agent of the promisor
- All the above

**3. A, B, C jointly promised to pay ₹ 50,000 to D. Before performance of the contract, C dies. Here, the contract**

- Becomes void on C's death
- Should be performed by A and B along with C's legal representatives.
- Should be performed by A and B alone.
- Should be renewed between A, B and D.

**4. Which of these parties cannot demand performance of promise?**

- Promisee
- Any of the Joint Promisees
- On the death of a Promisee, his Legal Representative.
- Stranger to the Contract

**5. A person is said to be a third person if**

**he is not a**

- promisor
- promisee
- agent
- Legal Representative

### Answers

1.a 2.d 3.b 4.d 5.c

### II Very Short Answer Questions

**1. State the ways of Performing a Contract.**

Actual performance

Attempted performance

**2. Who is a Legal Representative?**

If the Promisor dies the legal representative of the deceased promisor is bound to perform the contract

**3. Who is an Agent?**

The promisor may employ a competent person such as agent to perform the promise, if the contract is not formed on personal condition.

**4. What is meant by Reciprocal Promise?**

Promises which form consideration or part of consideration for each other are called 'Reciprocal Promise'.

### III Short Answer Questions

**1. Who can demand performance?**

**1. Promisee** – only a promisee can demand performance and not a stranger demand performance of the contract.

**2. Legal Representative** – legal representative can demand Exception performance. Contrary intention appears from the contract. Contract is of a personal nature.



3. **Third party** – Exception to “stranger to a contract”

## 2. Who will perform the contract?

i) **Promisor himself (Section 40)**

ii) **Agent (Section 40)**

iv) **Third Person (Section 41)**

v) **Joint Promisors**

## 3. What are the kinds of Reciprocal Promise?

### Kinds of Reciprocal Promises

#### 1. Mutual and Independent

Where each party must perform his promise independently without the performance of the other, the promise are mutual and independent, For example Ramu agrees to pay Somu the amount for the rice supplied on 10th June. Somu promises to deliver rice on 18th June.

#### 2. Mutual and Dependent

Where the performance of the promise by one party depends upon prior performance of promise by the other party, the promises are conditional and dependent. For example

A agrees to construct a building for B. B agrees to supply cement for the construction.

Hence A's promise to perform depends on B's promise.

#### 3. Mutual and Concurrent

Where the two promises are said to be performed simultaneously, they are said to be mutual and concurrent.

## IV Long Answer Questions

### 1. Explain the essentials of a valid tender of performance. (any 5)

#### Essentials of a Valid Tender of Performance (Section 38)

A tender, to be valid, must satisfy the following essential requirements

i) It must be unconditional

ii) It must be for the whole obligation and must not be in instalments, if the contract requires in full.

iii) It must be by a person who is in a position and willing to perform the promise.

iv) It must be at the proper time and place.

v) It must be in proper form.

vi) It must be made to a proper person i.e. to the promisee or his authorized agent.

2. How do you think appropriation of payments takes place?

### 1. Appropriation of Payments

Sometimes, a debtor owes several distinct debts to the same creditor and he makes a payment which is insufficient to satisfy all the debts. In such a case, a question arises as to which particular debt the payment is to be appropriated. Section 59 to 61 of the Act lay down following rules as to appropriation of payments which provide an answer to this question.

#### Appropriation as Per express Instructions

Every debtor who owes several debts to a creditor has a right to instruct his creditor to which particular debt, the payment is to be appropriated or adjusted. Therefore, where the debtor expressly states that the payment is to be applied to the discharge of a particular debt, the payment must be applied accordingly.

For Example X owes Y three distinct debts of ₹20,000, ₹30,000 and ₹50,000 X sends ₹50,000 and instructs Y that the payment should be appropriated against the third debt. He is bound to appropriate the payment against the third debt only.

### 2. Application of payment where debt to be discharge is not indicated [60]

If section 60 is attracted, the creditor shall have the discretion to apply such payment for any lawful debt which is due to him from the person making the payment.

For Example P owes to Q, among other



debts, the sum of Rs.10,000. Q writes to P and demands payment of this sum. P sends to Q Rs.10,000. This payment is to be applied to the discharge of the debt of which Q had demanded payment.

