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COMMERCE

11th STD

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FOREWORD

The book Titled “Commerce” 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 the students of Management, Commerce and Corporate Secretaryship. The book, though not provides ample explanation to the concepts will help the readers to have a glimpse at the salient aspects of the subjects like Personnel Management, Marketing Management, Entrepreneurship development etc. The model questions given at the end of the each chapter would help the students to review and revisit the concepts. I congratulate the author for his wonderful effort in bringing out this useful book. I wish him to pursue his passion relentlessly and continue his hard and good work.

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Dean

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TamilNadu

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UNIT I FUNDAMENTALS OF BUSINESS

CHAPTER

1

HISTORICAL BACKGROUND OF COMMERCE IN THE SUB-CONTINENT

I. Choose the Correct Answer

- The place where the goods are sold is _____
 a) Angadi b) Market
 c) Nalangadi d) Allangadi
- Hindrance of place is removed by _____
 a) Transport b) Warehouse
 c) Salesman d) Insurance
- Who wrote “Arthasasthra” ?
 a) Kautilya b) Chanakiya
 c) Thiruvalluvar d) Elangovadigal
- Trade and Commerce was common to _____ Dynasty.
 a) pallava b) Chola
 c) Panidya d) Chera
- _____ 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?

Day market was called as Nalangadi

3. What is meant by Allangadi?

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 is the role of Sangam in trade development of ancient Tamilnadu?

During the Sangam period, the main trade routes were passing through thick forests over western ghats. The State protected the merchant caravans on these trade routes from robbers and wild life.

Main roads known as Peruvali were built for surface transportation. Besides state expanded infrastructure for shipping such as ports, lighthouse, warehouse etc.. to promote overseas trade. Many such ports were developed during the Sangam period.

Kaveripumpattinam was the chief port of the Kingdom of Cholas while Nagapattinam, Marakannam, Arikamedu etc. were other small ports on east coast.

Similarly Pandiyas developed Korkai, Saliyur, Kayal, Marungaur pattinam and Kumari for foreign trade.

4. 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 roots 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.

4. What was focused in Arthasasthra about creation of wealth?

Arthasasthra focused on creation of wealth as the means to promote the well being of the state.

He advocated maintenance of perfect balance between State management and people's welfare through trading activities.

IV. Long Answer Questions

1. What are the hindrances of business?

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.

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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. Explain the development of Commerce and Trade in North India.

Arabs were dominant players in India's foreign trade. They never discouraged Indian traders like Tamils, Gujaratis, etc.. The Trade between the coastal ports were in the hands and Marwaris and Gujiratis.

The overland trade with central and west Asia was in the hands of Multanis who were Hindus and Khurasanis who were Afghans, Iranians and so on. During Sultanate period, trade flourished due to the establishment of currency system based on silver and copper.

Moorish traveller described the teeming market of big cities in the Gangetic plains, Malwar, Gujarat and South India. The important trade centres were Delhi, Mumbai, Ahmedabad, Sonar, Sonargoon, Jaunpur, Lahore and so on. The burgeoning foreign trade led to the development of market place in the towns and villages. India's handicraft commanded a good foreign market. 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 roots 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.

4. Briefly explain the coastal trade in ancient Tamilnadu.

Big cities like Poompuhar had the 'Maruvurappakam' (inland town) and 'Pattinapakkam' (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.

5. What do you know about the overseas trading partners of ancient Tamilnadu?

Foreigners who transacted business were known as Yavanars.

Arabs who traded with Tamil were called 'Jonagar'.

Pattinappalai praised Kaveripum pattinam as a city where various foreigners of high civilization speaking different languages assembled to transact business with the support of the then Kingdom.

UNIT I FUNDAMENTALS OF BUSINESS

CHAPTER

2

OBJECTIVES OF BUSINESS

I. Choose the Correct Answer

- The Primary objective of a business is
 - Making Profit
 - Not Making Profit
 - Special skill
 - None of the above
- Occupation of a Doctor is
 - Employment
 - Business
 - Profession
 - Sole Proprietor
- The following does not characterize business activity?
 - Production of goods and services
 - Presence of Risk
 - Sale or exchange of goods and services
 - Salary or wages
- Activities undertaken out of love and affection or with social service motive are termed as:
 - Economic activities
 - Monetary activities
 - Non Economic Activities
 - Financial Activities

Answers

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

II. Very Short Answer Questions

1. Define 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. Define 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.

4. 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:

- Production of goods by manufacturers
- Distribution of goods by wholesalers
- Selling by retailers
- Medical advice rendered by physicians
- Accounting practice by chartered accountants

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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 concept of '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.

Business activities are connected with raising, producing or processing of goods.

Industry creates form utility to goods by bringing materials into the form which is useful for intermediate consumption (i.e., further use of material in order industry) or final consumption by consumers.

4. Briefly state the human objectives of a business.

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.

The human objectives of business may thus include economic well-being of the employees, social and psychological satisfaction of employees and development of human resources.

IV. Long Answer Questions

1. Explain the characteristics of Business

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

Business	Profession	Employment
1. Mode of Establishment: 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
2. Nature of Work: Goods and services provided to the public	Personalized service of expert nature	Performing work assigned by the employer
3. Qualifications: No minimum qualification is essential	Education and training in specialized field	Minimum qualification is essential
4. Basic Motive: Earning profits by satisfying needs of society	Rendering service	Earning wages or salary by serving the employer
5. Capital: Capital investment required as per size of the firm	Limited capital necessary for establishment	No capital required

3. Discuss any five 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.

3. Distinguish between economic and non economic activity.

Economic Activities	Non-Economic Activities
1. Definition: Economic activities are those activities which are undertaken to earn money or financial gain for livelihood. e.g., Fruit seller selling fruits	Non-economic activities are those activities which are undertaken for the sake of pleasure, performed out of love, sympathy, sentiments etc. e.g., Mother cooks for her family
2. Motive: Sole motive is to earn money or financial gain. e.g., Working as a lawyer.	Undertaken for satisfaction of social, psychological or emotional needs. e.g., Visit to a temple
3. Money Measurement: All economic activities can be valued in monetary terms. e.g., Doctor charges ₹500 as consultation fee.	Non-economic activities cannot be valued in monetary terms. These are an expression of a thought, feeling or a gesture. e.g., An NGO distributes free clothes to poor children

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4. Relationship: Economic activities are related to creation of wealth. e.g., Ram saved part of his salary to purchase a house of his own.	Non-economic activities do not create wealth. e.g., Money received as donation is spent on charity work.
5. Outcome: All economic activities result in production, procurement, distribution and consumption of goods and services. e.g., Nokia produces cell phones and sells across India through its distributors.	The end result of a non-economic activity is the mental, emotional or psychological satisfaction of the person doing the activity. e.g., Sona enjoys teaching orphans in an orphanage.

UNIT I FUNDAMENTALS OF BUSINESS

CHAPTER

3

CLASSIFICATION 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. Auxiliaries to trade is also called as

- a. Trade
- b. Advertisement
- c. Warehousing
- d. Aids to Trade

3. 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

4. Normally high level risk involved in

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

5. Commerce is mainly concerned with

- a. Connecting producer and consumer
- b. Pricing of Goods
- c. Buying and Selling of goods
- d. Manufacturing of goods

Answers

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

4. Write a short note on transportation.

The medium which moves men and materials from one place to another is called transport.

III. Short Answer Questions:

1. Distinguish between Extractive industries and genetic industries.

Extractive industries

Supply some basic raw materials that are mostly products of geographical or natural environment. Products of these industries are usually transformed into many other useful goods by manufacturing industries.

Important extractive industries include farming, mining, oil drilling, hunting and fishing operations.

Genetic Industries

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.

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2.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.

3.Write any three characteristics of commerce.

1. Commerce is an **economic activity** because it is undertake to earn profit.
2. Commerce involves **the exchange of goods and services** for profit.
3. The **primary objective** of Commerce is to earn profit

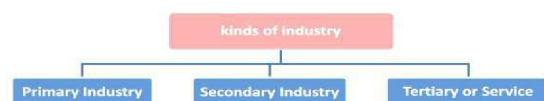
2. Narrate commerce with an example.

Commerce refers to all those activities which are necessary for bringing goods from the place of production to the place of their consumption.

Commerce includes not only trade but also services such as transport, warehousing, packaging, insurance, banking and sales promotion

IV. Long Answer Questions:

1. Explain the various kinds of industries on the basis of size.



A) On the Basis of Activities

1. Primary Industries

Primary industry is concerned with production of goods with the help of nature.

(i) Extractive Industries

Extractive industries supply some basic raw materials that are mostly products of geographical or natural environment. Products of these industries are usually transformed into many other useful goods by manufacturing industries.

Important extractive industries include farming, mining, oil drilling, hunting and fishing operations.

(ii) Genetic Industries

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.

2. Secondary Industries

These are concerned with using the materials which have already been extracted at the primary stage. These industries process such materials to produce goods for final consumption or for further processing by other industrial units.

(i) Manufacturing Industries

These industries are engaged in producing goods through processing of raw materials and thus creating form utilities.

- a. **Analytical Industry** which analyses and separates different elements from the same materials, as in the case of oil refinery.
- b. **Synthetic Industry** which combines various ingredients into a new product, as in the case of cement.

(ii) Construction Industries

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

3. Tertiary industries or Service 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.

On the basis of Size

On the basis of size or scale of operations industries may be classified as follows

1. Micro Industries
2. Small Industries
3. Medium Industries
4. Large Industries

2. Compare industry, commerce and trade.

INDUSTRY	COMMERCE	TRADE
1. Meaning: Extraction, reproduction, conversion, processing and construction of useful products	Activities involving distribution of goods and services	Purchase and sale of goods and services
2. Scope: 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. Capital: 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. Risk: Risk involved is usually high	Relatively less risk is involved	Relatively less risk is involved
5. Side: It represents supply side of goods and services	It represents demand side of goods and services	It represents both supply and demand

3. What are the characteristics of commerce?**Economic activity –**

Commerce is an economic activity.

A trader buys and sells the goods to earn profit and wealth.

Exchange of goods and services –

Commerce involves an exchange of goods and services for profit. Goods may be produced for the purpose of resale to the consumers.

Profit (earning motive)

The motive of the commerce is to earn profit.

Creation of utility

Commerce create place and time utilities to satisfy customer needs.

It (commerce) transport goods from place of production to place of consumption to create place utility.

Regularity of transport

Transaction should be done regular .

Commerce involves exchange , distribution and promotion of products, It is done a regular basis.

4. Write short notes on:**a. Analytical industry****b. Genetic Industry and****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, diary, 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.

1. Briefly explain the auxiliaries to trade.**i) Trade**

Trade is an essential part of commerce. The term 'trade' is used to denote buying and selling. It helps in making the goods produced

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available to ultimate consumers or users. Therefore, one who buys and sells is a trader.

ii. Transportation

The medium which moves men and materials from one place to another is called transport.

iii. Banking

Now-a days we cannot think of business without bank. To start the business or to run it smoothly we require money. Banks supply money

iv. Insurance

Materials and goods held in stock or in transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases.

On payment of a nominal premium, the amount of loss or damage and compensation for injury if any, can be recovered from the insurance company.

UNIT II FORMS OF BUSINESS ORGANISATION

CHAPTER

4

SOLE PROPRIETORSHIP



I. Choose the Correct Answer

- Which is the oldest form of Business organisation?
 - Sole Proprietorship
 - Partnership
 - Co-operative Society
 - Company
- In which form the owner, establisher and manager is only one?
 - Joint Enterprise
 - Government Company
 - Co-operative Society
 - Sole Proprietor
- A major disadvantage of sole proprietorship is _____.
 - Limited liability
 - Unlimited liability
 - Easy Formation
 - Quick decision
- From the following which one is Noncorporate form of business?
 - Joint stock company
 - Sole trading business
 - Government company
 - 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.

