

FOCUS ACADEMY.

Ahmedabad 9099818013 8780038581.

Tuition Classes for primary,
9 to 12, English & Gujarati Medium.

❖ Chapter 1 : Nature, Purpose and Scope of Business

1. Select the correct alternative and write answers to the following questions

:

Question 1.

What is the objective of economic activity?

- (A) Service
- (B) Financial return
- (C) Love
- (D) Emotion

Answer:

(B) Financial return

Question 2.

What is necessary to continue the business?

- (A) Non-economic activity
- (B) Service to country
- (C) Profit
- (D) Re-export

Answer:

(C) Profit

Question 3.

Which is the yard stick for the efficiency of business?

- (A) Profit
- (B) Management
- (C) Production
- (D) Sales

Answer:

(A) Profit

Question 4.

Which utility is created when finished goods are manufactured from the raw-materials?

(A) Place

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- (B) Time
 - (C) Economic
 - (D) Form
- Answer:
(D) Form

Question 5.

With what is the objective of maximization of wealth of business connected?

- (A) Manager
 - (B) Employee
 - (C) Owner
 - (D) Customer
- Answer:
(C) Owner

Question 6.

What is the reward of employment?

- (A) Salary
 - (B) Fees
 - (C) Profit
 - (D) Capital
- Answer:
(A) Salary

Question 7.

What type of activity is trade?

- (A) Economic
 - (B) Non-economic
 - (C) Religious
 - (D) Social
- Answer:
(A) Economic

Question 8.

What is meant to produce by adding utility to the natural wealth?

- (A) Trade
 - (B) Auxiliary services
 - (C) Commerce
 - (D) Industry
- Answer:
(D) Industry

Question 9.

Which types of Industries are agriculture, animal husbandry, fisheries?

- (A) Primary**
- (B) Secondary**
- (C) Tertiary**
- (D) Capital intensive**

Answer:

(A) Primary

Question 10.

Which type of economic activity is performed by a government servant getting salary in return of his labour?

- (A) Business**
- (B) Professions**
- (C) Employment**
- (D) Commerce**

Answer:

(C) Employment

2. Answer the following questions in one sentence each :

Question 1.

What is an economic activity?

Answer:

When a person does an activity with the aim of -earning money or some economic benefit the activity is called economic activity.

Question 2.

Which utility is created when goods are carried out from the place of production to consumer?

Answer:

When goods are carried from place of production to place of consumption i.e. to the customers, we say 'place utility' is created. For example, when we transport food grains from farms to market yards/ consumers we say we have created 'place utility'

Question 3.

What is profession?

Answer:

A person possessing specialized skills, knowledge, training and specific professional qualification is capable of providing certain specific services to the society. Such a person is called a professional and the work he does is called his profession.

Question 4.

What is employment?

Answer:

An economic activity done under an individual or an organization in return for a fixed salary or wage is called an employment.

Question 5.

What is required to be a professional?

Answer:

For example, doctors, lawyers, chartered accountants, etc. are all called professionals.

Question 6.

What is trade?

Answer:

Trade refers to the exchange of commodities or services from one person to another in exchange of other commodities or services or money. The objective of trade is either to gain some benefits or earn a profit.

Question 7.

With what is primary industry connected?

Answer:

Primary industries are connected with sea, land and air based activities. For example, farming, fishing, etc.

Question 8.

Which industry is helpful to primary industry and secondary industry?

Answer:

Tertiary industry.

3. Answer the following questions in short :

Question 1.

Why business be called an economic activity?

Answer:

Business is done with the motive of earning profit and creating and maximizing wealth. As per the definition of economic activity whenever a person does a work these objectives it can be called an economic activity. Hence, business

Question 2.

State any two characteristics of employment.

Answer:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- (a) Employee gets fixed salary at a fix interval,
- (b) He may get other allowances such as conveyance, medical, etc.

Question 3.

What is the objective of social responsibility of business?

Answer:

Business exists due to existence of society, With this respect, a business needs to acknowledge the existence of society and try to fulfill certain social objectives other than pure objective of profit. These social objectives could be following fair trade practices, providing employment opportunities, providing quality goods and services, etc.

4. Answer the following questions in brief :

Question 1.

What is the economic and non-economic activity? Explain with illustration.

Answer:

With respect to commerce activities can be divided in two parts. They are:

- (I) Economic activity,
- (II) Non-economic activity

(I) Economic activity:

When a person does an activity with the aim of earning money or some economic benefit the activity is called economic activity.

Explanation:

Man needs money to satisfy his daily needs.

In order to get money he needs to perform certain activities that earn him money.

A man thus performs an act that can satisfy the needs of others and in return earns money or say economic benefit.

Example:

- A farmer gets economic benefit by producing food grains, a weaver by weaving cloth, a blacksmith by producing iron articles.
- All these people are satisfying the needs of our society and in turn are earning money or say gaining economic benefits.
- Similarly, doctors, lawyers, engineers, etc. also fulfill the needs of society and earn economic gains.

Economic activity lies at the centre of modern world.

(II) Non-economic activity:

- When a person does an activity without the aim of earning money or gaining any economic benefit, the activity is called non-economic activity.
- The motivation behind these activities could be serving the country in needs, serving the society, compassion, love towards nature, etc.

Example:

- Social workers who conduct various activities for the betterment of society
- A mother performing nursing activity like taking care of her child when he is sick
- Volunteers working for maintaining unity in the community and society
- Volunteers extending their help to people affected by. natural calamities like earthquake, tsunami, etc.

Question 2.

Explain the meaning of profession and state its characteristics.

Answer:

Profession:

- A person possessing specialized skills, knowledge, training and specific professional qualification is capable of providing certain specific services to the society. Such a person is called a professional and the work he does is called his profession.
- For example, doctors, lawyers, chartered accountants are all called professionals.
- Over and above acquiring skills and education, a professional also needs to get himself registered with the body governing that profession. For example, a chartered accountant (CA), needs to take membership of the Institute of Chartered Accountants of India (ICAI), get registered and he then work as per the code of conduct established by such bodies.
- A professional provides professional services to its clients and in return receives fees as his profit.
A person can also obtain professional qualification and work as an employee and earn salary rather than fees. For example, a doctor may join a hospital, a lawyer may join a law firm, etc.

Characteristics of profession are as follows:

- A professional needs to obtain specialized knowledge, skills and professional education. For example, a doctor needs to medically learn how to treat a patient.

- A professional working independently charges fees for services he provides to his clients. The amount of fees depends on type of profession, types of skill, knowledge and experience.
- The primary objective of a professional is to provide services.
- Profession can be called as an independent economic activity.
- A professional does not produce tangible products but provides services. For example, a lawyer fighting a case for his client (customer) is providing this service to his client. In this regard, a customer pays for fighting a case, getting cured of a disease, getting income tax returned filed, etc.
- A professional has to abide by the code of conduct established by the professional association where he is registered.
- Just like business, monetary return is uncertain in profession because it depends on the number of customer that goes to a professional to take his service.

Question 3.

Explain the difference between trade and commerce.

Answer:

Points of difference	Trade	Commerce
Meaning	It is exchange of goods or service in return of money	Commerce includes trade and auxiliary services that help to trade
Scope	Scope of trade is limited	Scope of commerce is wider. Also, commerce includes trade
Parties	Generally, both the parties know each other and reside in near vicinity.	Both the parties may be at a very large distance and may not even know each other, still they can obtain auxiliary services.

5. Answer the following questions in detail :

Question 1.

What is business? State the objective of business.

Answer:

Business:

An economic activity done with the motive of earning profit and creating and maximizing wealth is known as business.

Objectives of business can be classified in two parts. They are:

(A) Economic objectives

(B) Social objectives

(A) Economic objectives:

1. Objective of profit:

- Earning profit, is one of the key objectives of business.
- Earning profit is necessary for both survival and growth of business.
- Profit can be called the motivating force, barometer of efficiency and life blood of business.
- However in today's time rather than just maximizing the profits the concept of fair (reasonable) profit is more accepted.
- It is highly essential for a business to focus on earning 'fair profit' i.e. a reasonable profit in order to survive and get acknowledged in the society.

2. Maximization of wealth:

- In shorter runs say at the end of year the objective of business can be annual income, i.e. net profit. However in longer run say about at the end of five years or so a businessman aims at creating wealth and maximize.
- In order to achieve the long term goals of wealth creation and maximization, the business should adopt a broader view and give up the sole focus of profit, especially in times of depression like situations in the market.

3. Other economic objectives:

Business also has other economic objectives like economic growth and development of business, market expansion, optimum utilization of resources, adopting modern technology and practices, etc. to boost the business.

(B) Social objectives of business:

Business exists due to existence of society. With this respect, a business needs to acknowledge the existence of society and try to fulfill certain social objectives other than pure objective of profit. These social objectives could be following fair trade practices, providing employment opportunities, providing quality goods and services, etc.

Some of the social objectives are:

1. Objective of social responsibility:

- **Business is not an independent activity. It interacts with various groups/ classes of people of society associated with business directly or indirectly but with different interests. Business interacts with owners, employees, creditors, government, etc.**
- **It is quite important to take care of the interests of these different groups of society.**
- **To do so, business has abide by the laws to maintain the business environment, follow the Employee Welfare Act, Factory Act, Consumer Protection Act, etc.**
- **Factors like rise in consumer awareness, rules and restrictions imposed by state, consumer associations and increased education compel a business to fulfill these social responsibilities.**

2. Objective to provide opportunity of employment.

- **With increasing unemployment, some business units are established to create new opportunities of employment.**
- **For example, Khadi and Village Industries Commission (KVIC), a Government of India body encourage those industries that provide ‘ employment opportunities. KVIC gives preference to those business units that are established in backward/rural areas for providing employment to the unemployed.**

3. Objective to provide quality goods and services:

- **Business aims at providing quality goods and services to people in order to satisfy their needs.**
- **For example, units that manufacture spices used for cooking food, food products, cold drinks, etc. need to maintain very high quality standards. Moreover, business units also need to provide quality services. For example, after sales service, installation assistance, setting up service centers, etc.**

4. Objective to adopt fair trade practices:

- **A business unit should see that it does not fall into practices that are against the well-being of society. For example, black marketing, hoarding, misleading advertisements, creating artificial scarcity, etc. are unfair practices and hence should be avoided.**
- **A businessman should adopt only fair trade practices in the welfare of customers and society.**

5. Other objectives:

- **To establish a specific identity in the society.**
- **Conduct research in production activities.**

- Help in the economic development of nation and co-operate with the government.
- Provide various incentives to the employees and execute welfare schemes for them.

Question 2.

Explain the characteristics of business.

Answer:

The characteristics of business are as follows:

(a) Objective of profit:

- Profit is the primary motive of business.
- Profit is necessary for the survival and continuity of the business.
- In absence of profit the business is quite likely to shut down.
- Moreover, how well is the business performing can be known by measuring the profits it earns.

Profit is the barometer of business.

(b) Exchange of goods and services:

Business is done by exchanging goods and services.

- This exchange then leads to profit.
- A manufacturer produces goods and sells them to buyers. In addition to selling the goods he also provides several after sales services such as installation, repair, return, etc. to his buyers.
- Apart from manufacturers there also exists seller of services i.e. service providers who sells the services and earn profit.
- For example, Samsung Company manufactures mobile phones and sells them to earn profit whereas Vodafone sells mobile services to customers and earns profit.
- Thus, business involves exchange of tangible (physical) goods and intangible services.

(c) Risk and uncertainty:

- There always lies risk of uncertainty in business.
- Risk can be either man-made or natural.
- Man-made risks include fire, accident in factory, strike of employees, riots, robbery, thefts, change in preferences of customers, decreased demand, changes in life-style, taste or habits, competition, changes in technology, etc.
- On the other hand natural risks could be earthquake, flood, tsunami, etc.

- A business may get badly affected, may make huge losses and may even get shut down due to such risks.

Utility:

(d) Creation of utility:

- In commerce, utility ' can be defined as the 'capacity of goods or services to satisfy human wants'.

Creation of utility (OR creating utilities):

- One of the major characteristics of a business is to create utility (i.e. usefulness) for a product or a service. This is called 'creation of utility'.

A business can create utility in three ways:

1. Form utility:

-
- If a person changes the form (i.e. shape, size, etc.) of a commodity to make it sellable we say he has created 'Form utility'.
- For example, making ice-cream from milk.

2. Place utility:

-
- When goods are carried from place of production to place of consumption i.e. to the customers, we say 'Place utility' is created.
- For example, when we transport food grains from farms to market yards/ consumers we say we have created 'Place utility'.

3. Time utility:

-
- When a manufacturer produces goods and stores them when it is not the right time to use such goods and sells them at the right time we say he has created Time utility'.
- For example, selling umbrellas in monsoon is creation of time utility.

(e) Continuance of activity:

- The various activities, processes and financial transactions of a business should keep on going continuously. This is called continuance of activity. This means business is not a one-shot process.
- For example, if a trader/producer constructs a building for his residence and later sells it and earns profit, it is not business. The reason is this is not a business activity because there is no continuity in it.

(f) Need of money (capital):

Business needs capital (money) all the time. Money is needed to buy raw

material, machinery, to give salary, etc. _
A trader needs money to purchase and store goods.

(g) Economic activity:

Business is a part of economic activity with the motive of earning profit and creating wealth.

Question 3.

“Existence of business is not possible without society” Explain the statement with reference to social objectives of business.