### 3. Application of payment where neither party appropriates [61]

The payment shall be applied in discharge of the debts in order of time whether they are or are not based by the limitation Act 1963, if the debt are of equal standing (i.e. payable on the same date) the payment shall be applied in discharge of each of these debt proportionately.

## UNIT IX THE INDIAN CONTRACT ACT

### CHAPTER 31

### DISCHARGE AND BREACH OF A CONTRACT



### I. Choose the Correct Answer

**1. On the valid performance of the contractual obligation by the parties, the contract**

- a. Is discharged
- b. Becomes enforceable
- c. Becomes void
- d. None of these

**2. An agreement to do an act impossible in itself under Section.56 is**

- a. Void b. Valid
- c. Voidable d. Unenforceable

**3. Any agreement which becomes impossible to perform under various circumstances**

- a. Voidable b. Void
- c. Valid d. None of these

**4. Discharge by mutual agreement may involve**

- a. Novation b. Rescission
- c. Alteration d. All of the above

**5. The compensation given for breach of contract is**

- a. Damage B. remuneration
- c. Money D. Cheque

### Answers

1. a 2. a 3. b 4. d 5. a

### II. Very Short Answer Questions

**1. What are the kinds of consent?**

Express : Express consent may be given at the time of formation of the contract to its formation Implied :

1) Novation, 2) Alteration, 3) Recession, 4) Remission, and etc.

**2. What are the types of Impossibility of**

**Performance?**

Impossibility existing at the time of agreement. Impossibility arising subsequent to the formation of contract.

**3. What are the types of Damages?**

Four types of damages, such as i)  
Ordinary damages  
ii) Special damages  
iii) Vindictive or exemplary damages and  
iv) Nominal damages.

**III. Short Answer Questions**

**1. What are the various types of remedies for the injured parties? (any 3)**

**2. What are the types of cases the court may order injunction?**

The court may order injunction in the following cases –  
(a) if the contract is voidable.  
(b) if the contract becomes void or  
(c) on discovering the contract as void.

**IV. Long Answer Questions**

**1. Explain the ways of discharge of Contract.**

**i). Discharge by Performance**

Performance implies carrying out the obligation of the contract.  
Performance must be completed according to the real intentions of the agreement.  
Performance of contract may be of two types namely:  
i) Actual performance ii) Attempted performance

**ii). By Agreement on Consent:**

The consent may be of the following types  
**(i) Express:** Express consent may be given at the time of formation of the contract to its formation

**(ii) Implied:** The contracts are also discharged by implied consent, different modes of discharge by implied consent are  
(a) Novation, (b) Alteration, (c) Recession, (d) Remission, (e) Accord and Satisfaction, (f) Waiver and (g) Merger

**iii). By Impossibility of performance:**

A contract may be discharged if its performance becomes impossible. The rule of impossibility of performance is based on the following maxims

The law does not recognize what is impossible and What is impossible does not create an obligation.

**iv). By Lapse of Time**

According to the Limitation Act, 1963 a contract must be performed within a specified time.  
If it is not performed within this specified time limit.

**v). By Operation of Law:**

A contract can be discharged by the operation of law.  
The operation of law by which contract can be discharged are as follows:  
By Death  
By Merger  
By Insolvency

**2. What is meant by damages and What are its types?**

Damages are a monetary compensation awarded by the court to the injured party for the loss or injury suffered by him. As per contract, one party can claim damages if other party breach the contract. The main purpose of awarding the damages is to make good the loss suffered by him. It is known as doctrine of restitution. The Section 73 of the Indian Contract Act, 1872 deals with the compensation for loss or damages caused by a party for breach of contract. There are mainly four types of damages, such as i)

- Ordinary damages  
 ii) Special damages  
 iii) Vindictive or exemplary damages and  
 iv) Nominal damages.

## UNIT X DIRECT AND INDIRECT TAXES

CHAPTER  
32

### DIRECT TAXES



#### I. Choose the Correct Answer

##### 1. Income Tax is

- a) a business tax
- b) a direct tax
- c) an indirect tax
- d) none of these

##### 2. Period of assessment year is

- a) 1st April to 31st March
- b) 1st March to 28th Feb
- c) 1st July to 30th June
- d) 1st Jan. to 31st Dec.