4. For which of the following types of business do you think a sole proprietorship form of organisation would be more suitable, and why?

- Grocery store
- Medical store
- Craft centre
- Legal consultancy
- Internet cafe

Sole proprietorship organization is most suitable, because low capital investment , less risk involved and quick decision making. a. Grocery store b. Medical store c. Craft centre d. Legal consultancy

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.

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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. Write any three characteristics of Sole Proprietorship.**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.

4. Give some examples of Sole trading business.

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

5. Define Sole trading business.

“Sole proprietorship is that form of business organisation which is owned and controlled by a single individual. He receives all the profits and risks all of his property in the success or failure of the enterprise”.

- Wheeler

IV. Long Answer Questions**1. Explain the characteristics of Sole trading business.****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. Enjoing 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?**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

6. Registration of partnership is _____

- a. compulsory b. optional
c. not necessary d. none of the above

7. A temporary partnership which is formed to complete a specific job doing a specified period of time is called _____

- a. Partnership-at-will
b. Particular partnership
c. Limited Partnership
d. Joint Venture

8. The partnership deed also called _____

- a. Articles of Association
b. Articles of Partnership
c. Partnership Act
d. Partnership

9. A partnership is registered with _____

- a. Registrar of Companies
b. Registrar of Co-operatives
c. Registrar of Firms
d. District Collector

Answers:

1. b 2. b 3. b 4. b 5. A 6. b 7. a 8. b 9. C

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 a 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.

5. Who is a Minor?

Under the Indian Majority Act, person who has not completed 18 years of age is a

minor. However, he will continue to be a minor till he completes 21 years if a guardian has been appointed to the minor. He can be admitted to the benefits of partnership.

6. How many types of Dissolution?

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. What is the meaning of Joint Hindu Family Business?

“When two or more families agree to live and work together, invest their resources and labour jointly and share profits or losses together, then this family is known as composite family or HUF”

1. A Joint Hindu Family comprises of - Father, mother, sons, daughters, grandsons and granddaughters.
2. They hold the property jointly.
3. They do the business under the control of the head of the family.

2. Write any 3 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.

3. Explain the nature of liability of karta.

Except the Karta, the liability of all other members is limited to their shares in the

business. The amount of debt can be recovered from his personal property also.

4. What is the meaning of Coparceners?

The word coparcener has been used very widely in relation to the Hindu law and the HUF.

In relation to HUF property, a coparcener is a person who acquires a right in the property by birth only male members of a family called coparceners.

5. Define Partnership.

According to **Prof.Haney**, “The relations which exist between persons, competent to make contracts, who agree to carry on a lawful business in common with a view to private gain”.

6. 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.

7. 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.

8. Who is called a Secret partner?

Secret Partner

A secret partner is one whose association is not known to the general public. Other than this distinct feature, he is like rest of the partners in all respects.

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9. What is meant by Joint and Several Liability?**Joint and Several liabilities**

Every partner is jointly and severally liable for all acts of the firm. It means that in case the assets are inadequate for meeting the claims of creditors, even their personal properties should be made available. The creditors can recover their claims from all the partners.

IV. Long Answer Questions**1. What is the implied authority of Karta?****Implied Authority of Karta:**

In a joint family firm Karta has the implied authority to enter into a contract for debts and pledge the property of the firm for the ordinary purpose of the businesses of the firm.

1. **Power to manage:** karta has the power to manage property, business affairs and family the way he like

2. **Power to represent:** karta represent the family in all matters - legal, social, religious.

3. **Power to get income:** karta has power to get income arising from joint family business.

4. **Power to compromise:** kara has power to compromise all disputes relating to family property, debts, other transaction.

5. **Power to contract debts:** the creditor can make the entire joint family liable for such debts karta can execute a promissory note on behalf of the family.

6. **Power of alienation:** karta has no power to dispose the joint family property without the consent of all other members.

2. Can a minor is admitted in the Joint Hindu Family business – Why?

A minor is can admitted in the Joint Hindu Family business

Minor also a co-parcener

In a Joint Hindu Family firm even a new born baby can be a co-parcener.

3. What are the contents of Partnership Deed?

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

4. Explain the types of dissolution of partnership firm.**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

5. Write any three differences between Dissolution of Partnership and Dissolution of Firm.

a) Dissolution of firm

Dissolution of firm means dissolution of partnership. On dissolution of firm, partnership

business comes to an end. Its assets are realised and the creditors are paid off.

The business cannot be continued after dissolution of partnership firm. For example A, B and C are partners in a business. If all the three partners decide to dissolve, it is known as “dissolution of the firm”.

b) Dissolution of partnership

Dissolution of partnership means the termination of the original partnership agreement.

A partnership is dissolved by insolvency, retirement, expiry or completion of the term of partnership. The business will continue after dissolution of partnership.

For example: A, B and C are partners in a business. If ‘A’ retires, ‘B’ and ‘C’ can continue the business which is known as dissolution of partnership.

6. Write the procedure for Registration of a Firm.

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. a 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 Private Company?

Private limited company is a type of company which is formed with minimum two shareholders and two directors, The minimum requirement with respect to authorised or paid up capital of ₹ 1,00,000

A private limited company is that it by its articles of association restricts the right to transfer its shares & also prohibits any invitation to the public to subscribe for any securities of the company. Maximum of 200 persons can become shareholders in a private company.

The name of private company should be suffixed with pvt ltd or (p) Ltd.

Ex. Scientific publishing services private Limited, Chennai.

3. 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.

4. 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?

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

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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?

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.

1. What is meant by Prospectus?

According to Section 2(36) of the Companies Act, any document inviting the public to buy its shares or debentures comes under the definition of prospectus. It also applies to advertisements inviting deposits from the public.

A prospectus is "the only window through which a prospective investor can look into the soundness of a company's venture"

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.

4. What is meant by Holding and Subsidiary company?

Holding Companies

As per Section 2(87) "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company—

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than onehalf of the total share capital either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

c. Subsidiary Companies

"Subsidiary company" or "Subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company.

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than onehalf of the total share capital either at its own or together with one or more of its subsidiary companies:

Examples: H Ltd., holds more than 50% of the equity share capital of S Ltd. Now H Ltd., is the holding company of S Ltd., and S Ltd., is the subsidiary of H Ltd.

UNIT II FORMS OF BUSINESS ORGANISATION

CHAPTER

7

COOPERATIVE ORGANISATION



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

the promotion of the economic interests of themselves.

- *H. Calvert*

Or

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

- *Sir Horace Plunkett*

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. Is low taxes possible in Cooperative society?

Yes, Cooperative society is a non profit enterprise and government provides various exemption on tax.

5. 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 co-operatives 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.

4. Write a note on cooperative forming societies.

When various farmers in a village pool their land together and agree to treat the pooled piece of land as one big farm for the purpose

of cultivation, purchase the necessary inputs for the cultivation, and market the crops jointly, they are assumed to have formed a cooperative farming society. Such a society, for its proper working elects its office bearers on the basis of one member-one-vote.

5. Write a note on industrial cooperatives.

Industrial co-operatives

- a) An industrial co-operative is organised by small scale producers.
- b) Cooperative undertakings are a useful means of developing small scale and cottage industries.
- c) Industrial co-operatives are very useful in obtaining raw materials, in improving the quality of products.

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

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?

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 carpenting 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.

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E. Housing Cooperatives

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

4. Write a note on Consumer cooperative society.

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

In contrast to traditional retail stores or service providers, a consumer cooperative exists to deliver goods or services rather than to maximize profit from selling those goods or services.

They also supply essential commodities through Public Distribution System (PDS). Nationally, the most widely used cooperative form is the credit union, with some 90 million members.

Credit union assets have grown a hundredfold in three decades. Credit unions are essentially cooperatives of people that use banking services. Students' cooperative stores, Cooperative provision stores and supermarkets set up on cooperative societies of India are examples of this type.

5. Whether misuse of funds is possible in co-operatives.

Yes, there is a possibility of misuse of funds in co-operatives.

If the members of the managing committee are corrupt they can swindle the funds of the co-operative society.

Many cooperative societies have faced financial troubles and also closed down because of corruption and misuse of funds.

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.

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.

1. Give two examples of MNC.

Bata Corporation - Bata India

Colgate Palmolive- Colgate India

2. Name the type of business enterprise which operates in more than one country.

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

III. Short Answer Questions

1. What are the 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.

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.

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1.What are the disadvantages of MNC's?**i.Danger for Domestic Industries**

MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs.

ii. Transfer of Outdated Technology

Where MNCs transfer outdated technology to host nation, it serves no purpose.

No benefits to poor people

MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

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) 49 % b) 51 %
c) 50 % d) 25 %

2. Airport Authority of India is a public enterprise. Identify the form of Organisation

- a) Statutory Corporations
b) Departmental Undertakings
c) Multi-National Corporations
d) State Owned Company

3. The oldest form of organisation in public sector

- a) Public Sector Undertakings
b) Departmental Undertakings
c) Multi National Corportions
d) Statutory Corportion

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. b 2. b 3. b 4. b 5. c

II. Very Short Answer Questions

1. State the different types of public sectors enterprises.

1. Departmental undertaking 2. Statutory corporation 3. Government company

2. What is the basic feature of a Departmental undertaking?

- i. Ultimate Responsibility
ii. Governmental Financing
iii. Accounting and Audit
iv. Managed by Civil Servants

3. Give two examples for each of the following:

(i) Private sector enterprises (ii) Global enterprises (iii) Public enterprises

1. Private sector enterprises: a) Reliance industries Ltd b) Wipro Ltd

2. Global enterprises: a) Unilever limited
b)Coca – cola corporation

3. Public enterprises: a) Air India b) Indian Railways

4. State the form of public enterprises which is most suitable for projects related to National Security.

1. Departmental undertaking 2. Statutory corporation 3. Government company

5. The Industrial Policy Resolution 2001 exclusively reserved for few industries for the public sector. Name these industries.

1. Mineral based industries 2. Craft based industries 3. Tourism 4. Marine aquaculture and agro – based medicinal herbs and minor forest produce

III. Short Answer Questions

1. List the areas where the state or central ownership is a preferred form of business organisation. Justify your choice of areas.

Most of the industrial progress was limited in during the period of pre independence.

Public sector industries were deliberately set up in these backward regions.

The government located new enterprise in backward areas.

Example: Bhilai Steel Plant in Madhya Pradesh

2. What are the different kinds of organisations that come under the public sector?

1. Departmental undertaking

a) These enterprises are established as departments of the ministry of a government.

b) These undertaking may be under the central government or the state government. Ex: - Railways, B.S.N.L.

2. Government Companies

A public enterprise incorporated under the Indian Companies Act, 1956 is called a government Company

These companies are owned and managed by the central or the state government.

Examples: Steel Authority of India, Indian Oil Corporation.

3. Statutory corporation

Companies are established by a Special Act made in Parliament/State Assembly.

Ex: Food Corporation of India, LIC, GIC, RBI, SBI, IDBI.

3. List the names of some enterprises under the public sector and classify them.

The following are the some enterprise with public sector -

1. Departmental undertaking

a) Indian railway b) Indian post and telegraph
c) B.S.N.L.

2. Government company

a) Hindutan Steel Ltd, b) Bharath Heavy Electricals Ltd

3. Statutory corporation

a) Reserve Bank of India, b) Life Insurance Corporation and Unit Trust of India

4. Define Departmental undertakings.

Department form of organisation of managing state enterprises is the oldest 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.

5. 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".