Answer:

The objective of social responsibility:

- **Business is not an independent activity. It interacts with various groups/ classes of people of society associated with business directly or indirectly but with different interests. Business interacts with owners, employees, creditors, government, etc.**
- **It is quite important to take care of the interests of these different groups of society.**
- **To do so, business has abide by the laws to maintain the business environment, follow the Employee Welfare Act, Factory Act, Consumer Protection Act, etc.**
- **Factors like rise in consumer awareness, rules and restrictions imposed by state, consumer associations and increased education compel a business to fulfill these social responsibilities.**

Question 4.

What is business risk? State the causes of business risk.

Answer:

Business risk:

The risk of uncertain profit or loss in the business is termed as business risk.

Causes of business risks:

1. Changes in technology:

- **In order to increase quality and productivity of products/services man continuously invents new methods of production.**
- **New methods of production may require changing existing machinery or addition of new equipments or machinery.**
- **For example, with invention of smart phones manufacturers were forced to stop producing old fashioned phones and set-up new machineries and technology to produce smart phones.**

2. Threat of substitute products:

- Change in technology, reduced price, price rise customer preference, etc. may divert a customer to use other substitutes of a product available in market.
- For example, when ball pen was invented people started using it more compared to traditional ink pens.
- Other examples are steel vessels instead of copper, dalda ghee instead of desi ghee, etc.

3. Competition:

- When new competitors enter the market, they create threat for the existing businessman.
- To fight this competition and to maintain its position in the market the businessman may have to increase its expenses on marketing like advertisements, reduce sales price of its products, etc. As a result, the profit diminishes.

4. Legislation:

- A business has to abide by the laws framed by the government.
- For example, laws related to pollution, consumer protection, industrial laws, Minimum wage Act, Factory Act, etc.
- It is necessary to follow these laws or else the business may face legislative problems.

5. Uncertainty of demands:

The demand for a product may change due to several factors. Factors like changes in customer's income, taste, product price, inflation, fashion, etc. can lead to changes in demand as well. Uncertain demand poses risks of diminished profit or even loss in the business.

6. Physical risk:

Physical risk includes damage to assets i.e. machinery, equipment, wear and tear and break-down of equipment and machinery, damage caused to a product while transporting, etc.

Question 5.

Distinguish between business, profession and employment.

Answer:

No.	Points of difference	Business	Profession	Employment
1.	Nature of work	Goods and services are sold to customers in exchange of money	Personal and business service is provided to customers in exchange of fees	Person works as an employee, does the designated work as per the rule and contract and earns a salary
2.	Qualification	A businessman does not need any specific qualification.	A professional needs to have professional qualification and training	Qualification may or may not be necessary. It depends on the nature of job
3.	Reward or return	Return is called profit	Return is called fees	Return is called salary or wages
4.	Capital	Every business needs capital. However, the amount of capital depends on the type of business	Limited capital is needed that too mainly at the time of establishment	Capital is not needed
5.	Risk	There lies risk of uncertainty of profit and loss	Risk of uncertainty is less. Moreover, risk of not receiving fees exists	Risk of uncertainty is limited to not getting a regular job
6.	Code of conduct	Rules and laws set by the government are to be followed	Code of conduct is to be followed as established by the respective professional bodies	Rules specified by the employer in agreement are to be followed
7.	Transfer of ownership	Possible	Not possible	Not possible

Question 6.

Give the meaning of industry and state its types.

Answer:

Industry:

- An economic activity in which raw materials are processed to add utility to the material and convert them into useful products which can satisfy human needs is called an industry.
- For example, when a textile industry owner process cotton and converts it into a product say a shirt he is adding utility to the raw material i.e. cotton, and satisfying the need of humans to wear a shirt.
- Other examples are manufacturer manufacturing furniture from wood, a shoe company that makes shoes from leather, etc.

Characteristics of industry:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- Production, economic activity, changing the form of raw material, producing various articles, adding utility, etc. are all characteristics of an industry.
- Moreover, use of human labour, natural wealth and machineries are also included in characteristics of an industry.

Industries can be classified as follows:

(A) Primary industry:

- Industries that mainly work on natural elements such as land, sea, air, etc. are called primary industries.
- These industries process various elements of nature and produce useful things.
- For example agriculture, animal husbandry, etc. are based on land, fishing industry is based on sea.
- Primary industries are also called fundamental industries.

(B) Secondary industry:

- The industry that takes raw materials supplied by the primary industry and processes them into consumer goods is called secondary industry.
- For example a textile industry uses cotton as raw material obtained from farming i.e. primary industry and so textile industry is an example of secondary industry.
- Other examples are fertilizer industry, food processing industries, automobile industry, etc.

(C) Tertiary industry:

- The industry that supports primary and secondary industries i.e. assists and provides services is called tertiary industry.
- In this sense we can say that the products obtained from the primary and secondary industries are further made more consumable for a variety of customers.
- For example, growing wheat is a primary industry, converting wheat into flour is a secondary industry. A baker that uses the flour to make bread, biscuits, etc. and sells it to customer is an example of tertiary industry.
- Tertiary industry serves directly to a very large number of consumers and so is quite near to the end-consumers or say end-users.
- Dairy industry, beverage industry, bakeries, etc. are all tertiary industries. Tertiary industry also includes services of banking, insurance, transportation warehousing, agents, communication, etc.

❖ Chapter 2 : Business Services-1

1. Select the correct alternative and write answers to the following questions

:

Question 1.

Which of the following principle is not an insurance principle?

- (A) Principle of utmost good faith
- (B) Principle of indemnity
- (C) Principle of insurable interest
- (D) Principle of profit

Answer:

- (D) Principle of profit

Question 2.

Which type of insurance is ancient and widely prevalent?

- (A) Goods transit insurance
- (B) Marine insurance
- (C) Air insurance
- (D) Rail/road insurance

Answer:

- (B) Marine insurance

Question 3.

How much can foreign insurance companies invest in Indian insurance companies?

- (A) 25%
- (B) 49%
- (C) 74%
- (D) 100%

Answer:

- (B) 49%

Question 4.

How much amount is paid for Kisan Vikas Patra on maturity?

- (A) Double
- (B) Triple
- (C) Four times
- (D) Five times

Answer:

- (A) Double

Question 5.

Which type of insurance involves highest risk out of the following?

- (A) Goods transit insurance

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- (B) Marine insurance
 - (C) Air insurance
 - (D) Rail/road insurance
- Answer:
(C) Air insurance

Question 6.

In which types of money order service money does not reach the doorstep of the receiver?

- (A) Ordinary money order
- (B) Instant money order
- (C) e-money order
- (D) Special money order

Answer:

- (B) Instant money order

2. Answer the following questions in one sentence each :

Question 1.

What is insurance?

Answer:

Insurance is a written contract or agreement between two parties. The party that provides insurance is called insurer' and the party that receives the insurance is called insuree'.

Question 2.

What is insurance policy?

Answer:

A contract signed between the insuree and the insurance company where in the company assures reimbursement of financial loss to the insuree is called insurance policy.

Question 3.

What is life insurance?

Answer:

A contract signed between an individual i.e. insuree and the insurance company where in the company promises to pay a specific amount in exchange for a premium upon death of the insuree is called life insurance.

Question 4.

Give the meaning of general insurance.

Answer:

Any insurance other than life insurance is called general insurance.

Question 5.

State the fastest mode of transportation.

Answer:

Airways.

Question 6.

Give the meaning of warehouse.

Answer:

A godown is a place for storing large amount of products before sending them the market for selling. The service of storing the products is called godown service or warehouse service.

Question 7.

What is multiple unit train?

Answer:

A multiple unit (MU) train is a train where in there are multiple units that drive the train rather than one engine for the entire train.

3. Answer the following questions in short :

Question 1.

State the principles of insurance.

Answer:

Principles of insurance are as follows:

- 1. Principle of utmost good faith**
- 2. Principle of indemnity**
- 3. Principle of insurable interest**
- 4. Principle of subrogation**

Question 2.

Give a list of types of General Insurance

Answer:

General insurance:

- Any insurance other than life insurance is known as general insurance.**
- General insurance can be classified into three main types.**

They are:

(a) Goods transportation insurance:

This includes:

- Marine insurance**
- Air insurance**
- Rail/road insurance**

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- (b) Fire insurance
- (c) Other general insurance

Question 3.

Life insurance does not apply to the loss-compensation principle – why?

Answer:

Since life is considered precious and there cannot be a fixed value assigned to one's life, a pre-decided amount is fixed by the insuree based on his capacity to pay the premium. Because of this reason, life insurance does not apply to the loss-compensation principle.

Question 4.

Write a note on Health Insurance.

Answer:

Health insurance:

- Health insurance is a type of general insurance that covers the cost of a person's medical and surgical expenses.
- It is quite useful in case of illness, accidents, etc.
- A person needs to take the health policy for a year and needs to renew it every year before the policy expires.

Question 5.

Write a note on Public Provident Fund scheme.

Answer:

Under PPF a depositor can open a PPF account in post office with a minimum amount of rupees 500. He needs to maintain this account for 15 years by depositing a minimum amount of ₹ 500 per annum.

Question 6.

For what kind of products Pipeline transit is most suitable?

Answer:

For transporting liquid and gaseous products such as oil, petrol, PNG, CNG, water, etc.

4. Answer the following questions in brief :

Question 1.

What is the principle of Utmost Good Faith?

Answer:

Principle of utmost good faith:

- The main objective of selling insurance is not profit but to fulfill specific social objectives of providing financial compensation in cases of pre-defined risks.
- This principle says that both the parties i.e. the insurer and insured should have mutual and complete faith on each other. This means that the insured will claim for financial losses only for genuine and pre-defined losses as mentioned in the insurance policy and the insured will pay the full compensation in case of genuine claims raised by the insured.
- While entering into an insurance contract both the parties i.e. the insurer and insured should provide all the necessary information even if it is not asked by either party but if it is felt that the information may have an impact on the contract during claims.
- Any information that one hides and if it affects the claims made for financial loss can be termed as fraud and a breach of the principle of utmost good faith.
- In case the insured provides wrong information or does not provide some important information during signing the contract and if he faces a financial loss, the insurance company i.e. the insurer will reject the claim and will not refund the paid premium. The insured then loses all the rights of compensation for the risk.

Question 2.

Explain principle of indemnity.

Answer:

- Indemnity means protection against future loss. The main objective of an insurance contract is to compensate a future loss.
- This principle is used to decide how much amount an insurance company needs to pay to the insured in case he faces a loss.
- The insured can only get the actual compensation for his loss and cannot earn profit i.e. cannot get additional amount other than pre-decide in his insurance policy.
- In case the insured takes the insurance for a lesser amount then he will get only that much amount for which he has taken the insurance. The remaining loss will have to be borne by him.

Example:

- Assume that the price of a product is ₹ 5 lakh but a person takes insurance of only ₹ 2 lakh. If the product gets damaged completely, or if car is stolen, etc. he can claim an insurance of maximum ₹ 3 lakh only i.e. the insured value and not ₹ 5 lakh.

- In case the product is insured for ₹ 3 lakh and it gets damaged and estimate to repair the product is of ₹ 2 lakh, the insuree may get maximum ₹ 1,20,000 as compensation. This amount is proportionate of the insured amount i.e. ₹ 3 lakh .
- In case the insuree has taken a full insurance i.e. of ₹ 5 lakh then in event of complete damage he will get the compensation of entire amount i.e. ₹ 5 lakh.

Question 3.

Explain the principle of insurable interest.

Answer:

Principle of insurable interest:

The person seeking insurance should have insurable interest for which he ' seeks insurance. In other words, the insuree should have interest in recovering the financial loss he suffers.

For example, if your house gets damaged/destroyed you will be interested in having a financial recovery for it but if your neighbour's house gets destroyed you may have sympathy but no insurable interest in his house.

Question 4.

"Insurance does not remove risk, but it compensates for the loss resulting from the risk" Justify this statement.

Answer:

- As the civilization grows and world develops risks associated with the growth and development also rises.
Risk of life, health, property, machinery, raw material, finished good, etc. are several types of risks that insurance covers.
- The risks that we face may be either man-made or natural. It is not in the hands of insurance companies to stop these risks. Their sole objective is to safeguard a person in case he faces any such risks.
- So, by taking insurance one cannot say he can stop the risks but he can surely say he can safeguard himself against the financial loss that might occur due to such risks.

Question 5.

"Godown creates time utility" – Discuss.

Answer:

- A godown is a place for storing large amount of products before sending them to the market for selling. The service of storing the products is called godown service or ware house service.

- Generally, after production a product is not immediately sold or consumed. On many occasions raw material or partly produced products also need to be stored for further processes.
- Some food items may be produced only during a specific season of the year but would require its storage.
- Some goods may be produced and stored in godowns but would be sold when the demand arises.
- Perishable goods like fruits, ice-cream, etc. need proper storage so that they can be distributed and sold as and when needed. Thus, godowns create time utility.

Question 6.

What are special godowns? Explain with examples.

Answer:

Special (specific) godowns:

- Godowns used for storing goods that require special care, treatment and maintenance are called special or specific godowns.
- For example, goods such as explosive items, crackers, chemicals, cooking gas, petrol, etc. require special godowns. Perishable goods such as fruits, vegetables, milk and milk products, etc. also need to be stored in such godowns.
- These godowns are costlier to build and maintain. They need to adhere to several laws, rules and regulations too. For example, underground tanks needed to store petrol are prepared with special types of bricks and building materials.