##### 3. The year in which income is earned is known as

- a) Assessment Year
- b) Previous Year
- c) Light Year
- d) Calendar Year

##### 4. The aggregate income under five heads is termed as

- a) Gross Total Income
- b) Total Income
- c) Salary Income
- d) Business Income

##### 5. Agricultural income earned in India is

- a) Fully Taxable
- b) Fully Exempted
- c) Not Considered for Income
- d) None of the above

#### Answers

1. b 2. a 3. b 4. b 5. b

#### II. Very Short Answer Questions

##### 1. What is Income Tax?

Income tax is a direct tax under which tax is calculated on the income, gains or profits earned by a person such as

individuals and other artificial entities (a partnership firm, company, etc.)

## 2. What is meant by Previous year?

The year in which income is earned is called previous year. It is also normally consisting of a period of 12 months commencing on 1st April every year and ending on 31st March of the following year.

Or

Income earned during a particular financial year is assessed to tax in the immediately following financial year. The year of earning income is called 'Previous Year'

## 3. What is an assessment year?

The term has been defined under section 2(9). The year in which tax is paid is called the assessment year. It normally consisting of a period of 12 months commencing on 1st April every year and ending on 31st March of the

following year. (or) the year in which assessment of income is done is called 'Assessment Year'.

The income tax return of previous year's income is filed in the relevant assessment year.

## III. Short Answer Questions

### 1. List out the five heads of income.

- (i) Income from 'Salaries'
- (ii) Income from 'House Property'
- (iii) Income from 'Business or Profession'
- (iv) Income from 'Capital Gains'
- (v) Income from 'Other Sources'

### 2. Write short notes on:

#### a) Direct tax b) Indirect tax

i. **Direct Tax:** If a tax levied on the income or

wealth of a person and is paid by that person (or his office) directly to the Government, it is called direct tax e.g. Income-Tax, Wealth Tax, Capital Gains Tax

ii. **Indirect Tax:** If tax is levied on the goods or services of a person (seller). It is collected from the buyers and is paid by seller to the Government. It is called indirect tax. e.g. GST.

## 2. Who are all included in the term person?

The term 'person' includes the following

- (i) an individual,
- (ii) a Hindu Undivided Family (HUF),
- (iii) a company,
- (iv) a firm,
- (v) an Association Of Persons or a Body Of Individual, whether incorporated or not,
- (vi) a local authority, and
- (vii) every artificial juridical person e.g., an idol or deity.

## IV. Long Answer Questions

### 1. Elucidate any five features of Income Tax.

#### i. Levied as Per the Constitution

Income tax is levied in India by virtue of entry No. 82 of list I (Union List) of Seventh Schedule to the Article 246 of the Constitution of India.

#### ii. Levied by Central Government

Income tax is charged by the Central Government on all incomes other than agricultural income. However, the power to charge income tax on agricultural income has been vested with the State Government as per entry 46 of list II, i.e., State List.

#### iii. Direct Tax

Income tax is direct tax. It is because the liability to deposit and ultimate burden are on same person. The person earning income

is liable to pay income tax out of his own pocket and cannot pass on the burden of tax to another person.

#### iv. Annual Tax

Income tax is an annual tax because it is the income of a particular year which is chargeable to tax.

#### v. Tax on Person

It is a tax on income earned by a person. The term 'person' has been defined under the Income tax Act. It includes individual I, Hindu Undivided Family, Firm, Company, local authority, Association of person or body of Individual or any other artificial juridical persons. The persons who are covered under Income tax Act are called 'assessee'.