IV. Long Answer Questions

1. What are the advantages and disadvantages of Departmental undertaking?

Advantages

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.

Disadvantages**i. Red-tapism**

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

ii. Incidence of Additional Taxation

Losses incurred by a departmental enterprise are met out of the treasury. This very often necessitates additional taxation the burden of which falls on the common man.

iii. Lack of Competition

Civil Servants are given control of these undertakings who may not have business outlook or commercial experience. So, they run the undertaking in their own fashion without considering the sovereignty of the consumers.

iv. Casual Approach to Work

As officers of a departmental undertaking are subject to frequent transfers; they develop a sense of casual approach to work.

As a result, the operational efficiency of the undertaking suffers a lot.

2. What are the features of Public corporation? (Any 5)**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.

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

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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

4. What are the advantages and disadvantages of Public corporation?

Advantages

i. Bold Management due to Operational Autonomy

A public corporation enjoys internal operational autonomy; as it is free from Governmental control.

ii. Legislative Control

Affairs of a public corporation are subject to scrutiny by Committees of Parliament or State Legislature.

iii. qualified and contented staff Public corporation offers attractive service conditions to its staff. As such it is able to attract qualified staff. Because of qualified and contented staff, industrial relations problems are not much severe. Staff has a motivation to work hard for the corporation.

iv. Tailor-Made Statute

The special Act, by which a public corporation is created, can be tailor-made to meet the specific needs of the public

corporation; so that the corporation can function in the best manner to achieve its objectives.

5. What are the features of Departmental organisation? (Any 5)

1. Ultimate Responsibility

The ultimate responsibility of the departmental undertaking lies with the minister of the Parliament or State Legislature .

The minister, delegates his authority downwards to various other management levels, in the departmental undertaking.

2. Governmental Financing

The departmental undertaking is financed through annual budget appropriations by the Parliament or the State Legislature.

3. Accounting and Audit

The departmental undertaking is subject to the normal budgeting, accounting and audit procedures, which are applicable to all Government departments.

4. Managed by Civil Servants

The departmental undertaking is managed by civil servants, The service conditions as applicable to civil servants of the Government.

5. Sovereign Immunity

A departmental undertaking cannot be sued anybody, without the consent of the Government.

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

- (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, repayable on demand or otherwise and withdrawable by cheque, draft, pay order or otherwise".

3. Briefly explain about Central Bank.

"A central bank being generally recognized as a bank which constitutes the apex of the monetary and banking structure of its country and which performs as best as it can, in the national economic interest."

- De Kock.

III. Short Answer Questions

1. Mention the importance of banking services.

- a) Banking service is the nerve center of industry and commerce .
- b) By providing the money required for their regular functioning and development.
- c) Central Bank also plays a most important role , which are owned by the Government of the country.

2. Explain the origin of RBI.

As a result, the RBI Act 1934 was passed and RBI launched in 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.

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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;

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

IV. Long Answer Questions

1. Classify the various functions of Reserve Bank of India.

A. Leadership and Supervisory Functions

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 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.

5. Quantitative Methods of Credit Control

a) Bank rate policy b) Cash reserve ratio (CRR) c) Statutory liquidity ratio (SLR)

2. Explain the organizational structure of RBI.

The head office of the RBI is situated in Mumbai. This central office has 33 departments in 2017. It has four zonal offices in Mumbai, Delhi, Calcutta and Chennai functioning under local boards with deputy governors as their heads.

It also has 19 regional offices and 11 sub-offices (2017). The RBI is governed by a Central Board of Directors. The 21 member board is appointed by the Government of India. It consists of;

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

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. Briefly explain about Correspondent Banks?

Banking Correspondents (BCs) are retail agents engaged by banks for providing banking services at low cost in locations other than a bank branch/ATM.

A bank in a country can appoint another bank in a foreign country to act as correspondent bank.

4. 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,

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

3. Mention the purposes of Agricultural and Co-operative 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.

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.

Examples:

- i. Tamil Nadu State Apex Cooperative Bank - Head Office, Chennai
- ii. Madurai District Central Cooperative Bank Ltd.

IV. Long Answer Questions

1. Explain the various types of banks based on organization with examples

1. unit banking

a) UNIT BANK operates with only one office, usually small bank.

b) That provides financial services to its local community.

Ex. USA is the home of unit banking system.

2. Branch banking.

- a) It refers to a bank that is connected to one or more other banks in an area or outside
- b) This bank provides all the usual financial services

Ex: Chase in the U.S., owns Chase bank branches in over 20 states

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. Briefly explain the need for 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. Briefly explain the term - 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.

5. Write a note on - ECS.

ECS was launched by the RBI in 1995. It is an electronic method of fund transfer from a bank to another bank.

ECS credit can be used to credit salary, dividend, interest, pension etc. and ECS debit is used to debit monthly telephone bills, electricity bills, equated monthly installments (EMI) payments.

III. Short Answer Questions

1. What is E-Banking?

1. Banking through internet is known as E-Banking 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. Briefly explain the Diversified banking services of commercial banks.

1. Competition in the banking industry has reduced its profit .

2. The commercial banks offers new financial services and banking services is also called universal banking. Ex: a) bank assurance b) Merchant banking d) Housing finance

4. 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.

5. What do you mean by Core Banking Solutions?

‘CORE’ stands for ‘Centralized Online Real time Exchange’. In the centralized server of the bank, all the details of all the accounts of all the branches of the bank are available. A customer can withdraw money through cheque at any branch of that bank throughout the world.

IV. Long Answer Questions**1. Discuss the various primary functions performed by the commercial banks.**

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.

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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.

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

6. The document which authorizes to deliver the goods either in part or full is called _____

- a) Warehouse warrant b) Dock Receipt
c) Dock warrant d) None of these

7. The Institutional warehouse started with the support of the government is _____

- a) Bonded Warehouse
b) Public Warehouse
c) Food Corporation of India
d) Custom Bonded.

Answers

1. b 2. c 3. d 4. a 5. c 6. c 7. 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. Co-operative warehouses

II. On the basis of commodities stored

1. General warehouses 2. Special commodity warehouses

3. Give any three functions of Warehouses.

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

4. Tabulate the three differences between warehouse warrant and warehouse receipt.

Warehouse Warrant	Warehouse Receipt
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

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5. 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.**

Warehouse Warrant	Warehouse Receipt
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. Comment on 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****A. On the Basis of Ownership**

- Private Warehouses
 - Government Warehouses
 - Public Warehouses
 - Co-operative Warehouses
 - Bonded Warehouses
 - Institutional Warehouses
 - Distribution Centre Warehouses
- B. On the Basis of Commodities Stored**
- General Warehouses
 - Special Commodity Warehouses
 - Cold Storages or Refrigerated Warehouses
 - 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.

- 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 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.

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:

(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

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

2. Discuss the advantages of transport.**Advantages of Railway Transport**

1. Railways are well suited for carrying heavy and bulky goods over long distances.
2. It can provide long distance travel throughout the day and night with unbroken services.
3. 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.

Advantages of Air Transport

- a) It provides a regular, convenient, efficient and quick service.
- b) Perishable goods like fruits, vegetables, egg, meat, etc., can be transported quickly.
- c) It does not require huge investment for construction and maintenance of track like railways.
- d) They provide comfortable services for passengers and safety for their goods.

Advantages of inland waterways

- a) It is considered as the cheapest mode of transport among the other modes of transport.
- b) It is most suitable for heavy loads.
- c) There is lesser pollution in water transport.

UNIT III SERVICE BUSINESS - I

CHAPTER 15

INSURANCE



I. Choose the Correct Answer

1. The basic principle of insurance is _____

- a) Insurable Interest b) Co-Operation
c) Subrogation d) Proximate causa

2. _____ is not a type of general insurance

- a) Marine Insurance b) Life Insurance
c) Fidelity Insurance d) 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 b) Mediclaim
c) Hull insurance d) Cargo insurance

Answers

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

II. Very Short Answer Questions

1. List any five important type of policies.

- Whole Life Policy
- Endowment Life Assurance Policy
- Joint Life Policy (JLP)
- Annuity Policy
- 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

3. 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.

4. Write a note on IRDAI

IRDAI – Insurance Regulatory Development and Authority of India is the statutory, independent and apex body that governs, regulates and supervises the Insurance Industry in India.

IV. Long Answer Questions

1. Explain the various types of Insurance

- Life Insurance (or) Life Assurance
- 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.

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 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 on contributed by all insurers in proportion to the sum assured by each one of them.

3.Discuss the causes of risk.

i) Speculative Risks

Speculative risks are the kind of risks which have the possibility of gain as well as the possibility of loss.

ii) Pure Risks

Pure risks are the type of risks where business suffers loss only if the risk occurs. Nonoccurrence of such risks leads to absence of loss.

iii) Insurable Risks

Insurable risks are the type of risks where business can insure the probable losses by paying a predetermined premium to an insurance company.

iv) Uninsurable Risk

Losses arising from unforeseen natural events, political changes or trade cycles are called uninsurable risks. Loss due to earthquake or flood or cyclone cannot be estimated and their probability cannot be calculated.

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. A condition where a factor agrees to provide complete set of services like financing, debt collection, consultancy is called _____

- a) Maturity Factoring
- b) National Factoring
- c) Full service Factoring
- d) Recourse Factoring

3. Buying and selling of goods through electronic network is known as _____

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

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

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

5. The role of government in logistics management is through

- (a) Legislations (b) Governance
- (c) Transport (d) Distribution

6. The main benefit of Logistics is

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

7. What aims for an effective management response over the longer run

- (a) Logistics
- (b) Supply Chain Management
- (c) Demand
- (d) Supply

8. The model that identifies alternatives, criteria for decision making and analyse alternatives to arrive at the best choice is

- (a) Routing Model (b) Scheduling Model
- (c) Inventory Model (d) Alternative Analysis

9. A company under outsourcing transfers activities which are ...

- (a) Core (b) Non-core
- (c) Business (d) Non business

10. Business units can reduce expenditure by outsourcing front office work like

- (a) Paper work (b) File work
- (c) Billing (d) Manufacturing

11. The main benefit of outsourcing is

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

12. Outsourcing job is given to developing countries specifically for

- (a) Cheap labour (b) Land
- (c) Capital (d) Factors

13. Outsourcing is carried out for the benefit of

- (a) Global village (b) Transport
- (c) Factory (d) Time and money

Answers

1. a 2. c 3. a 4. a 5. d 6. B 7. a 8. b 9. b 10. b
11. B 12. a 13. D

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. Who is a factor?

The factor is an agent who buys the accounts receivables (Debtors and Bills Receivables) of a firm and provides finance to a firm to meet its working capital requirements

4. Define outsourcing

Recently a new type of business in service sector has become popular in the world. It is called the Business Process Outsourcing (BPO). BPO refers to outsourcing the work which is routine in nature, to an outside agency.

5. What is need for outsourcing?

1. To focus on key function
2. benefit of specialization / efficiency
3. cost cutting

6. State the importance of BPO

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

7. What are the benefits of KPO?

1. Usage of best skills
2. Ultimate use of knowledge
3. Finding solution to complex problem
4. Reduction of expenditure

8. Define Logistics.

Logistics Management defined - 'Design and operation of the physical, managerial, and informational systems needed to allow goods to overcome time and space.

9. What is the need for Logistics?

- a) This implies that an integrated view of a number of different activities and functions may be required.

- b) These activities are represented as part of the value chain, called the generic value chain by Porter.

10. Write about the importance of Logistics.

- a) Logistic creates visibility in a company's supply chain
- b) It can also use this information for process optimization and avoiding potential distributions.