5. Answer the following questions in detail :

Question 1.

How does insurance contract differ from general contract?

Answer:

An insurance contract is the contract of utmost good faith where as a general contract is the agreement between two parties and enforceable by law.

Question 2.

State and explain the types of life insurance.

Answer:

Life insurance:

The term life insurance means that it is a contract between an insurance policy holder i.e. the insuree and the insurance company, where in the company promises to pay a specific amount in exchange for a premium upon the death of the insuree. On death the amount is received by the heir i.e. the nominee of the policy.

Life insurance can be classified in two parts.

They are

- (a) Whole life insurance and
- (b) Endowment insurance.

Heir or nominee is the person whose name is mentioned by the insuree in the policy agreement.

(a) Whole life insurance:

- A life insurance policy in which the insuree pays a periodic premium for the policy whole life is called whole life insurance. After the insuree dies his heir gets the pre-decided sum mentioned in the insurance agreement as compensation from the insurance company.
- Life is priceless and no amount can ever compensate its loss but to save the heirs or say family members from financial loss and burden one takes life insurance.
- The insurance company decides how much insurance can a person buy based on his income and premium paying capacity and then decides the premium the insuree needs to pay.
- Unlike other insurances, the principle of indemnity cannot be applied in life insurance in the event of death of the insuree.
- When the insurance company gets satisfied that the death of insuree took place naturally i.e. he did not commit suicide or something, the insurance company pays the full amount as per the contract to the heir.

(b) Endowment insurance:

- An insurance in which the insurance company promises to pay the policy amount to the insuree at the end of policy period i.e. on maturity of policy or to his legal heir is known as endowment insurance.
- In this type of policy, the insuree decides to insure himself not for whole life but only for a specific number of years. The insuree pays the premium decided by the insurance company upto the decided period for example, upto the age of 50 years.
- Once the insuree reaches the age of 50 years the policy matures and the insuree receives the amount of his policy. In case the insuree dies before the set period of policy, his heir receives the policy amount.

Question 3.

State the types of General Insurance and explain any two in detail.

Answer:

General insurance:

- Any insurance other than life insurance is known as general insurance.
- General insurance can be classified into three main types as discussed below.

(A) Goods transportation insurance. This includes:

When goods are transported from one place to another, there is a risk of full or partial loss/damage to the goods. The insurance that covers this risk is called Goods Transportation Insurance.

- Marine insurance
- Air insurance
- Rail/road insurance

1. Marine insurance:

- Transporting goods through ships is one of the most economical form of transport. However, there are several risks in it like damage or destruction of ship, goods carried by ship, etc. Marine insurance covers all these risks and compensates the insuree.
- It is one of the oldest form of transport between countries and was the most common mode till 18th century.
- Due to very slow movement of ship and several associated risks it is a very important form of insurance. The premium of marine insurance is quite less.
- Marine insurance was started by Lloyd's organization of London about 325 years ago.

2. Aviation (Air) insurance:

- Insurance against claims and losses arising from maintenance and use of aircrafts or airports including damage to aircraft, personal injury, etc. is called aviation insurance.
- In 19th century, goods started getting transported through air and so began the air insurance.
- Air freights are very costly and so only those goods that are light weight and highly valuable are transported through air.
- The premium of air insurance is much higher than marine and rail/road transport.

3. Rail/road insurance:

Insurance that provides compensation against risks such as theft, robbery, damage to goods, etc. when they are transported either through trains or through road is known as rail/road transport.

(B) Fire insurance:

- An insurance in which the insurance company agrees to pay compensation against the damage or destruction caused due to fire is known as fire insurance.
- Fire insurance works on the principle of insurable interest which means that the insuree should get a compensation equivalent to the loss of value of property or belongings caused due to fire.

(C) Other general insurance:

- There are several other types of insurance over and above discussed so far.
- These insurances have come up with need of time.

Examples:

Insurance for voice of a singer Insurance for labourers Third party insurance Insurance of employee

- Student insurance to protect general and social damage Medical insurance (Mediclaim)
- Insurance of loss caused due to closure of business units
- Insurance against fraudulent activities that an employee may do and the loss that the employer may suffer
- Insurance against cancellation of match or an entertainment event like concerts either due to man-made or natural reasons

Question 4.

Write a note on Insurance Regulatory and Development Authority.

Answer:

Insurance Regulatory and Development Authority (IRDA):

- The Insurance Regulatory and Development Authority (IRDA) was established in 1999 to analyse and develop the insurance industry in India.
- In India, IRDA is a supreme, autonomous and legal institution which looks after the regulatory and development activities in the field of insurance.
- The IRDA under IRDA Act, 1999 opened up the insurance market and invited Indian as well as foreign companies to set-up insurance business in India.
- Thus the IRDA again took insurance from nationalization to privatization. Initially the foreign companies were allowed to undergo joint venture with Indian companies and hold upto 26% ownership in the joint venture. This was then raised upto 49% ownership by the year 2015.

Main objectives of IRDA:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- To give more choices to policy buyers and holders while selecting an insurance company.
- To promote healthy competition among insurance companies so that customers can get better services at lower premium.
- Accelerate the growth of economy by expanding insurance industry.
- To bring self-discipline among the insurance companies.
- To establish mechanism for complaint redressal, etc.

Question 5.

Show the classification of warehouses with the help of chart. Explain customs duty paid warehouse

Answer:

Types of godowns on the basis of custom (import) duty:

1. Godowns for those goods on which custom duty is paid:

- As the name suggests these godowns store only those goods which are imported from other countries and on which custom i.e. import duty is already paid.
- The need of these godowns arise because many times after importing the goods the owners do not have immediate facility to transport them to the desired destination.
- Owing to such conditions these godowns are located near the place of import such as sea ports, airports or border area. Generally such godowns are also public godowns.

2. Godowns for those goods on which custom duty is not paid (Bonded godowns) :

- A godown that can store imported goods on which custom duty is not yet paid is called a bonded godown.
- These godowns are situated near the place of import such as sea ports, airports, or border areas.
- These godowns prove blessing for importers because:
- The importer may not be able to pay heavy custom duties immediately at the time of import.
- The importer may want to re-export the goods from the godown itself.
- These godowns provide facility to the owner to divide, mix and repack the goods so that he can prepare a variety of lots for export.

❖ Chapter 3 Business Services-2

1. Select the correct alternative and write answers to the following questions

:

Question 1.

In which kind of account generally interest is not paid on the deposit?

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- (A) Savings account
- (B) Current account
- (C) Recurring account
- (D) Fixed deposit account

Answer:

(B) Current account

Question 2.

In which kind of account it is compulsory to deposit certain amount at certain time?

- (A) Savings account
- (B) Current account
- (C) Recurring account
- (D) Fixed deposit account

Answer:

(C) Recurring account

Question 3.

In which kind of account the bank gives maximum rate of interest on the deposited amount?

- (A) Current account
- (B) Fixed deposit account
- (C) Recurring account
- (D) Savings account

Answer:

(B) Fixed deposit account

Question 4.

What is the name of the central bank (Monetary Authority) of India?

- (A) State bank of India
- (B) Central bank of India
- (C) Reserve bank of India
- (D) Bank of India

Answer:

(C) Reserve bank of India

Question 5.

What is the facility of overdraft for the certain period called?

- (A) Pay order
- (B) Cash credit
- (C) Demand draft
- (D) Overdraft

Answer:

(B) Cash credit

Question 6.

What type of cheque is used by the bank to repay its debts?

(A) Travellers cheque

(B) Pay order

(C) Demand draft

(D) Cash credit

Answer:

(B) Pay order

Question 7.

Which facility of bank can be used against the risk of cash in travelling?

(A) Demand draft

(B) Cheque

(C) Pay order

(D) Traveller's cheque

Answer:

(D) Traveller's cheque

Question 8.

Minimum how much amount can be transferred in RTGS?

(A) Any amount

(B) 2 lakhs

(C) 5 lakhs

(D) 50,000

Answer:

(B) 2 lakhs

Question 9.

In which kind of transaction the central bank transacts as per batch?

(A) NEFT

(B) RTGS

(C) Core banking

(D) Call money

Answer:

(A) NEFT

Question 10.

How do banks transact with one another and solve the problem of fund/ money occurring at certain time?

- (A) Call money
 - (B) Pay order
 - (C) Over draft
 - (D) Cash credit
- Answer:
(A) Call money

Question 11.

Minimum how much amount can be transferred in NEFT?

- (A) Any amount
- (B) 2 lakhs
- (C) 5 lakhs
- (D) 50,000

Answer:

- (A) Any amount

Question 12.

Which card is issued to the customer by the bank on the basis of his credit?

- (A) Debit card
- (B) Credit card
- (C) Letter of credit
- (D) Demand draft

Answer:

- (B) Credit card

2. Answer the following questions in one sentence each :

Question 1.

Write the meaning of 'Bank'.

Answer:

According to Reserve Bank of India (RBI), 'Bank means an institution which collects deposits in order to lend them and with a condition to return them at the end of a fixed term whenever it is demanded.

Question 2.

Which kind of account can be opened in the name of a business unit?

Answer:

Current account.

Question 3.

In which kind of account the number of withdrawn transaction is limited up to a certain limit?

Answer:
Savings account.

Question 4.
How much amount can be transacted in cash through NEFT?

Answer:
There is no minimum or maximum limit for the money to be transferred through NEFT.

Question 5.
Within how much time money is transferred through NEFT?

Answer:
The transfer of money happens within 24 hours depending upon the batch for transfer process available.

Question 6.
In which kind of card only the amount available in the account can be spent?

Answer:
Credit card.

3. Answer the following questions in short :

Question 1.
What is Overdraft?

Answer:
When a current account holder is allowed to withdraw more money than available in his account i.e. credit balance it is called overdraft.

Question 2.
What is Cash Credit?

Answer:
A cash credit is a drawing account for drawing money within a specific credit limit approved by the bank against some security.

Question 3.
Define 'Traveller's cheque'?

Answer:
A letter of credit is a document from a bank guaranteeing that the seller will receive full payment at specified time if all the delivery conditions are fulfilled by the seller.

Question 4.
Give two examples of Non-Financial transaction done through E-Banking.

FOCUS ACADEMY AHMEDABAD
TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM
8780038581 9099818013
(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Answer:

Obtaining account statement, requesting a new cheque book or a new PIN, making a stop-payment request etc.

Question 5.

Explain :

(a) Credit Card:

Answer:

A credit card is a small plastic card issued by the bank to its customer allowing him to purchase goods or services on credit.

OR

Credit card:

A credit card is a small plastic card issued by the bank to its customer allowing him to purchase goods or services on credit.

- **Credit card allows to make payments and shop without giving money physically to the merchant.
The use of credit card became quite wide spread since the end of 20th century.**
- **To obtain a credit card one needs to apply to its bank. The bank then conducts a systematic study on the credit of that person. The bank studies how much debt can that person pay in a given time. Based on this the bank sets a credit limit for that person and issues him a credit card.**
- **For example, if a bank studies and finds that a person can pay maximum 20,000 rupees per month then it sets this limit on his credit card i.e. he can use his card to credit money from his account and deposit it in merchant's account. When the person uses his credit card for purchasing something, the amount get debited from his account i.e. his credit limit and gets credited to seller's account.**
- **The bank calculates the total money spent by the credit holder in a month and sends him a credit card statement. The customer needs to make this payment to his bank as per the time limit given by the bank.**
- **This card can be used while shopping at stores, malls, making online payments like tickets, payment to online stores, etc.**

(b) Debit Card

Answer:

A debit card looks like a credit card but it is linked with a current or a savings account. Whenever a person uses a debit card the money gets deducted from the balance in his bank account.

OR

Debit card:

- A debit card looks like a credit card but it is linked with a current or a savings account. Whenever a person uses a debit card the money gets deducted from the balance in his bank account.
- Debit card can be used to make payments at shopping malls, online tickets, ATM centre for withdrawing money, etc.
- When a person buys something from a merchant he gives his debit card. The merchant swipes the card in a portable machine and asks the customer to put his PIN. The billed amount then instantly gets debited from the customer's account. A customer can use debit card only upto the balance available in his account.

(c) ATM:

Answer:

ATM stands for Automated Teller Machine. These machines are installed by banks at various locations. A person can withdraw cash from these machines, know his account balance, etc. using ATM card.

OR

Automated Teller Machine (ATM):

- ATM is a machine installed by banks at several locations. A person can use this machine to perform few types of banking transactions.
- Bank provides an ATM card to its customer which he needs to carry whenever he goes to ATM. The bank also provides him a Personal Identification Number (PIN) to use this ATM card at ATM centers.
- Using ATM card a person can withdraw money from ATM as per minimum withdrawal limit set by the bank and lesser than the amount present in his account. The bank also sets the maximum amount that a person can withdraw per transaction.
- A person having ATM card of another bank can use it in an ATM centre of any bank. However, he will be charged for using this service as decided by RBI.

4. Answer the following questions in brief :

Question 1.

Write Short Notes :

(a) Call Money

Answer:

Call money:

- In day to day transactions it is quite likely that each bank faces a shortage of money even for as short as 24 hours or even lesser.
- In such cases the bank may borrow money from another bank at an interest rate which is determined by the shortage of money or say demand or supply pattern in the market.

- The borrowing and lending banks do not come in direct contact with each other for this transaction. It is done by an agency appointed by the Central Bank
- This money is known as 'Call money' and its rate of interest is called 'Call money rate'.