## UNIT X DIRECT AND INDIRECT TAXES

CHAPTER

33

### INDIRECT TAXATION



#### I. Choose the Right Answer:

##### 1. Who is the chairman of the GST council?

- a) RBI Governor b) Finance Minister
- c) Prime Minister d) President of India

##### 2. GST Stands for

- a) Goods and Supply Tax
- b) Government Sales Tax
- c) Goods and Services Tax
- d) General Sales Tax

##### 3. What kind of Tax the GST is?

- a) Direct Tax
- b) Indirect Tax
- c) Dependence on the Type of Goods and Services
- d) All Business Organisations

##### 4. What is IGST?

- (a) Integrated Goods and Service Tax
- (b) Indian Goods and Service Tax
- (c) Initial Goods and Service Tax
- (d) All the Above

##### 5. In India GST became effective from?

- a) 1st April, 2017
- b) 1st January, 2017
- c) 1st July, 2017
- d) 1st March, 2017

#### Answers

1. b 2. c 3. b 4. a 5. c

#### II. Very Short Answer Questions

##### 1. What do you mean by Indirect Tax.

Indirect Tax is levied on the goods and services. It is collected from the buyers by the sellers and paid by the sellers to the Government.

## 2. Give any two examples for indirect taxes levied in India.

CGST  
SGST  
UGST  
IGST

## 3. What do you mean by Goods and Services Taxes?

Goods and Services Tax (GST) is the tax imposed on the supply (consumption) of goods and services.

## 4. What is CGST?

**CGST** - Central Goods and Services Tax - imposed and collected by the Central Government on all supply of goods within a state (intra-state) under CGST Act 2017

## III. Short Answer Questions

### 1. What are the objectives of GST? (any 3)

1. The foremost objective of GST is to create a common market with uniform tax rate in India. (One Nation, One Tax, One Market)
2. To eliminate the cascading effect of taxes, GST allows set-off of prior taxes for the same transactions as input tax credit.
3. To boost Indian exports, the GST already collected on the inputs will be refunded and thus there will be no tax on all exports.

### 2. Write any three demerits of GST.

- i. Several Economists says that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
- ii. Another criticism is that CGST, SGST are nothing but new names for Central Excise/Service Tax, VAT and CST.

Hence, there is no major reduction in the number of tax layers.

iii. A number of retail products currently have only four percent tax on them.

After GST, garments and clothes could become more expensive.

## IV. Long Answer Questions

### 1. Distinguish between Direct taxes and Indirect taxes. (any 5)

Basis	Direct Taxes	Indirect Taxes
1. Meaning	If a tax levied on the income or wealth of a person is paid by that person (or his office) directly to the Government, it is called direct tax.	If tax is levied on the goods or services of a person is collected from the buyers by another person (seller) and paid by him to the Government it is called indirect tax.
2. Incidence and Impact	Falls on the same person. Imposed on the income of a person and paid by the same person.	Falls on different persons. Imposed on the sellers but collected from the consumers and paid by sellers.
3. Burden	More income attracts more income tax. Tax burden is progressive on people.	Rate of tax is flat on all individuals. Therefore more income individuals pay less and lesser portion of their income as tax. Tax burden is regressive.
4. Evasion	Tax evasion is possible.	Tax evasion is more difficult
5. Inflation	Direct tax helps in reducing the inflation.	Indirect tax contributes to inflation.
6. Shiftability	Cannot be shifted to others	Can be shifted to others
7. Examples	Income Tax, Wealth Tax, Capital Gains Tax, Securities Transaction Tax, Perquisites Tax.	GST, Excise Duty.

### 2. Discuss the different kinds of GST.

#### Kinds of GST

GST is of three kinds: CGST, SGST/UGST, and IGST.

a. **CGST** - Central Goods and Services Tax - imposed and collected by the Central Government on all supply of goods within a state (intra-state) under CGST Act 2017

b. **SGST** - State Goods and Services Tax - imposed and collected by the State Governments under State GST Act. (Tamil Nadu GST Act 2017 passed by Tamil Nadu Govt.)

c. **UGST** - Union Territory Goods and Services Tax - imposed and collected by the five Union Territory Administrations in India under UGST Act 2017.



d. IGST - Inter-State Goods and Services Tax - imposed and collected by the Central Government and the revenue shared with States under IGST Act 2017.

e. IGST on exports - All exports are treated as Inter-State supply under GST. Since exports are zero rated, GST is not imposed on all goods and services exported from India. Any input credit paid already on exports will be refunded.

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