11. What are the types of Logistics Applications?

1. Decision-wise
2. Actor-wise
3. Inbound logistics
4. Outbound logistics

12. What do you mean by e-commerce?

E - Commerce or Electronic Commerce is the buying and selling of goods and services through electronic networks like internet.

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.

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. Describe the benefits of Logistics.

1. Decrease in Costly Errors
2. Inventory Management
3. Increased Customer Service

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4. Access to real time freight data and analysis
5. Organizational control
6. Scalability and speed.

4. Explain the points of differences between Logistics and Supply Chain Management.

Logistics Management	Supply Chain Management
It deals with the efficient management of a static gap between Demand	It deals with the identifying dynamic nature of the value creation such as responsiveness, quality and design.
It focus on cost minimization profit maximization.	It focus on
It is supply driven	It is demand driven.

5. What is the impact of e-commerce on buyers?

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.

6. Elucidate the 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.

7. Describe the benefits of Outsourcing.**1. Focusing on Core Activities**

Companies can focus on their core competence, a few areas where the company has distinct capability. The rest of the activities (non core) can be outsource to outside agencies.

2. To Fill up Economic Development

Outsourcing stimulates entrepreneurship, encourages employment opportunities, expands exports, enables tremendous growth of the economy.

3. Encourages Employment Opportunities

Companies that are outsourcing their non core activities provide chances for other small business units to take up the activities.

This paves way for more job opportunities and new employment avenues.

4. Reduction in Investment

Companies through outsourcing avails the services of outsiders which in turn reduces the investment requirements. The amount so available can be utilized productively and this increases the profits.

5. Quest for Excellence

Outsourcing enables the firms to pursue excellence in two ways namely excelling themselves in the activities they do and excel outsiders by extending their capabilities through contracting out.

8. Explain the points of differences between BPO and KPO

BASIS	BPO	KPO
Acronym	Business Process Outsourcing	Knowledge Process Outsourcing
Meaning	BPO refers to the outsourcing of nonprimary activities of the organization to an external organization to minimize cost and increase efficiency.	KPO is another kind of outsourcing whereby, functions related to knowledge and information are outsourced to third party service providers.
Based on	Rules	Judgement
Degree of complexity	Less complex	High complex
Requirement	Process Expertise	Knowledge Expertise
Driving force	Volume driven	Insights driven

9. Write a note on e-commerce models.**1. Business to Customers (B 2 C)**

This is fastest growing segment in e-commerce space. Under this model, business concern sells directly to consumers.

2. Business to Business (B 2 B)

Under the model, business concerns transact with one another through internet.

For instance, Snapdeal, Flipkart, Alibaba, Indamart, Trade India. Com etc.

3. Consumer to Consumer (C 2 C)

Under this model, customers sell directly to other customers through online classified advertisement or through auction or through mobile or through market places.

Example. Indian ventures in C 2 C are Kraftly App (buying and selling anything) which deals in hand made products of a wide range.

Once again store. Com is a website that buys pre-owned women's fashion products. Other players are Quikr, Olx, ebay etc..

4. Customer to Business (C 2 B)

This model is reverse to auction model. Products like automobile, electronic items furniture and similar product are traded by customer through websites. Example Naukri.com, and Monster.com are examples of Indian companies operating in this domain.

5. Business to Government (B 2 G)

This model envisages selling products and services by business consumer to Government organization. For instance TCS operates the passport application process for the Government of India as part off-line process.

UNIT V SOCIAL RESPONSIBILITY OF BUSINESS AND BUSINESS ETHICS

CHAPTER

17

SOCIAL RESPONSIBILITY OF BUSINESS



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

- (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

II. Very short answer questions

1. What do you mean by Social Responsibility?

Every businessman earns prosperity from business and should give back the benefit of this prosperity to society.

This is voluntary. This benefit is the moral responsibility of business. As this benefit is supposed to be passed on to society, it can be said to be social responsibility of business.

Or

“Social Responsibility refers to the obligation to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of our society.”

– *Howard R.*

2. 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.

3. What is a 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 anti-social practices.

4. Who are called Stakeholders?

stakeholders. Example – shareholders, customers, employees, suppliers, etc.

5. 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 Questions

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. Why you do think Social Responsibility of business is needed?

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.

2. Creation of Society

Business is a creation of society and uses the resources of society. Therefore, it should fulfil its obligations to society.

3. Social Power

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

3. What are the benefits derived by employees of a Socially Responsible business enterprise?

Timely and regular payment of wages and salaries.

Proper working conditions and welfare amenities.

Opportunity for better career prospects. Better living conditions like housing, transport, canteen, crèches etc.

Timely training and development.

4. Enumerate the points relating to why business units are Socially Responsible?

Business Investors	Employees
Government	Competitors
Society	Customers
Suppliers	

5. List the 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.

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 in detail the concept and need for Social Responsibility?

The term social responsibility is defined in various ways. Every businessman earns prosperity from business and should give back the benefit of this prosperity to society.

This is voluntary. This benefit is the moral responsibility of business. As this benefit is supposed to be passed on to society, it can be said to be social responsibility of business.

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.

2. Creation of Society

Business is a creation of society and uses the resources of society. Therefore, it should fulfil its obligations to society.

3. Social Power

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

2. Illustrate with examples the arguments for Social Responsibility?

1. Protection of Stakeholders Interest

A business organisation is a coalition of several interest groups or stakeholders.

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Example – shareholders, customers, maintaining the accounts of debtors of a employees, suppliers, etc.

Business should, maintaining the accounts of debtors of a maintaining the accounts of debtors of a maintaining the accounts of debtors of a therefore, work for the interest of all of them rather than for the benefit of shareholders / owners alone.

2. Promotion of Society

Business is a sub-system of society. It draws support and sustenance from society in the form of inputs. Socially responsible behaviour is essential to sustain this relationship between business and society.

3. Assessment of Social Impact

During the course of its functioning, a business enterprise makes several decisions and actions. Its activities exercise a strong influence on the interests and values of society.

4. Organised Social Power

Large corporations have acquired tremendous social power through their multifarious operations. Social power may be misused in the absence of social responsibility. There should be a equilibrium between social power and social responsibility.

5. Legitimacy

It is in the enlightened self-interest of business to assume social responsibility.

Social responsibility legitimises and promotes the economic objectives of business.

3. What are the arguments against Social Responsibility?

1. Lack of Conceptual Clarity

The concept of Social responsibility is very vague and amenable to different interpretations. There is no consensus on its meaning and scope. In such a situation, it would be futile as well as risky to accept social responsibility.

2. Dilution of Economic Goals

By accepting social responsibility, business will compromise with economic goals.

Business is an economic institution and its only responsibility is to make maximum possible profits for its owners. It would endanger its economic viability by accepting any other responsibility.

3. Lack of Social Skill

Business organisations and their managers are not familiar with social affairs. There are special social service organisations such as Government and Non-Governmental Agencies which can better deal with social problems.

4. Burden on Consumers

If business deals with social problems, cost of doing business would increase. These costs will be passed on to consumers in the form of higher prices or will have to be borne by owners. This would lead to taxation without representation.

5. Responsibility without Power

Business organisations possess only economic power and not social power. It is unjust to impose social responsibilities with social power.

4. Discuss the different groups benefited out of Social Responsibility of business?

1. Responsibility towards Owners

Owners are the persons who own the business. They contribute capital and bear the business risks. The primary responsibilities of business towards its owners are to

- Run the business efficiently.
- Proper utilisation of capital and other resources.
- Growth and appreciation of capital.
- Regular and fair return on capital invested.

2. Responsibility towards Investors

Investors are those who provide finance by way of investment in debentures, bonds, deposits etc. Banks, financial institutions, and investing public are all included in this category. The responsibilities of business towards its investors are :

- a. Ensuring safety of their investment,
- b. Regular payment of interest,
- c. Timely repayment of principal amount.

3. Responsibility towards Employees

Business needs employees or workers to work for it. These employees put their best effort for the benefit of the business. So it is the prime responsibility of every business to take care of the interest of their employees.

If the employees are satisfied and efficient, then the only business can be successful.

The responsibilities of business towards its employees include:

- a. Timely and regular payment of wages and salaries.
- b. Proper working conditions and welfare amenities.
- c. Opportunity for better career prospects.
- d. Job security as well as social security like facilities of provident fund, group insurance, pension, retirement benefits, etc.
- e. Better living conditions like housing, transport, canteen, crèches etc.
- f. Timely training and development.

4. Responsibility towards Suppliers

Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders. Certain suppliers, called distributors, supply finished products to the consumers. The responsibilities of business towards these suppliers are:

- a. Giving regular orders for purchase of goods.
- b. Dealing on fair terms and conditions.
- c. Availing reasonable credit period.
- d. Timely payment of dues.

5. Responsibility towards Customers

No business can survive without the support of customers. As a part of the responsibility of business towards them the business should provide the following facilities:

- a. Products and services must be able to take care of the needs of the customers.

- b. Products and services must be qualitative
- c. There must be regularity in supply of goods and services

5. How do you classify Social maintaining the accounts of debtors of a Responsibility?

1. Economic Responsibility

A business enterprise is basically an maintaining the accounts of debtors of a economic entity and, therefore, its primary maintaining the accounts of debtors of a social responsibility is economic i.e., produce maintaining the accounts of debtors of a 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 best 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.What do you mean by 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. State two ways by which ethics influences Behaviour

To offer goods at fair prices.

To pay taxes regularly.

4.What is need for Corporate Governance?

Corporate Governance is the system by which businesses are directed and controlled in the best interests of all stakeholders.

Corporate Governance lays emphasis on ethics, fair business practices, transparency, discloser and conduct of business for the benefit of all stakeholders.

5 .What are MNCs?

A Multinational corporation is an organization doing business in more than one country. It engages in various activities like exporting, manufacturing in different countries.

III. Short Answer questions

1.Define business ethics.

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

These standards determine the conduct and behaviour of business people. Business ethics reflects the conduct in the context of business.

2. 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.

3. Why is ethics necessary in business?

Ethical standards are often enacted into laws. Ethics and profits go together in the long run. It enhances the quality of life, standard of living and business.

4. What are the benefit of Corporate Governance to Share holders

1. Good corporate governance enables corporate success and economic development.
2. Ensures stable growth of organizations.
3. Aligns the interests of various stakeholders.

5. Illustrate with example the working of a MNC

India ranks 10th in the world in factory output . The manufacturing sector accounts for 27.6% GDP Liberlisation also attracted MNC's and encouraged local entrepreneurs.

IBM Microsoft

PepsiCo

Sony

Vodafone

Reebok

Nokia

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. Describe the code of business ethics.

The code of business ethics can include the following:

1. To offer goods at fair prices.
2. To supply quality goods and not to deal in spurious and sub standard products.
3. To listen to consumer's complaints and to reduce them.
4. Not to raise the price of its products unjustifiably.
5. Not to resort to hoarding and black marketing.
6. Not to resort to price cutting with the sole aim of killing competition.
7. Not to issue advertisement containing false information or exaggerated claims.
8. To pay fair wages to its employees and not to exploit them.
9. To provide congenial work atmosphere.
10. To design production process in such a way as to reduce environmental pollution.

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11. To keep proper books of accounts and records.

12. To pay taxes regularly.

3. Explain the significance of Corporate Governance from the point of

Stakeholders

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.
8. Eliminates wastages, corruption, risks and mismanagement.
9. Improves the image of the company.

4. Discuss the role of International Benchmarking on the working of Companies in India

i). ASIA:

Independent Directors are a requirement for listed companies in all Asian economies.

The 2012 Singapore corporate governance code recommends a majority of Independent Directors.

In China, the Audit Committee is to be composed of Independent Directors only.

ii). USA

The Council of Institutional Investors, Corporate Governance Policies state that at least 2/3rd of the directors should be independent.