(b) Core Banking

Answer:

CORE banking:

- The word CORE stands for Centralized Online Real-time Exchange. Core banking is a system wherein all the branches of a bank irrespective of their locations across the world are connected to one another through internet, for performing banking transactions and other banking activities.
- A centralized bank server contains all the details of each and every bank account of all its branches of the world. Whenever any transaction takes place in any account it gets stored in this server. Any change made in this server can be seen by all the branches of the bank.
- Under core system an account holder can perform his transaction from any branch. He can even withdraw or deposit money from any branch. Thus, now customer need not go to the branch in which he opened his account to perform the transactions. He can access his account from any branch. This saves time and expenses of both customers and banks.
- This way the account holder becomes the customer of the bank and not just the branch of the bank in which he opened his account.

(c) RTGS

Answer:

- Real-time Gross Settlement (RTGS) is a special fund transfer system where in one can transfer money from one bank to another within India, on a 'real-time' basis i.e. the money will be transferred immediately without the waiting period and on 'gross-settlement' basis.
- The bank through which RTGS is done is called an RTGS member bank. Each member bank is allotted a unique code called IFSC code for identification and transactional purposes. IFSC code is an 11 digit alpha numeric (i.e. combination of alphabets and numbers) code.
- The Institute for Development and Research on Banking Technology (IDRBT), Hyderabad provides IFSC codes to all the banks.
- The money is transferred from account of sender to account of receiver having an account in different bank using internet.
- Since the transaction is neither through cash nor through cheque, both the parties need to use IFSC codes of their banks to transact.

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- As per the guidelines of RBI one can use RTGS for transferring minimum 2 lakh rupees. Since this is a 'real-time' transaction the amount gets debited in the receiver's account on the same day as soon as the bank receives instruction from the sender.
- The bank charges commission to the sender but not from the receiver.

(d) NEFT

Answer:

- NEFT stands for National Electronic Funds Transfer. It is an Indian system of electronic transfer of money from one bank or bank branch to another.
- The banks or their branches that support NEFT have to become a part of NEFT network.
- The money is transferred from account of sender to account of receiver having an account in same bank or another bank via internet.
- In order to transact one needs to have an 11 digit alpha numeric IFSC code of the bank and branch in which the amount is to be transferred.
- The transfer of money usually takes place on the same day or maximum within 48 hours. However, the settlement of transactions takes place in hourly batches i.e. For example, if one initiates a transaction and if the settlement time is over he needs to wait till the next settlement time to get his funds transferred. RBI has decided various slots of settlement times in a day. Batch-wise settlement is done through DNS (Different Net Settlement)
- Walk-in customers i.e. customers who do not have a bank account can also deposit cash at any NEFT member bank and use this facility, however, he cannot deposit more than ₹ 50,000 per transaction.
- In general, there is no minimum or maximum limit of money that can be transacted through NEFT.

(e) M-Banking

Answer:

m-Banking:

- Mobile banking or m-banking is a system under which a person can conduct banking transaction from any corner of the world using his mobile phone that has internet connectivity.
- Through mobile banking a person can perform several types of banking transactions without going to the bank or even using a computer.
- Through m-banking he can know the balance of his account, make payment to someone, pay fees, pay electricity, telephone, gas, etc. bills, can transfer money from one account to another, etc.

- To use m-banking one needs to apply for this facility in his bank. The bank then provides him his login ID and password for mobile banking with which he can use mobile banking.
- Since mobiles can be very easily misplaced, stolen or robbed, the banks need to follow very high level security while providing mobile banking facility.

Question 2.

Explain – “The account holder is not the customer of a particular branch of the bank but of the bank.”

Answer:

- Today banks have adopted CORE banking system.
- Core banking is a system wherein all the branches of a bank irrespective of their locations across the world are connected to one another through internet, for performing banking transactions and other banking activities.
- A centralized bank server contains all the details of each and every bank account of all its branches of the world. Any change made in this server can be seen by all the branches of the bank.
- Under core system an account holder can perform his transaction from any branch. He can even withdraw or deposit money from any branch.
- Thus, now customer need not go to the branch in which he opened his account to perform the transactions.
- This way the account holder becomes the customer of the bank and not just the branch of the bank in which he opened his account.

5. Answer the following questions in detail :

Question 1.

Explain functions of bank.

Answer:

Functions of a bank can be classified into.

- (A) Main functions and**
- (B) Optional functions**

(A) Main functions:

1. To accept/collect deposits:

- A person who has some unused money and wishes to deposit it in a bank can go to bank and deposit it.
- The biggest responsibility of the bank is to maintain the trust of the customer i. e. the person who deposits the money.

Bank accepts four types of deposits:

1. Deposits in saving account
 2. Deposits in current account
 3. Deposits in recurring account
 4. Deposits Fixed term account
2. To lend money:

- Bank accepts deposits from various people. The deposited money remains with bank on which the bank pays some interest to the depositors.
- On the other hand people go to banks to borrow money in forms of loans. The bank lends the money to the borrowers at higher rates of interest. Thus, the bank earns profit from the difference of rate of interests.

The bank lends money in following ways:

(a) Through loans:

- Bank provides short term and long term loans to borrowers. In some cases it asks for hypothecation where as in some it doesn't.
- Bank provides loan to individuals, businessman, industrialists, etc.
- Bank offers home loans, car loan, education loan, cash credit, machinery loan, gold loan, personal loan, etc.

(b) Through overdraft and cash credit:

Overdraft:

As per rule, one cannot withdraw more than the amount present i.e. deposited in one's account. When a current account holder is allowed to withdraw more money than present in his account for a short duration it is said that the bank has lent him money through overdraft facility.

Cash credit:

- A cash credit is a drawing account for drawing money within a specific credit limit approved by the bank against some security.
- Overdraft and cash credit are similar except that for withdrawing under cash- credit one needs to provide some security like raw-material, finished goods, etc. as hypothecation.

3. To invest:

- A bank cannot make profit if it is unable to lend the deposits and invest its capital in a substantial manner. One of the important tasks of the

bank is to thoroughly calculate and invest its money at some secure options.

- As per RBI's rule a bank need to invest some percentage of its total deposit in government guarantees (securities) on which the bank earns a low interest. The reason for investing in such government guarantees is that bank can easily withdraw its investment in case of emergencies or some unforeseen events. As a result a bank majorly invests in government securities or other capital units.

4. To carry out inter-banking transactions (call money):

- In day to day transactions it is quite likely that each bank faces a shortage of money even for as short as 24 hours or even lesser.
- In such cases the bank may borrow money from another bank at an interest rate which is determined by the shortage of money or say demand or supply pattern in the market.
- The borrowing and lending banks do not come in direct contact with each other for this transaction. It is done by an agency appointed by the Central Bank
- This money is known as 'Call money' and its rate of interest is called 'Call money rate'.

(B) Optional functions of bank:

1. Look after the financial transactions of the customers:

A bank mainly has two customers

- (a) A depositor and
- (b) A borrower.

It is the bank's duty to see that both of his customers can perform their financial transactions properly.

- When a customer writes a cheque in favor of another person, the bank pays 'th'at person the money on behalf of the person who wrote the cheque.
- Similarly, when a person receives a cheque and goes to bank the bank collects money from the account of person who has written the cheque and pays the money to the person who brought the cheque.
- Bank also facilitates payments of electricity bill, telephone bill, insurance premium, transfer of money from one account to another, etc.

2. Carry out foreign exchange (forex) transactions:

- The financial transactions related to import-export business can only be done through banks.

- Those banks that have got permission from central bank to provide Forex services can facilitate people to exchange foreign currencies in bank, send and receive documents related to foreign trade, etc.

3. To issue Letter of Credit (L/C):

- A letter of credit is a document from a bank guaranteeing that the seller will receive full payment at specified time if all the delivery conditions are fulfilled by the seller. These letters are generally needed in international transactions where buyers and sellers are unknown to each other.
- The bank collects certain deposit or some guarantee of similar amount from the person before issuing such letter. The bank earns commission by providing this service.

4. Issuing Traveller's Cheque (TC):

- A traveller's cheque is a medium of exchange that can be used instead of currency. It is very useful when a person is travelling within country or even abroad. Since the traveller carries cheques he is safe from the danger of hard cash getting robbed or stolen.
- Before leaving for a tour the person can deposit certain amount at the bank, get his signature verified and receive traveller's cheques in the amount he asks to the bank. The person can then withdraw money using these cheques from outstation or foreign banks by doing the same sign before the bank as he did in the bank which issued him traveller's cheques.
- These cheques are very reliable and transferable too. However, their use has decreased after ATM facility became popular worldwide.

5. Issuing demand draft (DD):

- Demand draft (DD) is a cheque written by a bank (issuing bank) to another bank/branch asking it to pay money to the person/organization whose name is mentioned on it. Demand draft is a very secure medium for sending money to a person or an institute.
- The person who wishes to send money fills a form in the bank requesting it to issue the draft for the details mentioned in the form. Based on this the bank prepares a demand draft and mentions the receiver's name on it and passes the order to its branch or associate bank to make the payment to the receiver. If the bank issues a draft that can be encashed only in the same branch then it is called pay-order.
- The sender of the DD needs to pay certain commission to the banks for this service.

6. Provide information related to the financial credit of its customer.

- The bank frequently transacts with its customers and hence is well aware about their financial soundness.
- A firm or an institute who wishes to undergo credit transactions with a person can obtain the information on his financial soundness from his bank. This helps the institute to check the reliability and financial capability of the person.
- The certificate that the bank provides regarding the financial soundness of the customer is called solvency certificate.

7. To provide service as an under-writer (i.e. guarantor):

- When a new company enters the capital market and collects funds through shares it is afraid if it will be able to collect at least a minimum subscription to start the business.
- In such situations it requests the bank to become a guarantor or say under-writer that in case if it cannot raise sufficient money from the market the bank will fulfill the deficit by investing in the company.

8. Providing services like ATM, Demat, safe-deposit vault, etc. Bank provides several services like ATM cards, credit and debit cards, safe deposit vaults, Demat services, etc.

Question 2.

Explain the types of bank account.

Answer:

- A person can open a savings account in a bank with an objective of saving a part of income and earning some interest on the money deposited in the savings account. The customer earns interest depending on the amount he maintains in his account. Generally it is compulsory to maintain a minimum balance as decided by the bank in the savings account. Moreover, generally a person can withdraw money only a limited number of times per month. The account holder can withdraw money with the help of cheque, by filling withdrawal slip or using ATM card.
- A savings account can be opened on an individual name or along with someone as a joint account. One can also register the name of the nominee for the account.
- In savings accounts the bank provides its customers the facility of deposit/withdrawal, issuing cheques, ATM cards, etc.
- Bank gets large deposits through several saving accounts it maintains.

Current account:

- An account opened on an individual's name or the name of the business for conducting day-to-day business financial transactions is known as a current account. This account is only for businessman.
- No Interest is paid on current accounts and in addition a bank may collect bank charges from the account holder to provide several facilities and i maintain the account. There is no limit on the number of transactions one can perform per month.
- One can also avail loans through current account.

Recurring deposit account:

- A recurring deposit account is opened when one wishes to save some money, deposit it regularly in this account and earn an interest at the end of the account term.
- One needs to compulsorily deposit a predetermined amount every month in this account for a pre-determined period. The bank returns the entire amount along with interest to the account holder at the end of the account term.
- The rate of interest is higher than the savings account and lower or almost near to the interest on fixed deposit accounts.

Fixed deposit account:

- An account opened with an aim of earning fix but high interest for a pre-determined period with a fix amount to be deposited all at once while opening the account is called a fixed, deposit account.
- The interest rate on this account is higher than any account. However, one cannot withdraw the money before the fixed deposit term ends. If one wishes to withdraw he may have to pay some penalty and also his rate of interest will decrease.
- The bank normally does not allow to withdraw before the term matures and hence it pays highest interest on this account.
- The bank guarantees the customer to return him his deposit along with the accumulated interest at the end of the term.

❖ Chapter 4 Communication, E-Commerce and Outsourcing

1. Select the correct alternative and write answers to the following questions

:

Question 1.

By which process the customer is provided the facility of purchase and sell by the bid of the cost of the product?

(A) Business by customer

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- (B) Business by business**
 - (C) Customer to customer**
 - (D) Business by customer**
- Answer:**
(A) Business by customer

Question 2.

The railway tickets are available from any place that is known as which type of Network?

- (A) Enterprise Wan**
- (B) LAN**
- (C) MAN**
- (D) CAN**

Answer:

- (A) Enterprise Wan**

Question 3.

The business units allot their works to the outside institution that is known as?

- (A) E-commerce**
- (B) Outsourcing**
- (C) E-mail**
- (D) Net-banking**

Answer:

- (B) Outsourcing**

Question 4.

The process by which the whole process of knowledge is created in the mind of a person is known as?

- (A) Message**
- (B) Information broadcasting**
- (C) E-mail**
- (D) Network**

Answer:

- (A) Message**

Question 5.

To type the message on computer screen and do communication with the help of computer by the medium of internet – that activity is known as?

- (A) E-commerce**
- (B) Fax**
- (C) Internet**

(D) E-mail

Answer:

(D) E-mail

Question 6.

The commercial transaction and distribution which is done by the help of electronic machine and medium is known as?

(A) Intranet

(B) E-commerce

(C) E-mail

(D) Internet

Answer:

(B) E-commerce

Question 7.