The Nominating and Corporate Governance Committee is one of the three standing committees, along with Audit Committee and Compensation Committee, Audit Committee, Advisory Committee,

Nomination and Remuneration Committee, Stakeholder Relationship Committee

iii). JAPAN

In early 2014, Japanese Prime Minister announced the goal of increasing the percentage of women in executive positions at Japanese companies to 30% by 2020.

iv). The UK

UK businesses had voluntary targets first set in 2011 (i.e) to have 25% women on FTSE100 Boards by 2015

5. Describe the benefits of increasing the number of MNCs.

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 establish its 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.

IV. Improvement in Balance of Payment Position

MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position

V. Technical Development

MNCs carry the advantages of technical development to host countries.

Transference of technical development MNCs poor host countries also begin to develop technically.

UNIT VI BUSINESS FINANCE

CHAPTER

19

SOURCES OF BUSINESS FINANCE



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

6. Funds required for purchasing current assets is an example for

- a. Fixed Capital Requirement
b. Ploughing Back of Profits
c. Working Capital Requirement
d. Lease Financing

7. Which of the following holder is given voting right?

- a. Debentures b. Preference Shares
c. Equity shares d. Bonds

8. It may be wise to finance fixed assets through _____

- a. Creditors b. Long term debts
c. Bank Overdraft d. Bills Discounting

Answers

1. a 2. d 3. c 4. a 5. B 6. c 7. c 8. 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) What do you mean by public deposits?

Companies invite public deposits by giving advertisement in the media. It offers deposit schemes for a longer tenure. Person interested in making public deposit has to undergo a simple formality. The interest rates offered by companies.

3) Name any two sources of funds classified under borrowed funds.

Debentures, loans from banks and financial institutions, public deposits, trade credit

4) Name any two internal sources of business finance.

Retained earnings

Trade Debtors

Bills Receivable

5) State any two factors that affect the choice of source of finance.

Cost, Risk Factor, Control

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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.

3. List sources of raising long-term and short-term finance.

Long Term Finance	Short Term Finance
i). Shares	i). Loans and Advances
ii). Debentures	ii). Bank Overdraft
iii). Public Deposits	iii). Trade Credit
iv). Long term loan from commercial banks	iv). Pledge

4. For which purpose fixed capital is needed in business?

For the acquisition of fixed assets such as land, building, plant and machinery, motor vehicles, furniture and fixtures, etc.

For the acquisition of intangible assets such as goodwill, patents, trademarks, and copy rights.

For meeting promotion or preliminary expenses

5. What do you mean by working capital requirement of business?

Short term finance usually refers to finance required by a firm for a period of one year.

It is also called as working capital finance.

It is required for investments in working capital or current assets like cash and bank balance, accounts receivables and etc

IV. Long short answer questions**1. List out the various sources of financing.**

The various sources of business finance can be classified into three categories on the basis of

i) Period Basis ii) Ownership Basis

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.

iii) Source of Generation Basis**A). On the basis of Period:****i) Short term finance ii) Medium term finance iii) Long term finance****i). Short Term Finance:**

- i). Loans and Advances ii). Bank Overdraft
iii). Trade Credit iv). Pledge
v). Discounting Bills of Exchange
vi). Hypothecation vii). Commercial Paper

ii). Medium Term Finance:

- i). Loan from Banks ii). Loan from Financial institutions
iii). Lease Financing

iii). Long Term Finance:

- i). Shares ii). Debentures iii). Retained Earnings
iv). Public Deposits
v). Long term loan from commercial banks

B). On the Basis of Ownership**i). Owners Fund ii). Borrower Funds****i). Owners Fund**

- i). Equity Shares ii). Retained Earnings

ii). Borrower Funds:

- i). Loan from banks ii). Loan from financial institution
iii). Debentures iv). Public Deposits
v). Lease Financing

C). On the Basis of Generation of Funds

i). Internal Source ii). External Source

2. What are the different types of short term finances given by commercial banks?**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.

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.

4. Trade Credit

Trade credit is the credit extended by one trader to another for the purpose of purchasing goods and services.

5. Pledge

A customer transfers the possession of an article with the creditor (banker) and receives loan.

6. Hypothecation

This is loan taken by depositing document of title to the property with the banker.

7. Mortgage

This is a type of loan taken from the bank by lodging with the banker title deeds of immovable assets like land and building.

3. Write short notes on 1.Retained Earnings**2. Lease financing****1.Retained Earnings**

Retained earnings refer to the process of retaining a part of net profit year after year and reinvesting them in the business.

It is also termed as ploughing back of profit. An individual would like to save a portion of his/her income for meeting the contingencies and growth needs.

Similarly profit making company would retain a portion of the net profit in order to finance its growth and expansion in near future. It is described to be the most convenient and economical method of finance.

2. Lease Financing

Lease financing denotes procurement of assets through lease. For many small and medium enterprises, acquisition of plant and equipment and other permanent assets will be difficult in the initial stages.

In such a situation Leasing is helping them to a greater extent. Leasing here refers to the owning of an asset by any individual or a corporate body which will be given for use to another needy business enterprise on a rental basis.

**4. Write short notes on a) owner's funds
b) borrowed funds****1. Owner's Funds**

Owner's funds mean funds which are provided by the owner of the enterprises who may be an individual, or partners or shareholders of a company.

The profits reinvested in the business (ploughing back of profit or retained earnings) come under owner's funds.

These funds are not required to be refunded during the life time of business enterprise. It provides the owner the right to control the management of the enterprise.

2. Borrowed Funds

The term 'borrowed funds' denotes the funds raised through loans or borrowings.

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For example debentures, loans from banks and financial institutions, public deposits, trade credit, lease financing, commercial papers, factoring, etc. represent borrowed funds.

1. These borrowed sources of funds provide specific period before which the fund is to be returned.
2. Borrower is under legal obligation to pay interest at given rate at regular intervals to the lender.
3. Generally borrowed funds are obtained on the security of certain assets like bonds, land, building, stock, vehicles, machinery, documents of title to the goods, and the like.

5. Explain any four 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.

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.

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.

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 _____

- a. an ownership certificate
- b. a depositary receipt.
- c. an ownership receipt
- d. None of the above.

2. Issuance of DRs is based on the increase of demand in the

- a. International market
- b. Local market
- c. Existing shareholders
- d. All of the above

3. ADRs are issued in

- a. Canada b. China
- c. India d. The USA

4. Depositary receipts that are traded in an international market other than the United States are called

- a. Global Depositary Receipts
- b. International Depositary Receipts.
- c. Open Market Depositary Receipts
- d. Special Drawing Rights.

5. _____ bond is a special type of bond issued in the currency other than the home currency.

- a. Government Bonds
- b. Foreign Currency Convertible Bond
- c. Corporate Bonds
- d. 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 GDR (Global Depositary Receipt)?

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 an 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.

5) What is a Foreign Currency Convertible Bond?

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.

III. Short answer questions

1. Explain the importance of international finance.

1. International finance helps in calculating exchange rates of various currencies of nations

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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 are 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.

4. State any three features of ADR.

1. ADRs are denominated only in US dollars.
2. They are issued only to investors who are American residents.

3. The depository bank should be located in US.

5. State any three features of GDR.

1. It is a negotiable instrument and can be traded freely like any other security.

2. Indian companies with sound financial track of three years are readily allowed to access international financial markets through GDR.

However clearances are required from the Foreign Investment Promotion Board (FIPB) and the Ministry of Finance.

3. GDRs are issued to investors across the country. It is denominated in any acceptable freely convertible currency.

IV. Long answer questions

1. Describe the importance of international Finance?

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.

4. International Financial Reporting System (IFRS) facilitates comparison of financial statements made by various countries.

5. It helps in understanding the basics of international organisations and maintaining the balance among them.

2.Distinguish between GDR and ADR.

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 dollars
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 Luxemburg 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 are expressed as a fraction
Negotiation	It is negotiable all over the World.	It is negotiable only in America.

3.State any five features of FCCB.

- 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 numbers of shares at a predetermined price.
- 5) It can be converted into equity or depository receipt after a certain period.

4.Explain any five advantages of FDI.

1. **Achieving Higher Growth in National Income** Developing countries get much needed capital through FDI to achieve higher rate of growth in national income.
2. **Help in Addressing BOP Crisis** FDI provides inflow of foreign exchange resources into a country. This helps the country to solve adverse balance of payment position.

3. Faster Economic Development FDI brings technology, management and marketing skills along with it. These are crucial for achieving faster economic development of developing countries.

4. Generating Employment Opportunities FDI generates a lot of employment opportunities in developing countries, especially in high skill areas.

5. Encouraging Competition in Host Countries

Entry of FDI into developing country promotes healthy competition therein. This leads to enterprise in developing countries operating efficiently and effectively in the market.

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) What do you understand by the manufacturing enterprises?

They refer to the enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951.

- 2) 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.

- 3) 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.

- 4) What is a Self Help Group?

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.

- 5) State the investment limit for small enterprise in manufacturing and service sector.

Manufacturing sector - More than Rs.25 lakhs but not exceeding Rs.5 Crores in small enterprises
Servicing Sector - More than Rs.10 lakhs but not exceeding Rs.2 Crores in small enterprises.

III. Short answer questions

1. State the investment limit for medium enterprise engaged in Manufacturing and service sector.

Manufacturing sector - More than Rs.5 Crores but not exceeding Rs.10 Crores in medium enterprises.

Servicing Sector - More than Rs.2 Crores but not exceeding Rs.5 Crores in medium enterprises.

2. List out the products produced by MSME in Tamil Nadu?

Textiles, Leather Products, Chemicals, Plastics, Garments, Jewellery.

3. 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.

4. 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.

5. What are the different ways in which banks fund Self Help Groups?

Banks lend directly to the SHGs.

Banks provide loans to the NGOs for onward lending to the SHGs and ultimately to micro entrepreneurs.

Banks extend credit to the SHGs with the NGOs serving as facilitators

IV. Long answer questions:

1. What is the definition of MSME?

In accordance with the provisions of Micro, Small and Medium Enterprises Development Act 2006, the micro, small and medium enterprises are classified into two classes.

A. Manufacturing Enterprises

They refer to the enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951.

The manufacturing enterprises are defined in terms of investment in plant and machinery.

B. Service Enterprises

They refer to the enterprises engaged in providing or rendering of services.

The limit of investment in plant and machinery/equipment for manufacturing/Service Enterprises is notified as under.

2. Explain the advantages of MSMEs?

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.

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These industries facilitate the growth of local entrepreneurs and self employed professionals in small towns and villages.

4. Quick Decision Making

MSMEs need not hire professional managers to run the management on a day to day basis.

In most cases, owner himself manages the enterprises. Hence, timely decision making becomes easy and effective.

5. Supplementary Role

MSMEs play a complementary role to serve as a feeder to large scale industries.

They supply accessories, spare parts and components to large scale industries.

3.What are the objectives of SHGs?

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 best 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 answers

1. Give the meaning of Trade?

The buying and selling of goods and services consists of trade.

2. What is Internal Trade?

Buying and selling of goods and services within the boundaries of a nation are called internal trade.

3. Mr. Vikram who runs a textile industry regularly procures cotton from Germany. Name the type of trade he is engaged in.

Mr. Vikram who runs a textile industry regularly procures cotton from Germany. This is example for Import Trade.

4. When Vikram of India sells cotton shirts to Amal of England, what type of trade he is engaged in?

When Vikram of India sells cotton shirts to Amal of England, This is example for Export Trade

5. How do you classify Trade?

Internal trade

External trade

6. What are the classifications of internal trade?

1. Wholesale trade and 2. Retail trade

7. What is import trade?

Import trade means buying goods from a foreign country for domestic use. Example.

India imports petroleum products from Gulf Countries.

8. 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'.

9. TVS is selling motor bikes in Europe. Under which type of trade can this be classified?

TVS is selling motor bikes in Europe.

This is a Multinational Trade

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10. What is the currency used in India in internal trade?

In India the currency used for Indian Rupees.

III. SHORT ANSWER QUESTIONS**1. What is the classification 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.

B. Export Trade

Export trade means the sale of domestic goods to foreign countries.

Examples:

Export of Iron ore from India to Japan

C. 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'.

E.g. Indian diamond merchants in Surat import uncut raw diamonds from South Africa.

2. Give two examples of Entrepot trade.

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.

3. What do you mean by Export trade?

Export trade means the sale of domestic goods to foreign countries.

Examples:

1. Export of Iron ore from India to Japan
2. Selling of Tea from India to England.

4. What is Wholesale trade?

"Purchase of goods in bulk from the manufacturers and selling them in smaller quantities to other intermediaries" is known wholesale trade.

5. State the meaning of Retail trade.

Retail trade deals with the distribution of goods in small quantities to the consumers.

6. Name any three retail traders in your Locality

Kolumbu store, Gobi

India silk house, Gobi

Chola book house, Gobi

7. State the main aim of trade.

The essence of trade is to make goods and services available to those persons who need them and are able and willing to pay for them.

Trade is conducted in order to earn profit. Trade acts as an intermediary in the exchange of commodities between the producer and consumer.

IV LONG ANSWER QUESTIONS**1. What are the features of Internal trade?**

- a. The buying and selling of goods takes place within the boundaries of the same country.
- b. Payment for goods and services is made in the currency of the home country.
- c. It involves transactions between the producers, consumers and the middlemen.
- d. It consists of a distribution network of middlemen and agencies engaged in exchange of goods and services.
- e. In home trade the risk of transportation is very less when compared to the foreign trade.
- f. In home trade the laws prevailing in that country only have to be followed.
- g. 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:

1. Export of Iron ore from India to Japan
2. 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



I. Choose 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

6. Wholesalers deal in _____ quantity of goods.

- a. Small b. Large
c. Medium d. Limited

7. A _____ is a mercantile agent to whom goods are entrusted for sale by a principal and takes physical possession of the goods, but does not obtain ownership.

- a. Broker b. Factor
c. Warehouse-keeper
d. Commission agent

Answers

1. c 2. a 3. b 4. a 5. B 6. b 7. B

II. VERY SHORT ANSWERS

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 Wholesaler.

Wholesale Trade means buying and selling goods in relatively large quantities or in bulk. The traders who are engaged in wholesale trade are called wholesalers.

3. 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".

4. 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.

5. What are the classifications 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.

6. 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 ANSWERS

1. What do you understand by channels of distribution?

A channel is the route through which the goods are passed on to the ultimate consumer.

There are direct channels of distribution without middlemen.

Middlemen help in the flow of goods towards the crores of consumers.

2. Who is a factor?

A factor is a mercantile agent to whom goods are entrusted for sale by a principal.

He takes physical possession of the goods, though he does not obtain ownership of the goods.

3. 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.

4. 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,

5. What are the services rendered by the wholesaler to the manufacturers?

1. **Economies in Large Scale:** A wholesaler buys goods in bulk and, thereby, enables the producers to produce goods on a large scale. Large scale production helps to reduce the cost of production per unit.

2. **Assistance in Distribution:** Wholesalers collect orders from a large number of retailers scattered over a wide area and buy goods in bulk from producers.

He enables producers to reach customers scattered over different parts of the country by distributing goods through retailers located in different areas.

Therefore producer can concentrate only on production.

3. **Warehousing Facility:** A wholesaler holds large stock of goods in his private warehouse or in a rented warehouse. In this way he relieves the manufacturer from the function of warehousing.

IV. LONG ANSWERS

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?

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.

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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 functions of Retailers?

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.

4. Explain the services rendered by wholesalers to retailers.

Services to Retailers

1. **Financial Assistance:** Wholesalers provide financial assistance to retailers by selling goods on credit.

This is done by allowing credit to retailers purchasing goods from them and makes payment to them after receiving money from their customers.

This helps retailers to manage their business with small amount of working capital.

2. **Meeting the Requirements:** Due to limited capital and lack of space in his facility a retailer cannot hold large variety of products.

The wholesaler removes this difficulty by selling goods as and when the retailer requires.

3. Introduction of New Products:

Wholesalers bring new products and their uses to the notice of retailers. Thus retailers get knowledge about innovated products and innovated features.

4. **Price Stability:** Wholesalers reduce price fluctuations by adjusting supply and demand and save the retailers from loss arising from price fluctuations.

5. **Economy in Transport:** A wholesaler often delivers goods at the door steps of retailers and save their time and cost of transport.

5. What are the services rendered by retailers to wholesalers?

1. **Help in Distribution** Retailers relieve the manufacturers and wholesalers of the burden of collecting and executing a large number of small orders from various consumers.

2. **Market Information** Retailer supply valuable information to wholesalers about changes in tastes, preferences, fashion etc. of consumers.

3. **Large Scale Operation** The manufacturers and wholesalers are freed from the trouble of making individual sales to consumers in small quantities.

This enables them to operate on, at relatively large scale and thereby fully concentrate on their other activities.

4. **Help in Promotion** Retailers participate in the promotional activities carried by manufacturers and wholesalers such as short time offers, coupons, free gifts, sales contests, etc.

Retailers help in promoting the sale of the products.

5. Personal Attention The retailer is able to provide more personal attention to his customers than the wholesaler is, He gives special services on the spot when the articles require minor repairs.

6. Explain the services rendered to consumers by Retailers.

1. Regular Supply of Goods: Retailers maintain a ready stock of various products of different manufacturers for sale to consumers. This enables the buyers to buy products as and when needed.

2. New Products Information: The retailers provide important information about the new arrival of products through their personal. Selling efforts and effective display of products.

3. Credit Facilities: Sometimes retailers provide credit facilities to their customers and enable them to increase their level of consumption.

4. Wide Selection: Retailers generally keep stock of a variety of products of different manufacturers. This enables the consumers to make their choice out of a wide selection of goods.

5. Miscellaneous Services

1. Retailers provide free door delivery services to the customers.

2. They provide after sale service to customers.

3. They allow cash discounts on their sales.

7. What are the factors affecting a channel of distribution?

i. Product Characteristics

Seasonal products are distributed through less layer of middlemen. Non standardized products that are made according to customer specifications may be delivered directly. But standardized products may be passed on through middlemen. Trucks which are heavily needed to be distributed with less layers of distribution.

ii. Market Characteristics

The size of the market for the goods is a major factor while selecting the route for distribution of products. Distribution in large geographical area requires more middlemen. Middlemen are not required to distribute products in a limited area.

iii. Number of Consumers

Large purchases made by few consumers require centralised distribution. Large number of consumers making purchases in small quantities requires more middlemen.

iv. Middlemen factor

Middlemen who are experienced and have produced more sales are wanted by all producers. Long channel naturally increases the cost and price of the product. The number of layers of middlemen should be kept to the minimum.

The competitor who is efficient in reducing distribution cost will sell more as his price tends to be lower. More the middlemen are lesser will be the level of control and more problems on the part of the producers.

UNIT VII TRADE

CHAPTER

24

RETAILING



I. CHOOSE THE BEST 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

Answer :

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

II. VERY SHORT ANSWERS

1. What is Retailing?

Retailing is the process of selling the goods and services directly to the ultimate consumers in small quantities.

2. 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 Shops.

3. Mention any two benefits of Vending machines.

Automatic vending machine is a new form of direct selling. It is a machine operated by coins or tokens.

Its are placed at a convenient location such as railway stations, airports, petrol pumps, etc.

4. 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 ANSWERS

1. Explain the features of 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.

2. Give any four points of distinction between hire purchase system and installment system of selling.

Basis	Hire Purchase System	Installment System
Contract of Sale	It is not a contract of sale	It is a contract of sale
Transfer of ownership	Ownership passes to the buyer only after the final installment has been paid	Ownership passes to the buyer as soon as he has paid the first installment.
Rights of buyer	The buyer cannot hire, sell or pledge the articles bought.	The buyer can do anything with the article.

3. Explain the characteristics of super markets.

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 pick up goods of their requirements, bring them to the cash counter, make payment and take home delivery.

4. What is meant by 'mail order retailing'?

Mail order houses are the retail outlets that sell their merchandise through mail. There is generally no direct personal contact between the buyers and the sellers in this type of trading.

IV. LONG ANSWERS

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. What is meant by Consumer Cooperative Store? Explain its merits in brief.

A consumer's cooperative store is a retail organisation owned, managed and controlled by the consumers themselves to obtain products of daily use at reasonable low prices.

Merits:

The capital of a cooperative store is raised by issuing shares to members.

The management of the store is democratic and entrusted to an elected managing committee, where one man one vote is the rule.

The cooperative stores are very famous in Tamilnadu.

For example, Kamadhenu and Chinthamani cooperative supermarkets in Chennai, Karpagam in Vellore, etc.

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3. Describe the role of chambers of commerce in promotion of internal trade.

The Chamber of Commerce and Industry is an association of business and industrial houses like merchants, financiers, manufacturers, etc. in a locality, region, or state.

The main objective of these associations is to promote and protect the interest and goals of Indian commerce and industry.

1. They act as national guardians of trade, commerce and industry.
 2. They act as a catalyst in strengthening the internal trade of the country.
 3. Interact with Government with regard to formulation and implementation of related policies.
- a. Federation of Indian Chambers of Commerce and Industry (FICCI), New Delhi.
 - b. Associated Chamber of Commerce and Industry (ASSOCHAM)
 - c. Confederation of Indian Industry (CII)
 - d. Madras Chamber of Commerce, Chennai.
 - e. Tamil Nadu Traders Associations.

i. Transportation or inter-state movement of goods

The Chambers facilitate registration of vehicles, surface transport policies, construction of highways and roads in promoting interstate movement of goods.

ii. Harmonisation CGST and SGST structure

iii. Marketing of agro products and related issues

The associations of agriculturists and other federations interact with farming cooperatives to streamline local subsidies and formulate marketing policies for selling agro products.

iv. Weights and measures and prevention of duplication of brands

They help the Government in formulation and implementation of uniform policies in weights and measures and prevention of duplication of brands.

v. Promoting sound infrastructure

They interact with Government to construct roads, ports, electricity, railways, etc.

vi. Labour legislation

They interact with the Government on regular basis and the issues related to labour laws, retrenchments, compensation, etc. so that the industry can run efficiently, generate employment and achieve maximum productivity.

UNIT VIII INTERNATIONAL BUSINESS

CHAPTER

25

INTERNATIONAL BUSINESS



I. CHOOSE THE BEST ANSWERS

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 reexport 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 ANSWERS

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

5. Give any two reasons for International Business.

Due to varying climatic conditions prevailing across the world certain resources are abundantly available in some countries.

In such case countries with surplus resources have to exchange them with other countries for its deficit resources.

III. SHORT ANSWERS

1. Describe importance of the external trade to an economy

i). Unequal Distribution of Natural Resources.

Countries across the world are not endowed with the natural resources of various types equally.

The natural resources are unevenly spread across the various nations.

ii). Specialization.

Certain countries specialize in the production of goods and services due to some natural advantages.

Like, favorable climatic conditions, availability of natural resources, technical know how, etc.,

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iii). Cost Benefit.

Production cost varies significantly among the countries due to difference in socio economic, geographical, demographical, technical and political environments prevailing therein.