What is known as the 'super highway' of the information?

(A) Internet

(B) Banking service

(C) E-commerce

(D) Outsourcing

Answer:

(A) Internet

2. Answer the following questions in one sentence each :

Question 1.

What is communication?

Answer:

The process of imparting or exchanging of information either in verbal or non-verbal form is called communication

Question 2.

What is Enterprise WAN?

Answer:

An enterprise WAN is a wide area network of computers developed for very huge companies or corporate companies that connects users that could be anywhere in the world. Such a system is called 'internet'. For example, Indian Railways connects all its computers across entire India through enterprise WAN or say intranet.

Question 3.

What is computer network?

Answer:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

When a group of computers are connected with a purpose of sharing information and resources it is called a computer network.

Question 4.

Give full-form of www

Answer:

World Wide Web

Question 5.

How the payment of money in E-Commerce is made?

Answer:

One can pay by cash on delivery (COD), cheque, credit and debit cards, net-banking and digital cash.

Question 6.

What is Hacking?

Answer:

Stealing personal data of individuals or organizations on internet for fun or some objective is called hacking.

3. Answer the following questions in short :

Question 1.

Give meaning of Internet.

Answer:

A global computer network providing a variety of information and communication facilities consisting of interconnected network is called internet

Or

Internet:

Technically, the word 'Internet' can be defined as a global computer network providing a variety of information and communication facilities, consisting of interconnected networks.

Internet in the context of computer network:

- **The word 'internet' is derived from two words 'interconnection' and network'.**
- **The word 'inter' refers to 'internal', the word 'interconnection' refers to connected together'. The word network' refers to a group of computers connected with a purpose of sharing information and resources.**
- **When a group of computer is connected with a purpose of sharing information and resources it is called a network or say, a computer**

network. To build such a network one needs to have several computer hardware and software. The computers that are to be connected to form a group may be present in the same room, in different rooms, different offices or even at different offices or even at different places. In this sense the area of network covers all the computers whether near, far or even across the worlds. In the context of network internet can be defined as network of all networks. No one owns internet.

- Everyone shares it. However several organizations do the work of managing various networks and their parts so that people can access and use the internet.
- Thus, internet is a global network that connects millions of computers. More than 190 countries are linked into exchange of data.
- In older days internet was accessed using telephone lines. However, now a days various private companies have come up who have established their own separate communication systems using fiber optics and satellite links to provide services of internet to people. These companies are called Internet Service Provider (ISP).
- We can share text, pictures, audio, video, numerical data, etc. through internet.

Question 2.

Give meaning of E-Commerce.

Answer:

Electronic commerce or e-commerce is buying and selling of goods and services, or transmitting funds electronically over the internet.

Or

E-Commerce:

Electronic commerce or e-commerce is buying and selling of goods and services or transmitting funds electronically over the internet.

- Through e-commerce one can conduct all the processes such as purchase and sales of goods and services, advertising, comparison of products, transferring money, etc. that are necessary for a trade or a business.
- To conduct e-commerce transactions or say trading through e-commerce one needs to make use of medias such as computer network, internet, e-mail, internet banking, credit and debit card, etc.

Question 3.

Give meaning of Outsourcing.

Answer:

When a company or individual hands over some of its processes or works to another company or a professional group it is called outsourcing or business process outsourcing.

Question 4.

Explain the requirement of Business Process Outsourcing (BPO).

Answer:

Business Process Outsourcing (BPO):

- **When a company hands over its business activities (or processes) on a contractual basis to another company it is called Business Process Outsourcing (BPO). For example, a company would outsource the work of call centre or data entry to reduce its expenditure.**
- **Outsourcing has become quite popular in recent years because human resource is available at very low rates in populated countries like India and China. Several foreign companies set-up their call centers in these countries to provide sales, after sales, online technical assistance to their customers.**

Need of BPO:

- **Cost-cutting: To save infrastructure set-up and other costs companies outsource their activities like billing, data entry, marketing survey, etc.**
- **Focus on principal activities of company: By outsourcing some activities the senior level employees and managers can focus properly on the core activities of the business.**
- **Benefit of efficiency: By outsourcing to a professional company a business can take benefit of the rich experience and efficiency a professional unit possess. It might be quite difficult or even impossible for the business firm to carry out such outsourced work on its own with such efficiency and expertise.**
- **To cater the dynamic demand: As a nation develops, expectations and demands of customers keep on increasing and changing. It may not be possible to meet the expectations and demands and so it becomes important to outsource some tasks to BPO who can handle such tasks. For example, in olden days companies did not have a large customer-care ' centre which now has become quite important with increased sales through online shopping and expanded market.**
- **Increased benefits: Business units can outsource few works to their subordinates in order to focus more on important activities like increasing sales, developing new products, expanding business and to serve and satisfy their customers better and thus increase the profits.**

Scope of BPO:

The extent to which a company can outsource its work can be classified into two categories. They are:

1. **Back-office outsourcing:** A company can outsource its back-office works like billing, purchase, data entry, etc.
2. **Front-office outsourcing:** This includes customer services like sales and marketing, technical assistance, etc.

Question 5.

Write the meaning of Knowledge Process Outsourcing (KPO).

Answer:

Knowledge Process Outsourcing (KPO):

A form of outsourcing in which knowledge and information related work is given to another company or to some subsidiary department within the company is called outsourcing of knowledge related process or Knowledge

Process Outsourcing (KPO).

- KPO includes processes and services that require advance and high level skills that a company may need for its development.
- For example, a company may outsource activities like Research and Development (R&D), Legal services, analytical works, etc.

4. Answer the following questions in brief :

Question 1.

Explain the steps of Communication Process.

Answer:

Communication deals with information and processing information.

- Let us see an example as how information can be exchange between two persons for the purpose of communication.
- The example shows how communication takes place between two persons. The example discussed is for a person who wishes to know about availability of a bus from Rajkot to Vadodara.

Steps	Explanation of steps	Example
1. Formation of a message	To exchange information a message is created. The message can be in oral, written, verbal or non-verbal form.	The sender of information i.e. one who seeks information may create a message in his mind like when the next bus from Rajkot to Vadodara available after 8 pm?

2. Selection of medium	Once the sender creates the message he selects the means of communication.	The sender decides to make a telephone call. Here he has chosen telephone as a mode of communication.
3. Sending message	The person now sends the message.	He uses the telephone and asks the receiver of message when will the next bus after 8 : 00 p.m. be available for Vadodara from Rajkot.
4. Receiving message	The receiver receives the message sent by the sender.	The receiver receives the message on telephone that when will the next bus after 8:00 pm be available for Vadodara from Rajkot.
5. Interpretation of the message	The sender sends information (message) using a language that the receiver can understand and interpret.	The receiver understands and interprets that the sender of message wants to know if there is any bus available from Rajkot to Vadodara after 8:00 pm.

Question 2.

Explain the four main types of Computer net.

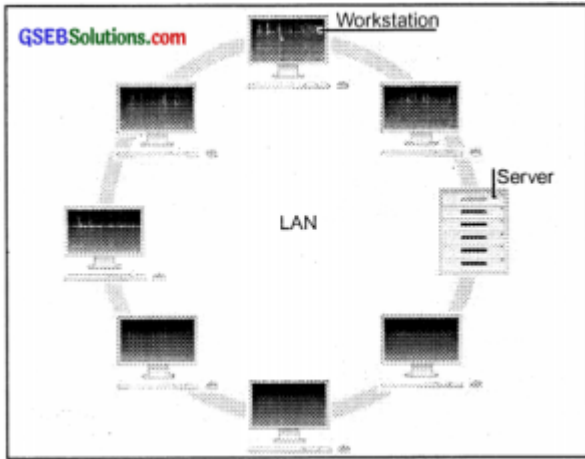
Answer:

When a group of computers are connected with a purpose of sharing information and resources it is called a network or say a computer network.

Four main categories of computer network:

1. Local Area Network (LAN):

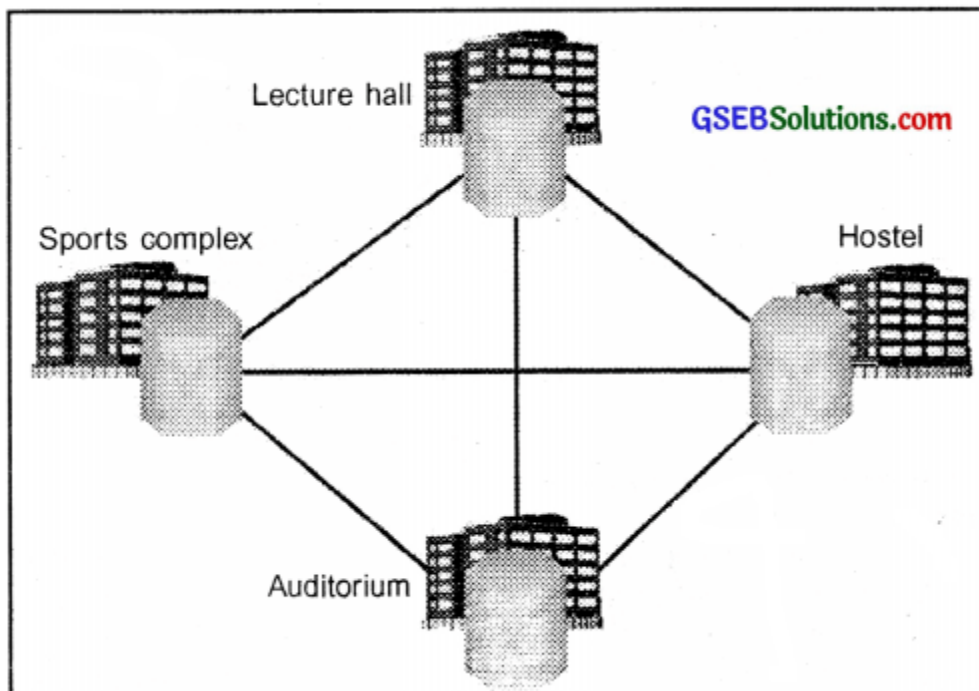
LAN is a computer network that interconnects computers within a limited area such as within a room, within an office, a school, etc.



LAN (Large Area Network) (For information only)

2. Campus Area Network (CAN):

- CAN is a computer network that interconnects the computers within a geographical area such as a college campus, industrial complex, etc.
- CAN consist of two or more LANS.

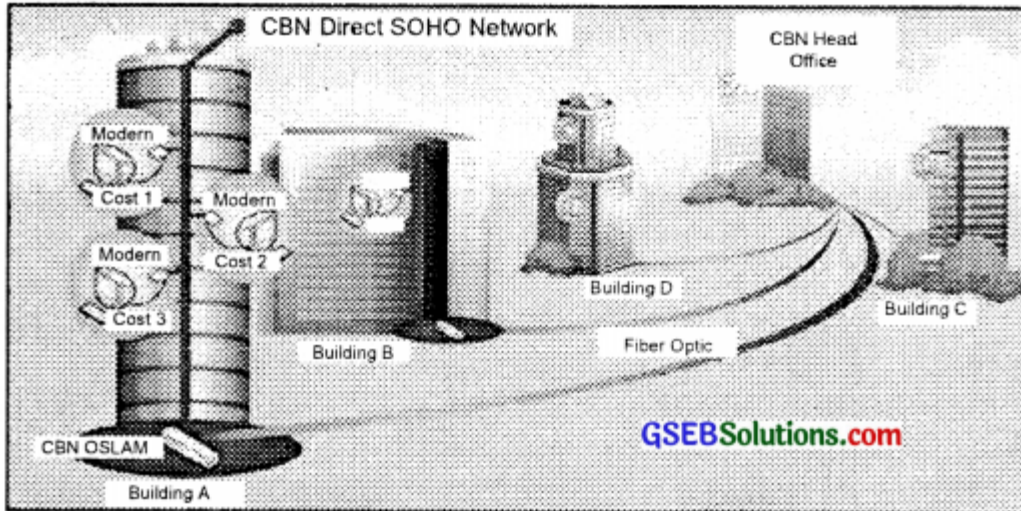


Campus Area Network (CAN) (For information only)

3. Metropolitan Area Network (MAN) :

Metropolitan Area Network or MAN is a computer network that interconnects

computers of entire city.



4. Wide Area Network (WAN):

- Wide Area Network (WAN) is a computer network that extends over a very large geographical distance compared to LAN, CAN or MAN. In this sense the computers under WAN are connected globally through telephone line, fiber optic cables, or satellite links.
- The internet can be considered as the biggest WAN in the world.



Wide Area Network (WAN) (For information only)

WAN is further divided into two types:

(A) Enterprise WAN:

An enterprise WAN is a wide area network of computers developed for very huge companies or corporate companies. It connects users that could be anywhere in the world. Such a system is called 'internet'. For example, Indian

Railways connects all its computers across entire India through enterprise WAN or say internet.

(B) Global WAN (or GAN):

Global WAN is a network that has no geographical boundaries. It is spread in various countries and even continents. It is a collective network of networks of various organizations and is also called World Wide Web (WWW).

Question 3.

Explain the function of the three major types of Internet.

Answer:

Major types of works that one can do on internet:

1. Contact other persons:

- Internet helps to communicate with any person in the world using facility of e-mail, social networking sites like Facebook, Twitter, etc.
- We can also talk with people across the world using internet chats, internet calls, etc.

2. Receiving information:

Using internet we can easily and quickly search and obtain information about any subject or topic. We can go to websites like Google, Yahoo, etc. and search for any information we wish for.

3. Connecting other computer systems:

Through internet we can get in touch with other computer networks and system. For example:

- We can access banking networks through banking websites,
- We can obtain railway ticket on the internet,
- The Gujarat State Education Board monitors the students through CCTV cameras connected via. internet to prevent mishaps.

Question 4.

Give the name of tools required for successful implementation of E-commerce.

Answer:

Website, computer with internet connectivity, and credit and debit cards.

Question 5.

Write Short Note :

1. Digital Cash

Answer:

Digital cash:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- Digital cash is a system of purchasing cash credit is from the banks, storing the credit in your computer in a banking software and spend while purchasing electronically over the internet. In this sense digital cash is called e-currency and it exists only in the cyber space i.e. the digital world.
- Digital cash is not physical money as we see.
- The customer pays real physical money to the bank to buy digital cash. The bank then provides the buyer e-cash or say, digital cash in the form of credit. Banks provides the software which the buyer needs to install in his computer and use it for making online payment.

2. Safety and security of transactions

Answer:

Unlike traditional trade online trade is quite risky. These risks can be divided in three parts. They are:

1. Risks of wrong transaction
2. Risk of data getting stolen
3. Risk of intellectual wealth and privacy

We can safeguard ourselves from these risks in the following manner:

1. Security against risks of wrong transaction:

- At times it may happen the seller says that the customer did not place order and so the item was not sent to him. Sometimes the customer himself says that he has not placed the order but had actually placed it.
- Online sales also face complaints like the customer received a bad quality product or a defective product, etc.

Safety measure:

- The seller should verify customer's identity and address when he fills the registration form.
- The customers should purchase from reliable websites only.
- Order history of buyer must be checked.

2. Security against risk of data collection (dates getting stolen):

- While shopping online we share our personal details like name, address, bank name, etc. There lies a risk of such data getting stolen. Hackers may steal our data for fun or for some advantage.
- Hackers and data thieves create computer programs called virus and float them on internet. These viruses may enter our computer and steal our data or damage our computer processes. Virus may interrupt the screen, prevent the computer from working properly, damage data files and even whole computer system.

Safety measures:

- One should have proper anti-virus software installed on the computer.
- One should not surf unreliable websites.

3. Security against intellectual wealth and privacy:

- Internet is a public platform i.e. everyone in the world is allowed to access it.
- Once information is placed on internet it means it is publicly published.
- In this regard one needs to take care while providing the information on the internet.

Safety measures:

- One should be careful while placing information such as e-mail, address, phone number, bank details, password, etc. during online transactions.
- One should provide information only when necessary that too only to reliable websites.

5. Answer the following questions in detail :

Question 1.

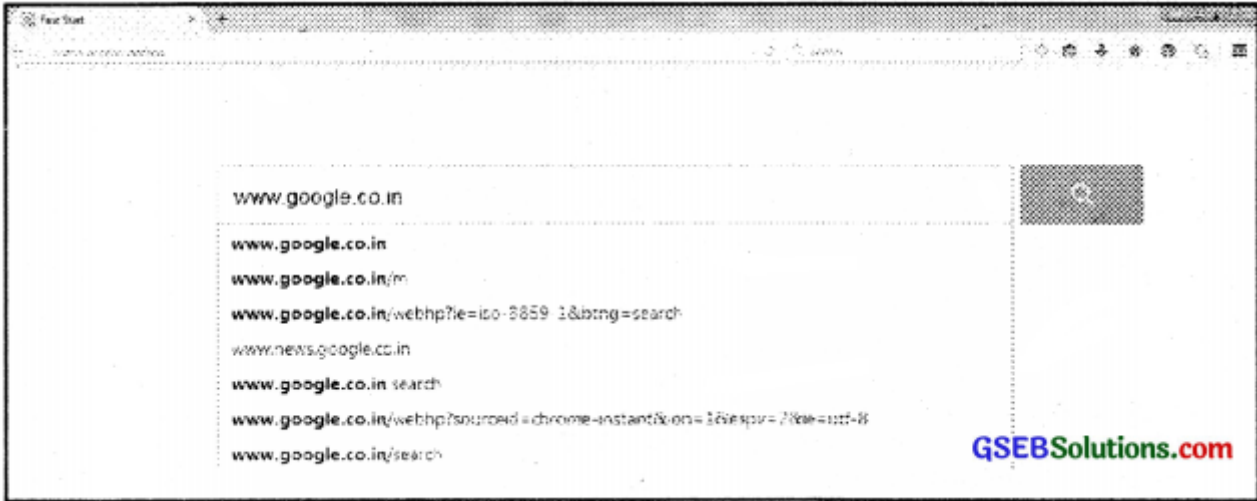
Explain the steps of the process of searching information on internet

Answer:

It is quite easy to search any information on the internet. Given below are few steps to search on information.

Step 1: Selecting a web browser:

- A web browser or browser is a software application through which we can search any information on the internet. Few popular web browsers are Google Chrome, Internet Explorer, Mozilla Firefox, etc.
- These browsers are also called search engines because they search whatever we type in their search-bar.
- Once your computer is connected to internet, open a browser installed on your computer. For example, Firefox. It will look as shown below.



Mozilla Firefox home page (For information only)

Step 2: Selecting a search engine

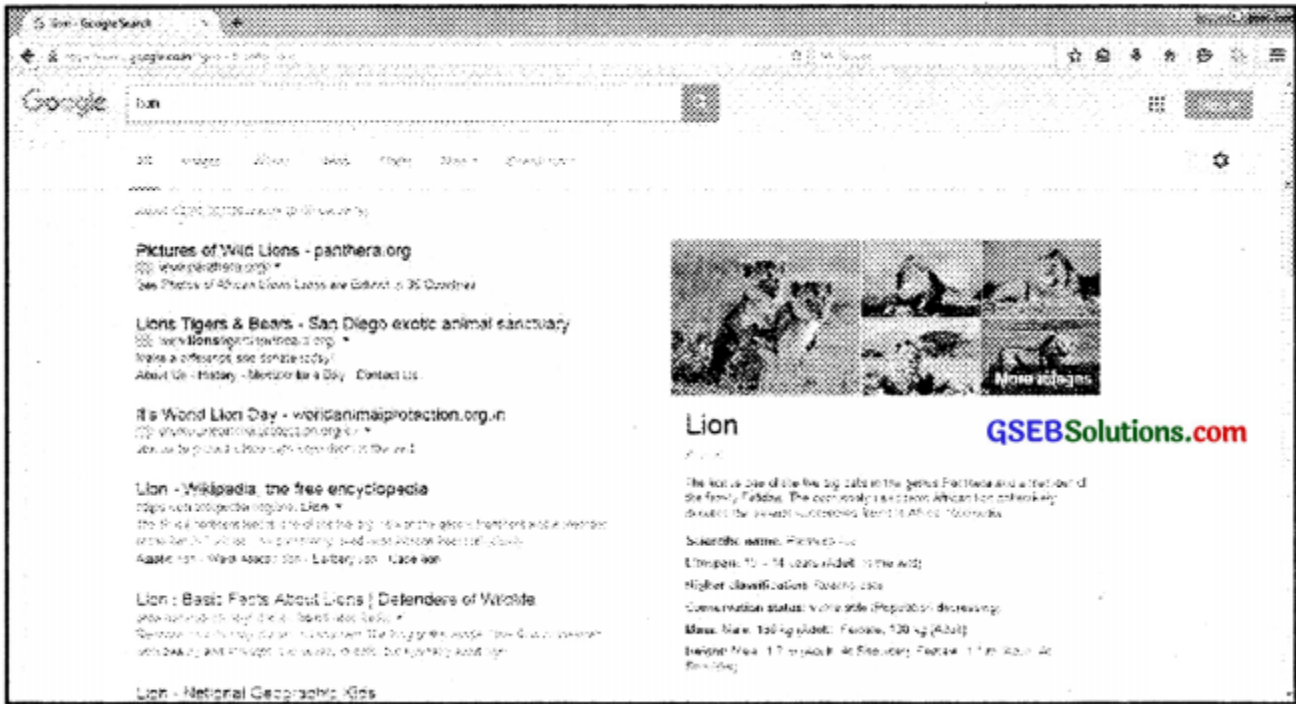
Type **www.google.co.in** either in the address-bar or in search-bar and press enter or click 'search'. The homepage of Google India will open.



Google home page (For information only)

Step 3: Enter required information in search bar.

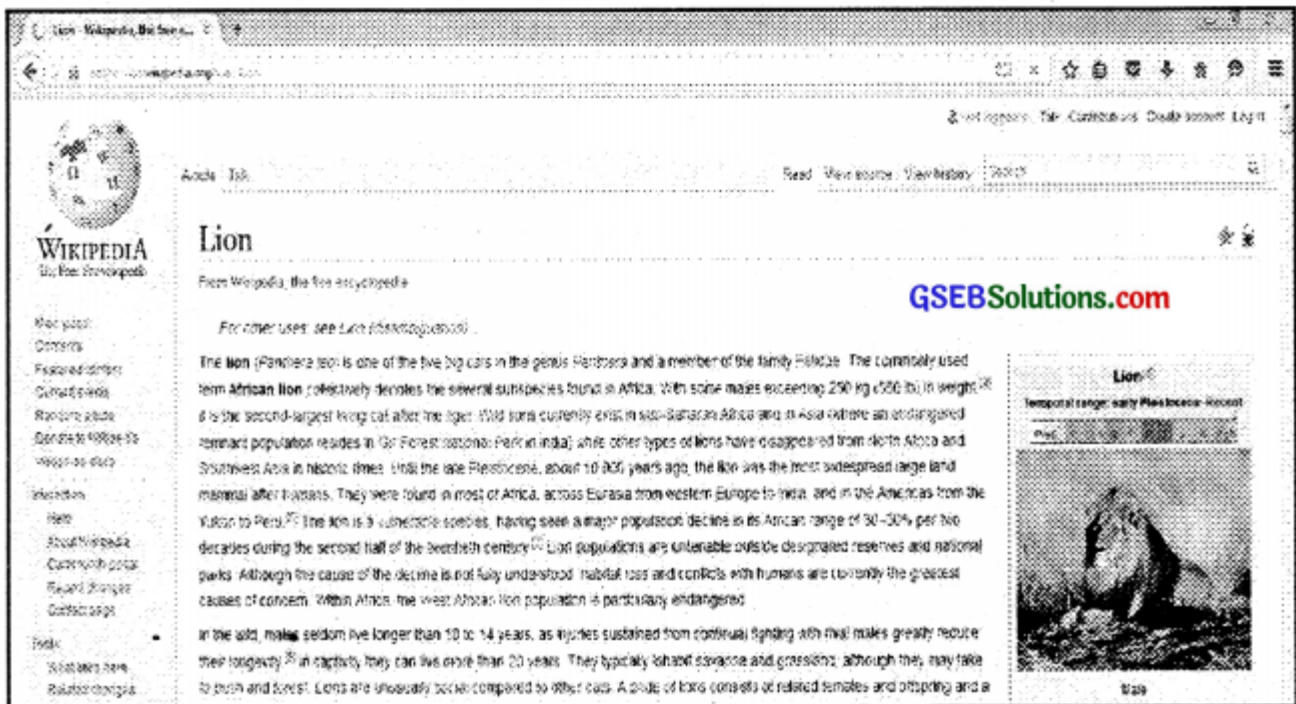
- Type the information you seek in search-bar. For example if you wish to obtain information about lion then type the word 'lion' and press enter.
- The browser will then search all those websites that contain information on lions and display the list of websites. Refer image.



List of Websites containing information on lions (For information only)

Step 4: Selecting a website

Click on the website you wish to and it will show information on lions.



Wikipedia website displaying information on lions (For information only)

Step 5: Obtain required information:

- You can now study about lions on this website.

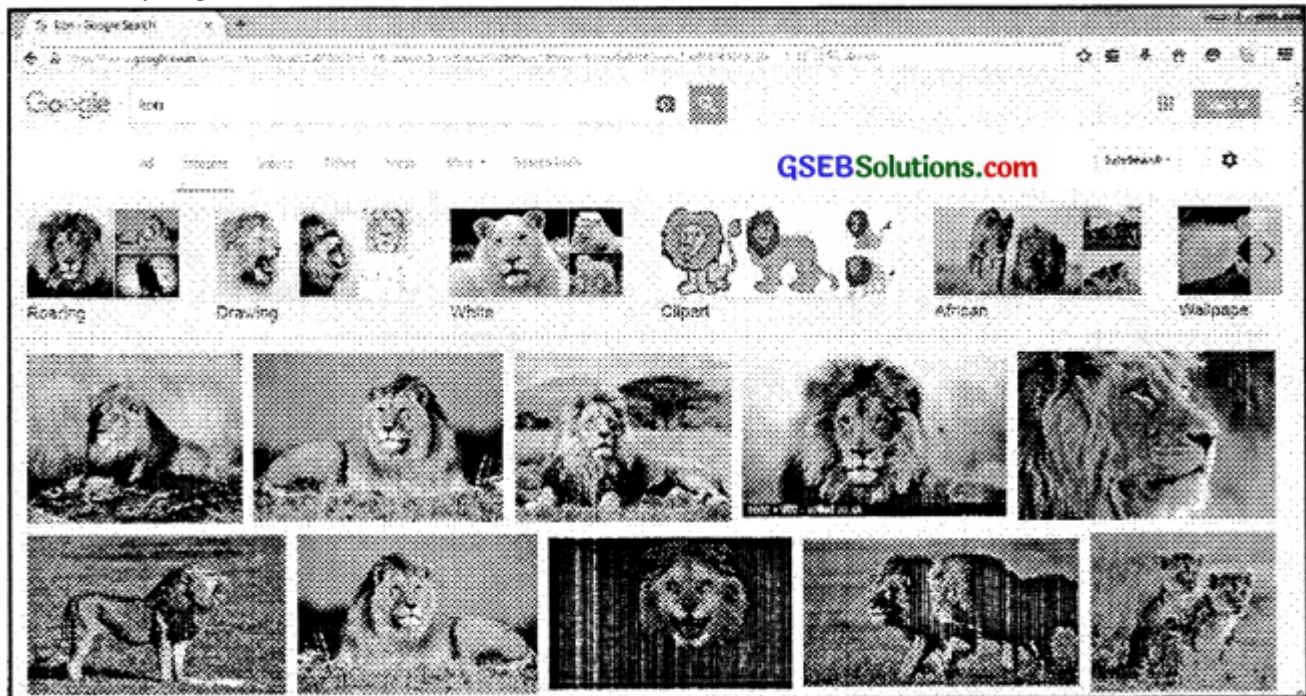
FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- If you wish to see various images of lions you need to click on 'images'. The search engine will search all the available images of lions and display them.