2. What is the necessity for entrepot trade?

- Import duty is not levied on such goods
- These goods are reprocessed and repacked for re-export
- Such goods are kept in the Bonded warehouse till they are re-exported.

3. What are the limitations of international business?

1. Economic Dependence.

International trade is more likely to make the country too much dependent on imports from foreign countries.

The former may not take any efforts to produce goods and services indigenously to substitute imported goods and thus becoming self sufficient.

As a result the importing country may become economically slave to exporting country and end up becoming colony of the exporting country.

2. Inhibition of Growth of Home Industries.

International business may discourage the growth of indigenous industry. Unrestricted imports and severe competition from foreign companies may ruin the home industries altogether.

3. Import of Harmful Goods.

International business may lead to import of luxurious goods, spurious goods, dangerous goods, etc. It may harm the well-being of people.

IV. LONG ANSWERS

1. List out the advantages of international Trade

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. Enumerate the disadvantages of international trade**1. Economic Dependence.**

International trade is more likely to make the country too much dependent on imports from foreign countries. The former may not take any efforts to produce goods and services indigenously to substitute imported goods and thus becoming self sufficient.

As a result the importing country may become economically slave to exporting country and end up becoming colony of the exporting country.

2. Inhibition of Growth of Home Industries.

International business may discourage the growth of indigenous industry. Unrestricted

imports and severe competition from foreign companies may ruin the home industries altogether.

3. Import of Harmful Goods.

International business may lead to import of luxurious goods, spurious goods, dangerous goods, etc. It may harm the well-being of people.

4. Shortage of Essential Goods in Home Country.

Moreover the export of essential commodities out of the greed of earning more foreign exchange may result in absolute shortage of these goods at home country and people may have to buy these commodities at exorbitant price in the local market.

5. Misuse of Natural Resources.

Excessive export of scarce natural resources to various countries across the world may lead to faster depletion of the resources in the exporting countries. This in turn may bring about ecological disaster in the country from which it is exported.

3. Distinguish between internal and international trade**Basis Internal Trade International Trade**

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,

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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

26

EXPORT 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. Write any two export promotion institutions.

Export Promotion Council

State Trading Corporation

3. Mention the types of Indent.

Open Indent

Closed Indent

Confirmatory Indent.

4. What is the 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?

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 meaning of consular invoice?

Where the customs duties are charged on the basis of value of goods at import's port.

The customs officers are empowered to open the consignment to calculate duties.

In order to avoid this problem exporter obtains consular invoice and sends it over to the importer.

3. What is meant Charter Party?

A charter party is a formal agreement between ship owner and the exporter.

The hiring of ship for specific voyage is called voyage charter.

This hiring of entire ship for a specific time period is called time charter

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4. Write a short note on 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.

5. What is Bill of Lading?

It refers to a document signed by ship owner or to his agent mentioning that goods specified have been received.

It would be delivered to the importer or his agent at the port of destination if good condition

IV. Long Answer Questions**1. What are the procedures relating to Export trade?****i). Receiving Trade Enquiry**

In the first place importer requests the exporter to supply the information given right below.

Quantity of goods available.

Price per unit

Terms and conditions of shipment and payment Probable delivery time

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 to hire a whole or major part of ship when the 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

ii). Receiving Indent and Sending Confirmation

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.

Indent is prepared in duplicate.

iii). Arranging 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.

iv). Obtaining Importer Exporter Code and RBI code Number

Exporter has to apply in Ayaab Nirayatt Form 2A to the Regional Authority of the Director General of Foreign Trade in the region where the registered office of the company is located.

Exporter has to mention the number in all the shipping documents.

v). Export Inspection Certificate

After the goods have been packed as per the specifications of importer, the exporter has to apply to the Export Inspection Agency in this connection.

The agency sends an inspector to inspect the consignment

3. What are the documents used in Export Trade?**i). Documents Related to Goods:**

Indent

Certificate of origin

Certificate of Inspection

ii). Documents Related to Shipment

Mate's Receipt

Shipping Bill

Shipping Order

Bill of Lading

Marine Insurance Policy

Consumer Invoice

iii). Documents Related to Payment

Letter of Credit

Commercial Invoice

Bills of Exchange

4. Explain the various functions of Export Trading Houses. (any 5)**Functions/Services of Export house**

The functions of export house are mentioned below

1. Identifying potential market for a product
2. Finding buyers and their agent and eliciting their response for export proposal.
3. Establishing product specification in the light of market needs, standards and regulation in accordance with suppliers capabilities.
4. Determining appropriate mode of transportation and routing keeping in mind the cost, quality of service and security
5. Preparing the goods for delivery at destination
6. Determining buyer's creditworthiness
7. Negotiating the transactions
8. Arranging proper insurance coverage against maritime risks and currency fluctuations
9. Financing the transactions and paying for goods and service received.
10. Preparing document for international trade
11. Settling claim.

UNIT VIII INTERNATIONAL BUSINESS

CHAPTER

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FACILITATORS OF INTERNATIONAL BUSINESS



I. Choose the Correct Answer

1. General Agreement on Tariff and Trade was signed on

- a. 30-October-1947
- b. 29-October-1947
- c. 28-October-1947
- d. 26-October-1947

2. WTO was established on

- a. 1-1-1996
- b. 1-1-1997
- c. 1-1-1995
- d. 1-1-1994

3. The headquarter of WTO is located at

- a. New York
- b. London
- c. Geneva
- d. Brazil

4. The day to day administration of WTO is entrusted with

- a. Executive Council
- b. General Council
- c. Administrative Council
- d. General Body

5. World bank is located at

- a. Washington DC
- b. New York
- c. Tokyo
- d. 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.

4. What is SAARC?

South Asian Association for Regional Cooperation is the regional inter governmental organization and geo-political union of nations in South Asia.

5. What is GATT?

GATT was a multilateral treaty. It laid down rules and regulations for conducting international trade.

GATT achieved many success but various countries felt the need to create a new international body to replace the GATT.

III. Short Answer Questions

1. What is the primary motive of establishment of WTO?

- 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

2.Name the affiliate of World Bank

International Bank for Reconstruction and Development (IBRD)

International Development Association (IDA)

International Financial corporation (IFC)

Multinational Investment Guarantee Agency(MIGA)

3.What are the criticisms of World Bank?

i). Most Favored Nation Principles

This is the core of WTO rules.

Under this rule member countries are advised not to discriminate among the home enterprises, multi-nationals and foreign enterprises.

ii). Failure to Reduce Tariffs on Agriculture

WTO failed to convince the USA and European Unions to eliminate high tariff on agriculture .

It defends high tariff on agriculture in USA and EU.

This would undoubtedly hurt the farmers in developing countries.

iii). Neglect of Cultural and Social Factors

WTO is criticized for promoting the domination of multinational companies which are feared to eliminate local enterprises from business world altogether.

The growth of MNC's is feared to ruin cultural diversity of many developing countries.

4. How is the value of SDR determined currently?.

It is calculated as the sum of specific amount of each basket currency value in US dollar based on the spot exchange rates observed at noon London time.

IMF allocates SDR to member countries in proportion to their quota.

5.Mention the functions of SAARC.

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

IV. Long Answer Questions.

1.Point out the objectives of WTO

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 WTO.

1. It is a forum for negotiation and formalization of trade agreement among the member countries.

2. It settles disputes and grievances relating to trade among the member countries.

3. It frames commonly acceptable code of conduct in order to reduce trade barriers.

4. It holds consultations with IMF and World Bank (IBRD) and its affiliates to bring about a greater understanding and co-operation in global economic policy making.

5. It supervises the operations of agreement relating to General Agreement on Tariffs and Trade (GATT) and Trade-Related Intellectual Properties Rights (TRIPS)

6. It regulates trade between participating countries.

3. Describe the benefits of WTO

1. WTO is promoting international peace and creating a conducive environment for conducting international trade

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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
4. WTO has removed quantitative restrictions and non-tariff barriers. It has facilitated free flow of foreign trade among the member countries. The countries can impose import restrictions only to correct balance of payments difficulties and not otherwise.
5. It stimulates economic growth of developing countries by providing them with much needed capital and giving them preferential treatment in trade related matters.

4. Highlights the functions of IBRD

1. Assisting reconstruction of war-affected countries
2. Promoting economic growth and balanced growth of international business
3. Promoting infrastructural facilities like energy and transportation, road development, etc. in member countries.
4. Encouraging agricultural and industrial development in developing countries by providing adequate resources
5. Providing resources for promoting sanitation, education, health care and small scale enterprises in member countries
6. Improving standard of living of people of member countries by providing assistance by removing poverty, raising productivity, providing technical support and conducting research and development

5. Write down the functions of IMF

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.

6. Explain how far India has benefited from IMF.

Free Convertibility of Indian Rupee

Indian rupee has become independent after the establishment of IMF. Earlier it was linked with pound sterling. Its value is now determined in terms of Gold. Hence it is freely convertible.

1. Loan For Development Activities

India got several loan facilities from IMF for its several development projects.

2. Ability To Purchase Foreign Currency

Government of India is able to purchase foreign currencies from time to time to meet the ever growing requirement of development activities.

3. Expert Advice

India used to get expert advice from IMF for solving the economic problems. It has given valuable advice to India with regard to financing its 5 year plan.

4. Timely Help

India has received timely help from IMF many a time to eliminate the deficit in its balance of payments. India got help from IMF during 1966 in the aftermath of war with Pakistan. It received assistance from IMF for combating oil shock. Between 1980 and 1983 India got assistance from IMF to manage global economic recession.

5. Financial Assistance during Natural Calamity

India has got a lot of financial assistance from IMF to solve the economic crises arising from natural calamities like, floods, famine, earthquake, aggressions of Chinese and Pakistan etc. It gets technical assistance from IMF.

6. Membership in World Bank

By virtue of its membership in IMF India could become member in the World Bank.

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.

3. Define Balance of payments

According to International Monetary Fund, “ The balance of payments for given period is a systematic records of all economic transactions taken place during the period between residents of the reporting countries.”

4. What is the composition of private capital?

Private capital consists of foreign investments, long term loan and foreign currency deposits

5. Mention the components of banking capital.

Banking capital includes movement into external financial asset and liabilities commercial and co-operative banks authorized to dealing in foreign exchange

6. Mention the components of official capital.

It includes RBI's holdings of foreign currency and special drawing rights (SDR) held by the Government.

III. Short Answer Questions

1. Why is Balance of payment prepared?

Balance of payment is the principal tool for analyzing the monetary position of international trade of a country just like Receipts and Payments account of enterprise revealing the net effect of cash movements happening in an enterprise during a particular period.

2. What does Balance of payment disclose?

A Balance of Payment surplus indicates that country's exports are more than its imports and its government and residents are savers.

They are in position to have enough capital to pay for its domestic production.

As a result it boosts the economic growth in the short term.

3. What are the credit items shown in currents accounts?

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

2. Distinguish balance of payment and balance of trade

4. 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 down the structure of capital Account

Capital account consists of three components

1. Private Capital
2. Banking Capital
3. Official Capital

1. Private Capital

Private capital consists of foreign investments, long term loan and foreign currency deposits

2. Banking Capital

Banking capital includes movement into external financial asset and liabilities commercial and co-operative banks authorized to dealing in foreign exchange

3. Official Capital

It includes RBI's holdings of foreign currency and special drawing rights (SDR) held by the Government

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

3.Highlight the features of balance of trade.

It is a systematic record of all economic transactions between one country and certain other countries of the world.

It is prepared for a period of three months or twelve months, i.e., usually 12 months.

It contains all receipts and payments both visible and invisible.

It includes all economic transactions both recorded on current account and capital account.

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. It indicates a country's position in foreign trade

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. Why should one know law?