Images of lions as searched by the search engine

Conclusion:

Following these steps one can find any information on the internet. One can search text, various types of images audio, video, etc.

Question 2.

Explain the scope of E-commerce services.

Answer:

Scope (categories) of e-commerce services:

Based on the parties included and activities done e-commerce can be divided (or done) in four ways. They are:

1. Business to Customer (B2C)
2. Business to Business (B2B)
3. Customer to Customer (C2C)
4. Customer to Business (C2B)

1. Business to Customer (B2C):

- in business to customer (B2C) there exists a seller (businessman) at one end and customers on the other.
- The seller creates its website, puts it on internet and displays the products it sells on that website.

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- The buyer (customer) sees these products on the seller's website and if he likes them he places an order on the website itself.
- Once the seller receives the order he sends the product to the customer without the need of any mediator such as wholesaler, retailer, etc.
- Companies like Amazon, Flipkart, etc. provide online shopping facility which is an excellent example of B2C.
- B2C model is quite prevalent due to quick and easy sales and purchase transactions it offers.
Online banking, railway ticket booking, etc. are other examples.

2. Business to Business (B2B):

- In B2B model both the parties are businessmen i.e. one businessman sells its product to another.
- For example, a businessman would like to create its website for its customers or would like to design brochures for advertising his products. On the other hand – there is a businessman whose company does the activity of designing websites brochures, etc. for clients.
- When these two businessmen come in contact online we call it Business to Business (B2B) transaction achieved through e-commerce.
- In today's fast changing world business units are interdependent. They need B2B trading for faster and effective results.
- Through B2B, suppliers, distributors, and other mediators come in contact. Since several businesses provide their services online to other businesses they compete among themselves which results in better products and services. It increases efficiency of routine business activities like that of supply management, inventory management, managing payments, etc.

3. Customer to Customer (C2C):

- In C2C, a customer directly comes in contact with another customer, without any mediator.
- Any internet user becomes a seller as well as buyer.
- The best example for C2C would be e-bay.com. It is an e-auction website where a customer (seller) who wishes to sell logs into e-bay website and provide detail about the item and asks interested customers (buyers) to bid. The highest bidder buys that item.
- Other examples are Olx.com, quicker.com where a customer (seller) posts details of the items he wish to sell and interested customer (buyer buys it).

4. Customer to Business (C2B):

- In C2B model a consumer let's say an individual who has something to offer either a service or a good sells it to companies (businesses) and in turn companies pay such customers, for the work they provide. For example, a designer (i.e. a customer) may sell his designs to a garment manufacturing company.
- Since the customer is selling his product or service he decides its price.

Other models in e-commerce:

If we consider government as an autonomous body then we may have following different categories too:

- (A) Government to Business
- (B) Government to Citizen
- (C) Government to Government

Question 3.

Explain the steps of process of online transaction.

Answer:

The process of online shopping from a customer's point of view is discussed below:

Here, we assume that customer has studied the product on the seller's website and is willing to buy.

1. Registration:



Register online (For information only)

In order to make a purchase first of all the buyer needs to register himself with the seller's shopping portal or say website.

- To do so the buyer needs to fill up the registration form online provided on the website. This is known as opening an account with the seller or sign-in or seller's website.
- The form will ask the customer to fill his personal details like customer name, address, phone number, etc.
- While filling the form the customer also needs to set a password. By doing so only the customer will be able to sign-in from his account. This saves the customer from misuse of his account.

2. Place an order:



Add items in your cart (For information only)

- Once the customer sign-in he can select the product he wish to buy and place an order.
- The customer selects the product and put it in the shopping cart. Shopping cart is a pool of products that the customer has selected and wishes to buy.
- Once he has selected all the products he then proceeds to payment section.

3. Payment system:



Make payment (For information only)

- Depending upon seller's conditions he may allow the customer to pay for his products using facilities like cheque, credit/debit card, internet banking, Cash on Delivery (COD), digital cash, etc.
- When the seller receives the order and the payment confirmation he dispatches the product at the customer's address.

❖ Chapter 5 Forms of Business Organisation-1

1. Select the correct alternative and write answers to the following questions :

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Question 1.

Which is the oldest and easiest form of business enterprise?

- (A) Sole proprietorship**
- (B) Partnership**
- (C) Co-operative society**
- (D) Company**

Answer:

- (A) Sole proprietorship**

Question 2.

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

- (A) Joint enterprise**
- (B) Government company**
- (C) Co-operative society**
- (D) Sole proprietorship**

Answer:

- (D) Sole proprietorship**

Question 3.

The firm of Hindu Undivided Family is managed by whom?

- (A) Owner**
- (B) Karta**
- (C) Manager**
- (D) Partner**

Answer:

- (B) Karta**

Question 4.

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**

Answer:

- (B) By birth**

Question 5.

When did the Indian Partnership Act came in to existence?

- (A) 1932**
- (B) 1956**
- (C) 1960**
- (D) 2013**

Answer:
(A) 1932

Question 6.

What is the minimum number of partners in partnership firm?

- (A) 2**
- (B) 3**
- (C) 5**
- (D) 7**

Answer:
(A) 2

Question 7.

What is the maximum number of members in a banking partnership firm?

- (A) 20**
- (B) 12**
- (C) 15**
- (D) 10**

Answer:
(D) 10

Question 8.

According to Indian Partnership Act the registration of partnership firm is

- (A) Compulsory**
- (B) Not compulsory**
- (C) Not essential for interest**
- (D) Not in the interest of the firm**

Answer:
(B) Not compulsory

Question 9.

Partnership created for doing business with time limit means

- (A) Firm with limited liability**
- (B) Voluntary partnership**
- (C) Inactive partnership firm**
- (D) Partnership firm with time limit**

Answer:
(D) Partnership firm with time limit

Question 10.

The firm, whose life span depends upon the wishes of partners, such firm means _____

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- (A) Time limit partnership
- (B) Voluntary partnership
- (C) Nominal partnership
- (D) Inactive partnership

Answer:

(B) Voluntary partnership

2. Answer the following questions in one sentence each :

Question 1

Who is called a sole proprietor?

Answer:

A form of business in which the business firm is owned, managed and controlled by only one person is called a sole proprietorship and the person is called proprietor or sole proprietor.

Question 2.

How is the liability of owner in sole proprietorship?

Answer:

The liability of the owner of the sole proprietorship is unlimited. This means that he may even have to sell off his personal assets to pay-off the business debts.

Question 3.

Who is called Karta?

Answer:

The head of the HUF firm is called the Karta. He is the eldest male member of the family. He administers and controls the entire business; The liability of Karta is unlimited.

Question 4.

In Hindu Undevided Family how is the liability of Karta?

Answer:

The other family members can help the Karta in the business activities and provide their suggestions. But they cannot interfere in Karta's works or decisions.

Question 5.

How decision are taken in a Partnership firm?

Answer:

At the time of taking an important decision the partners gather and discuss it thoroughly, They share their experience, knowledge and opinions with

respect to the decision. When everyone agrees and come to a common conclusion a decision is made. Hence,

Question 6.

Who manages the Partnership firm?

Answer:

The partners together manage the partnership firm. They may also put the duty of managing on one or few of the partners.

3. Answer the following questions in short :

Question 1.

In sole proprietorship, how unlimited liability is harmful to the owner?

Answer:

Unlimited liability:

Sole proprietors cannot free themselves from business liabilities. If their borrowings exceeds their business profits and the proprietors are unable to pay, they will even have to sell their personal assets to repay business debts. In this sense the proprietors have unlimited liability.

Question 2.

How is it possible to maintain secrecy in sole proprietorship?

Answer:

- In a sole proprietorship the proprietor does all the business activities himself. He takes care of purchasing, production, developing concepts for sales and . marketing, meeting vendors, customers, etc.
- Since he does all these activities on his own he does not need to discuss his business plans and strategies, skills and ability takes all the decisions and maintains the secrets of the business.

Question 3.

What is unlimited liability?

Answer:

The term unlimited liability means that if a businessman is not able to pay the business debts then he will have to sell even his personal assets to pay the debts. Failing to do so the creditors can file a case against the businessman and can take him to the court of law for recovering their money.

Question 4.

Give defination of partnership according to partnership Act 1932.

Answer:

According to partnership Act, 1932, "Partnership is a relation between

people who have agreed to share the profit of the business which is run by all or one on behalf of all.

Question 5.

When can a minor become a partner?

Answer:

If a partner dies than his son who is minor can be made partner.

Question 6.

Who is called the partner by Estopple?

Answer:

A person who does not sign the partnership deed, does not bring capital and does not share the profit or loss in the firm but permits himself to be represented as a partner and behaves as a partner is called a partner by holding out or estopple partner.

Question 7.

Who is called a nominal partner?

Answer:

A partner who neither invests capital nor plays an active role in management but allows the partnership firm to use his name and influence for increasing the credibility, growth and expansion of the business is called a nominal partner.

Question 8.

What is a Partnership deed?

Answer:

A written agreement that outlines in detail the rights and responsibilities of each partner for the partnership firm is known as a partnership deed.

4. Answer the following questions in brief :

Question 1.

Give the meaning of sole proprietorship and explain the characteristics.

Answer:

Sole proprietorship:

- A form of business in which the business firm is owned, managed and controlled by only one person is called a sole proprietorship and the person is called proprietor or sole proprietor.
- From the above definition one can conclude that a lone trader or a sole proprietor is only and wholly responsible for the entire business and

that the entire business is carried out under his direction. He alone enjoys the profit and is responsible for loss in business or insolvency.

Characteristics of proprietorship:

1. Easy to establish:

One can easily set-up a proprietorship business firm without any legal hassles. A proprietor can start his firm from any place he seems proper.

2. Capital:

The proprietor raises his own capital. He can borrow money if he wish but it becomes his sole responsibility to return it.

3. Power of administration:

- The sole proprietor himself looks after the administration. He himself sees purchase, sales, collection, accounting and other business activities.
- However, he may take help from family members, relatives or even hire someone.

4. Freedom of work and quick decisions:

The proprietor enjoys complete freedom as how he wants to run his business. He runs his business based on his intelligence and experience. Since he has all the freedom and no one to interfere he can make quick decisions.

5. Unlimited liability:

The proprietor has unlimited liability. This means that if he is unable to repay his debts, the creditors can claim even for his personal properties and assets in the court of law to recover their money.

In other words if the business incurs loss and the proprietor is unable to pay his debts then he may have to mortgage or even sell his personal assets to repay.

6. Maintenance of secrets:

The proprietor manages everything himself and so his trade secrets do not get leaked.

7. Personal contact:

The reach of a sole proprietorship is generally not very far. Hence, the proprietor is able to maintain personal contact with customer's vendors, etc. This helps him to understand customers, employees, creditors, etc. better, serve them as per their taste, fashion and demand, etc. and keep them satisfied.

8. Centralization of ownership and management:

In sole proprietorship the proprietor is the owner as well as manager. Hence, unlike other business forms there remains unity or say centralization between ownership i.e. owner and management i.e. manager of the business.

Question 2.

Give the meaning of partnership firm and list out the characteristics.

Answer:

Partnership firm:

- A business firm run by two or more persons together with the objective of sharing the profit or loss is called a partnership firm.
- According to partnership Act, 1932, “Partnership is a relation between two or more people who have agreed to share the profit and/or loss of the business which is run by all or one on behalf of all”.
- In a partnership firm the ownership remains in hands of more than one person or say in the hands of all the partners together. The business is managed by all partners or by one or more partners as per the partnership deed and mutual understanding. Similarly, the profit or loss is borne by all as per the ratio decided in the deed.

Characteristics of partnership firm:

1. Relation by agreement:

A partnership firm comes into existence by either verbal or written agreement called the partnership deed.

It can also come into existence just by mutual agreement and understanding of people, however it is always advisable to have a written agreement.

2. Process of establishment:

The process of establishing is simple and one does not need to undergo a lengthy and complex legal procedure.