Society requires peace, harmony, justice, social security and order which is possible only through Laws.

Every law has a particular field of activity to regulate and govern.

3. Can a minor enter into a Contract?

No, a minor cannot enter into contract.

4. Who can enter into a Contract?

The Indian Contract Act specifies that every person is competent to contract provided he is of the age of majority according to the law which he is subject to and who is of sound mind.

5. Define Contract

A "contract" is an agreement enforceable by law. The agreements not enforceable by law are not contracts. - Indian Contract Act, 1872.

III. Short Answer Questions

1. Define 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?

An "agreement" means 'a promise or a set of promises' forming consideration for each other.

Agreement = offer + Acceptance

3. Define a Voidable Contract

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

4. What do you mean by Revocation?

The revocation mean the withdraw of an offer power of attorney

5. Who is a promisor, promisee?

promisor: The person who has become obliged through a promise (usually expressed in a contract) towards another.

Promise: the person who makes a promise or a contractual commitment

IV. Long Answer Questions

1. Explain the essentials of a Valid Contract

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.

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 Validity.

I. On the Basis of the validity

1. Valid Contract

An agreement which fulfils all the essentials prescribed by law on the basis of its creation. For example S offers to sell his car

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.

for Rs.2,00,000 to T. T agrees to buy it. It is a Valid Contract.

2. Void Contract (2(j))

A contract which ceases to be enforceable by law. A contract which does not satisfy any of the essential elements of a valid contract is said to be Void. For example A

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contract between drug dealers to buy and sell drugs is a void contract.

3. 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.

4. Illegal Contract

It is a contract which is forbidden by law. All illegal agreements are Void but all void agreements or contracts are not necessarily illegal. Contract that is immoral or opposed to public policy are illegal in nature.

- i. Unlike illegal agreements there is no punishment to the parties to a void agreement.
- ii. Illegal agreements are void from the very beginning but sometimes valid contracts may subsequently become void.

5. Unenforceable Contract

Where a contract is unenforceable because of some technical defect i.e. absence in writing barred by imitation etc. If the parties perform the contract it will be valid, but the court will not compel them if they do not.

4. Explain the classification of Contract on the basis of the Formation.

1. Express Contract

A contract made by word spoken or written. According to Section. 9, in so far as the proposal or acceptance of any promise is made in words, the promise is said to be express. For example P says to Q 'will you buy my bicycle for Rs.1,000?' Q says to P 'Yes'.

2. Implied Contract

The implied contract is one, which is not expressly written but understood by the conduct of parties. Where the proposal or acceptance of any promise is made otherwise than in words, the promise is said to be implied. For example A gets into a public bus, there is an implied contract that he will pay the bus fare.

3. Quasi Contract

It is a contract created by law. Actually, there is no contract. It is based on the principle

that "a person shall not be allowed to enrich himself unjustly at the expense of the other". In other words it is an obligation of one party to another imposed by law independent of an agreement between the parties.

4. Tacit Contract

A contract is said to be tacit when it has to be inferred from the conduct of the parties. For example obtaining cash through automatic teller machine, sale by fall of hammer of an auction sale.

5. 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

CHAPTER

30

PERFORMANCE OF CONTRACT



I. Choose the Correct Answer

1. On the valid performance of the contractual obligations by the parties, the contract

- a. Is discharged
- b. Become enforceable
- c. Becomes void
- d. Becomes legal

2. Which of the following persons can perform the contract?

- a. Promisor alone
- b. Legal representatives of promisor
- c. Agent of the promisor
- d. All the above

3. A, B, C jointly promised to pay Rs.50,000 to D. Before performance of the contract, C dies. Here, the contract

- a. Becomes void on C's death
- b. Should be performed by A and B along with C's legal representatives.
- c. Should be performed by A and B alone.
- d. Should be renewed between A, B and D.

4. Which of these parties cannot demand performance of promise?

- a. Promisee
- b. Any of the Joint Promisees
- c. On the death of a Promisee, his Legal Representative.
- d. Stranger to the Contract

5. A person is said to be a third person if he is not a

- a. promisor b. promisee
- c. agent d. 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. Define Reciprocal Promise.

Promises which form consideration or part of consideration for each other are called 'Reciprocal Promise'.

5. By whom must contracts be performed?

Promisor himself

Agent,

Representations

III. Short Answer Questions

1. What is a Valid tender?

A valid tender of performance is considered to be the performance of a promise. There are mainly two ways of performing contracts:

i. Actual Performance

When the party has done what he had undertaken to do, it is called actual performance.

In actual performance, the party is to fulfill all his obligations under the contract.

ii. Attempted Performance

When the party offers to perform his obligation, it is not accepted by the promisee.

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So, it is also called offer to performance or tender.

2. Who can execute and Perform a Contract?

Promisor himself

Agent

Representations

Third Person

Promise

3. Who can demand performance?

Promisee – Only a promisee can demand performance and not a stranger demand performance of the contract.

Legal Representative – Legal representative can demand Exception performance. Contrary intention appears from the contract. Contract is of a personal nature.

Third party – Exception to “stranger to a contract”

4. Write a note on the benefits of Reciprocal Promise.

Promises which form consideration or part of consideration for each other are called ‘reciprocal promise’.

Mutual and Independent

Mutual and Dependent

Mutual and Concurrent

5. Who is a Joint Promisors?

Where two or more persons have made a joint promise, a release of one of such joint promiser by the promisee does not discharge the other joint promiser, neither does it free the joint promiser.

IV. Long Answer Questions

1. Explain rules relating to place of performance of promise

It is only the promisee for whom the contract is performed.

Only the promisee can demand the performance of the promise under a contract.

Of course, there are certain special cases, where a third party can enforce a promise though he is not a party to the contract.

For example in respect of trust, marriage settlement etc.

In case of death of promisee, the representative appointed by him can ask for the performance of the promise under a contract.

2. Elucidate the provision regarding time as factor in performance.

i). Under Section 46, performance within a reasonable time:

According to Section 46, a promisor is to perform his promise within a reasonable time.

On the other hand, reasonable time will depend upon the circumstance of the case, the usage of trade or on the intention of the parties entering into the contract.

ii). Under Section 47, specified time and place for performance:

According to the Section 47, In such a case the promisor may perform the promise at any time during the usual hours of business on such day and at the place at which the promise ought to be performed.

3. How do you think appropriation of payments takes place?

i). 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.

ii). 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.

iii). 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 debts are of equal standing the payment shall be applied in discharge of each of these debts 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 is Quantum merit?

The claim for quantum merit may arise if a contract performed by one party has become discharged by breach of the other party.

The meaning of the phrase quantum merit is 'as much as earned'.

III. Short Answer Questions

1.What are the different modes of discharged by implied consent?

Agreement between the parties comes to an end by mutually agreeing for it.

Any contract is created by an agreement, hence in the same way. it can be discharged by an agreement.

The consent may be of the following types
(i) Express: (ii) Implied:

2.Define discharge by Performance.

According to the Section 56 of the Act, all acts to do impossible acts are void.

There are two types of impossibility of performance such as – Impossibility existing at the time of agreement.

Impossibility arising subsequent to the formation of contract.

3.What are reasons for impossibility arising after the formation of contract?

A contract may be discharged if its performance becomes impossible.

The law does not recognize what is impossible and What is impossible does not create an obligation.

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4. What are the various rules regarding damages?

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.

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. Write about the various remedies for breach of contract**(i) Rescission of Contract**

In case of breach of contract by one party, then the other parties may rescind the contract and thereby the party is absolved from his all obligations under the contract.

(ii) Claim for Specific Performance

In some specific cases if the damages are not the adequate remedy, then the court can direct the party in breach for the specific performance of the contract.

In such case, the promise is carried out as per terms and conditions of the contract.

(iii) Claim for Injunction

Injunction is an order passed by a competent court restraining a person from doing some act.

Injunction can be defined as a mode of securing the specific performance of the negative terms of a contract.

(iv) Claim for Quantum Merit

The claim for quantum merit may arise if a contract performed by one party has become discharged by breach of the other party.

The meaning of the phrase quantum merit is 'as much as earned'.

(v). Claim for damages:

Damages are a monetary compensation awarded by the court to the injured party for the loss or injury suffered by him.

The main purpose of awarding the damages is to make good the loss suffered by him.

3. Discuss the different types of damages awarded to the injured party.

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

Ordinary damages

Special damages

Exemplary damages

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. Define the term person?

It is a tax on income earned by a person. The term 'person' has been defined under the Income tax Act.

an individual,

a Hindu Undivided Family (HUF),

a company,

a firm,

a local authority, and

every artificial juridical person

4. Define the term assessee?

The persons who are covered under Income tax Act are called 'assesseees'.

Assessee means a person by whom any tax or any other sum of money is payable under this Act. It includes every person in respect of whom any proceeding has been taken for the assessment of his income.

5. 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. What is Gross Total Income?

Income computed under these heads shall be aggregated after adjusting past and present losses and the total so arrived at is known as 'Gross Total 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' *****

Gross Total Income (GTI) *****

2. 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'

3. Write a note on Agricultural Income.

Any rent or revenue derived from land which is situated in India and is used for agriculture purposes.

It is fully exempted from tax u/s 10(1) and as such does not form part of total income.

4. What do you mean by Total Income.

Out of Gross Total Income, Income tax Act 1961 allows certain deductions under section 80. After allowing these deductions the figure which we arrive at is called 'Total

Income' and on this figure tax liability is computed at the prescribed rates.

Gross Total Income *****

Less: Deductions (Sec.80C to 80U) *****

Total Income (T.I.) *****

5. Write short notes on:

1. Direct Tax. 2. 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.

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

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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, 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'.

2. Define Tax. Explain the term direct tax and indirect tax with an example.

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, Securities Transaction Tax, Fringe Benefits Tax (from 2005), Banking Cash Transaction Tax (for Rs.50,000 and above - from 2005), etc.

In India all direct taxes are levied and administered by Central Board of Direct Taxes.

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.

3. List out any ten kinds of incomes chargeable under the head income tax.

Section 14 of Income Tax Act 1961 provides for the computation of total income of an assessee which is divided under five heads of income. Each head of income has its own method of computation.

These five heads are;

(i) Income from 'Salaries' [Sections 15-17];

(ii) Income from 'House Property' [Sections 22-27];

(iii) Income from 'Profits and Gains of Business or Profession' [Sections 28-44];

(iv) Income from 'Capital Gains' [Sections 45-55]; and

(v) Income from 'Other Sources' [Sections 56-59].

4. Discuss the various kinds of assesses.

Assessee means a person by whom any tax or any other sum of money is payable under this Act. It includes every person in respect of whom any proceeding has been taken for the assessment of his income.

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. d

II. VERY SHORT ANSWER QUESTIONS

1. Define Indirect 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. E.g. GST, Excise duty

2. List out any four types of 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. Write a note on SGST.

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.)

5. 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. Write any two differences between direct taxes and indirect taxes.

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. What are the objectives of GST?

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.

3. Briefly explain the functions of GST council.

A. To the Society and country

GST has integrated the economy of all States and Union Territories.

It will bring more tax compliance (more tax payers) and increase revenue to the Governments.

B. To Business Community

Simpler Tax System with fewer exemptions. 17 taxes were abolished and one tax exists today.

Input tax credit will reduce cascading effect of taxes.

Uniform prices throughout the country. Expansion of business to all states is made easy.

C. To Consumers

Input tax credit allowed will lower the prices to the consumers.

All small retailers will get exemption and purchases from them will cost less for the consumers.

4. Explain IGST with an example.

IGST – Inter-State Goods and Services Tax is imposed and collected by the Central Government and the revenue is shared with States under IGST Act 2017.

5. Write any three demerits of UGST.

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.