3. Registration:

As per the partnership Act it is not compulsory to register a partnership firm but it is advisable to do so. The partners need to submit the partnership deed to the Registrar of Firms who will then register the firm.

4. Number of partners:

A general partnership firm need to have minimum 2 partners and maximum 20. Whereas for a banking business there can be a maximum of 10 partners only.

5. Purpose of partnership firm:

- The main objective of a partnership firm is to earn profit by doing activities that are legally permitted.
- Activities such as social service managing religious programmes or tasks though done together cannot be called partnership because the objective of profit does not exist in such cases.

6. Capital:

Generally, all the partners invest the capital as mentioned in the partnership deed ' however, it is not necessary that every partner invests.

7. Management:

All the partners can jointly manage the partnership firm and all of them can participate in decision making. However, partners can mention and authorize names of one or more partners in the partnership deed who would manage the business.

8. Unlimited liability:

The liability of all the partners is unlimited. This means the partners will have to even sell their personal assets like properties, cars, etc. to pay the business debts. As per the Partnership Act the partners are individually and jointly responsible for paying off the firm's debts. This also means that if one or more partner is unable to pay the business debts from his personal assets, the remaining partners, will have to pay the debt from their personal assets.

9. Transfer of ownership:

It is not easy to transfer the ownership of a partnership firm. Unless all the partners approve one cannot transfer his share in anyone's favour. In case if a partner does so, any partner can dissolve the partnership firm.

10. Legal status:

The Partnership Act, 1932 contains all the details and procedures about registering the firm, rights and duties of partners, establishment, dissolution, etc.

11. Life span of the firm:

- A partnership has a limited life. Partnership and partnership firm exist separately.
- The partnership ends if a partner dies, becomes mentally unstable or insolvent. In such cases, the remaining partners can redistribute the share of that partner among themselves or even admit a new partner. In

this way the existing partnership may end but the partnership firm can live, i.e. not get dissolved.

Question 3.

‘Sole proprietorship is a training school of business’ Explain.

Answer:

Sole proprietorship is the most basic yet fundamentally very important form of business.

- A sole proprietor does all the activities himself or is in direct contact with all those people who conduct business activities on his behalf.
- The proprietor raises his own capital, trades with other businessman, purchases products or raw material, processes them, performs sales and marketing and also manages the books of accounts. Moreover, the sole proprietor remains in direct contact with vendors, customers, employees, market, etc.
- All these things are extremely important for a person to understand and do a business. Sole proprietorship teaches the proprietor all these aspects thoroughly and hence it is considered as a training school for business.

Question 4.

Each Partner is an agent of other partner – Explain this statement.

Answer:

- For a third party, a partnership firm and partners are one and the same.
- A partner can be looked upon as an agent or say representative of the firm for the business acts he does for the firm or say the partners.
- A partner can thus bind the partners and the firm through his activities and the firm becomes responsible for his acts with the third parties i.e. the outside world. -» Hence, it is said that a partner is an agent of other partners or the firm.

Question 5.

Clarify the difference between sole proprietorship and a partnership firm.

Answer:

Point of difference	Sole proprietorship	Partnership firm
Meaning	When a person wishes to establish a business, arranges capital, enjoys the profit and	Partnership is a relation between two or more people who have agreed to share

	bears the loss all alone it is called a sole proprietorship.	the profit and/or loss of the business which is run by all or one on behalf of all.
Number of members in management	Sole proprietorship is managed and controlled by only one member i.e. the proprietor.	A partnership firm can have minimum 2 persons and maximum 10 persons a banking business and maximum 20 for all other businesses.
Capital	The entire capital is brought in by the proprietor.	Partners bring the capital as per the partnership deed.
Establishment	Anyone can start a proprietorship without any written document/agreement.	The partners need to establish a partnership either by verbal agreement or written.
Decisions	Since this is run by only one person decision making is fast.	More than one person runs partnership and so decision making is slow.
Profit and loss	The owner wholly enjoys the profit or bears the loss.	Profit or loss is distributed among the partners.
Registration	There is no compulsion for registering a proprietorship firm.	Registration is not compulsory but beneficial.
Maintenance of secrecy	The business secrets remain intact with the proprietor.	Business secrets are known to all partners and so secrecy is less.
Transfer of share.	The proprietor can easily transfer his share to anyone whenever he wishes	A partner can transfer his share only if all the other partners agree.

Risk	Only the proprietor bears the business risk.	All the partners bear the business risk.
------	--	--

Question 6.

Explain the advantages of registration of a partnership firm.

Answer:

Advantages of registering a partnership firm:

- The partners can file a case and go to the court of law for recovering dues from a third party.
- Any partner can file a case in the court against other partners or the firm.
- A partner can demand justice for his rights and share in the partnership firm from the court of law.
- A partner who wishes to retire from the firm can give a public notice and free himself from his liabilities.
- The existence of the firm becomes known to public through registration.

5. Answer the following questions in detail :

Question 1.

State meaning of Hindu Undivided Family and clarify the characteristics.

Answer:

Hindu Undivided Family (HUF) firm:

According to Hindu law business is inheritable. So, a business which is inherited and run by a Hindu Undivided Family is called a Hindu Undivided Family Firm. According to the Hindu law all the male members of the family are considered the members of the HUF firm. The eldest male member of the family administers and controls the entire business. He is called 'Karta'. The eldest male member does not wish to run the business, the administration and control is passed to the second eldest person of the family. HUF firms is quite popular in India and Nepal.

Characteristics of HUF firm:

1. Existence by law:

The concept of HUF firm has emerged from Hindu law i.e. the firm has a legal standing.

2. Management:

The eldest male member manages the HUF firm. This member is called 'Karta'.

3. Independent field of operation:

Karta is free to take all and any business decisions. Other members i.e. family members who are a part of HUF firm can neither involve nor interrupt in decision making. These members cannot object any decision of Karta however they can suggest and help in the business and its decisions.

4. Membership:

Any male member born in HUF automatically becomes the member of the HUF firm from his birth.

5. Financial control:

Since the entire administration and control of business lies with Karta the financial control also lies with him.

6. Liability:

The Karta runs the business, administers it, also controls it fully and hence his liability towards business is unlimited. This means he may have to sell his personal assets to pay off the business debts. Whereas the liability of members is limited.

7. Life of HUF Firm: If the Karta of the HUF firm dies the next eldest person becomes the Karta and this is how the HUF firm remains continued.

8. Difficulty in raising funds: The success of an HUF firm depends on the efficiency of the Karta. The firm depends on the Karta and family members for raising the funds needed to run the business. In such cases since the fund is to be raised by family members only it might be difficult to raise a good amount of capital.

9. Insolvency: In case an HUF firm becomes insolvent the adult members of the HUF firm are declared insolvent whereas the minor members (i.e. below 18 years of age) are excluded. The liability of Karta is unlimited while paying the debts. He can sell the shares of all the family members to pay the business debts.

Question 2.

Explain the advantages and limitation of sole proprietorship.

Answer:

Advantages of sole proprietorship:

1. Easy establishment process:

- One can easily start a sole proprietorship without any documents or passing from any complex laws and procedures.
- Any person, educated or illiterate but having general capabilities can start a proprietorship with minimal capital.

2. Less capital:

Since the proprietorship can be set up even with very less capital it is a very important characteristic and special advantage. Moreover, in case the business needs more capital, the proprietor can even borrow it.

3. Maintenance of secrets:

It is extremely important for a business to maintain its trade secrets. Since the proprietorship is entirely owned and managed by a single person the business secrets can be very well maintained. This again is a special advantage which is difficult to obtain in other forms of business.

4. Quick decisions:

Since the entire business is owned by a single person quick decisions can be made as per the changes in market, demands consumer preference, etc. Such quick decisions helps to save business and even grow faster.

5. Personal contact:

- The reach of a sole proprietorship is generally not very far. Hence, the proprietor is able to maintain personal contact with customers, vendors, etc. This helps him to understand the customers, employees, creditors, etc. better, serve them as per their taste, fashion and demand, etc. and keep them satisfied.
- Based on the opinions of customers and employees he gathers through personal contact he can even change the product or production method or distribution system, etc. and keep the business safe and sound.

6. Flexibility:

The proprietor can easily bring whatever change he wishes to in his business. Authority to decide solely, quick decision making and constant personal contact makes proprietorship highly flexible to change as required,

7. Less burden of tax:

- The income of sole proprietorship can be considered as the income of the owner. Hence, the proprietor falls into the bracket of personal rate of income tax which is lower than other business forms.

- Moreover, generally the sole proprietorship is not very large and so the burden of income tax is also less.

8. Less legal restrictions:

Compared to other business forms there are lesser regulatory and legal controls on the proprietorship firm. The proprietor does not need to take approval from anyone for making changes in his business methods increase or decrease capital etc. Moreover, since the business is small, regulatory controls are also less.

Limitations of sole proprietorship:

1. Limited capital:

- Generally, it is difficult for a sole proprietorship to raise large capital.
- After industrial revolution and with advent of e-commerce the size of businesses have grown and is growing. In such cases it becomes almost impossible for the owners to raise large capital, large space or purchase machinery, raw materials, etc. in larger quantity. As a result, business may not grow much.

2. Unlimited liability:

Sole proprietors cannot free themselves from business liabilities. If their borrowings exceeds their business profits and the proprietors are unable to pay, they will even have to sell their personal assets to repay business debts. In this sense the proprietors have unlimited liability.

3. Short duration:

If the proprietor becomes insolvent or dies or faces some unforeseen event like loss of mental balance or gets involved in some crime, the existence of business comes in danger. In such situations if there are no inheritors of the proprietors or if they do not possess the knowledge to run the business, the business may become weak or even shut down.

4. Limited capacity to work:

- In proprietorship the owner does everything. He formulates policies, he manages funds, he sells and he markets.
- It is a known fact that an individual has got only 24 hours per day to work and a limited set of skills and preferences towards works. Even if the proprietor is highly efficient he will have limited time and knowledge.
- The sole proprietor may lose out the benefit of skills possessed by other persons, opinions and suggestions, etc. and so the growth of business may be limited.

5. Possibility of wrong decisions:

- All the decisions are taken by the proprietor himself. Hence, he does not have the advantage to take help of rich experience and specialized knowledge possessed by others in their own fields.
- This may result in mistakes in business decisions.

6. Lack of advantages of large scale business:

The proprietorship firm generally works on a smaller scale with limited capital and skills. Under such circumstances the businessman cannot get the advantage of large volume or large scale business to earn large profits.

Question 3.

Explain the limitations of partnership firm.

Answer:

Limitations of a partnership firm:

1. Limited capital:

- Considering the growth and development of today's world and the large scale modern industries and trade the capacity of the partners to raise the capital is limited.
- It is difficult for a proprietorship firm to engage in expanding the business on a large scale, investing in research and development, etc.

2. Unlimited liability:

All the partners need to work honestly and efficiently. If a partner does not work properly and the business incurs loss then every partner becomes responsible for paying the debt collectively. Since the partners have unlimited liability, the partners may have to sell their personal assets to repay business debts in case the assets of the firm cannot repay.

3. Possibility of disagreement:

A partnership firm can run successfully and grow well only if all the partners work and think unitedly. If disagreements and disputes crops in among the partners, they may affect the firm too.

4. Difficulty in maintaining secrets:

Important business decisions are taken through discussion and meetings among partners. All the business aspects are discussed in such meetings and so all the partners know all the secrets of the business. As compared with sole proprietorship more than one person knows the business secrets which in a way can prove dangerous. If any partner leaks them out it may be harmful for the business.

5. Difficulty in transferring the share:

In a partnership firm one cannot easily transfer his share to another person unless remaining all partners agree.

6. Delay in decision making:

- As per the Partnership Act each partner can be a part of management and decision making. If there are disputes or disagreements between the partners the decision making may become poor and delayed. This can then result into weaker management.
- Sometimes disputes differences in opinions and decisions and enmity between partners increase so much that the partnership firm gets dissolved.

7. Short life span:

If any of the partner dies, becomes mentally unstable or insolvent, the partnership comes to an end.

Question 4.

State the details to be included in partnership deed.

Answer:

Partnership Deed:

A written agreement that mentions in detail the rights and responsibilities of each partner for the partnership firm is known as a partnership deed.

Details included in a partnership deed:

- Name and address of the firm
- Name, age, address and telephone numbers of each partner
- Purpose of starting the partnership and its duration
- Date of establishing the partnership and its duration
- Details of capital invested by each partner and the interest on capital if it is to be given to the partner
- The limit of money a partner can draw from the business
- Rate of interest on loans given by the partners to the firm
- The ratio of distribution of profit or loss among the partners
- Distribution of work among the partners
- Details of salary or commission of partners or other facilities that the partner can get
- Provision related to keeping the accounts and book-keeping of the firm
- Provision about the power for opening a bank account and power of transactions for each partner
- The method of evaluating the goodwill of the firm

- Provision of involving an intermediary person for solving disputes and differences
- Signing authority for various documents
- Provision of admitting a new partner and retirement of an old
- Rights and duties of a partner
- Provision for admitting a minor partner
- Process of setting the accounts during dissolution of the firm

All the above details are mentioned in the Partnership deed. If the deed is not in a written form then the provisions of Partnership Act 1932 gets automatically applicable to the partnership firm created on the basis of oral agreement.

❖ Chapter 6 Forms of Business Organisation-2

1. Select the correct alternative and write answer to the following questions :

Question 1.

In a co-operative society member

- (A) Can vote per share
- (B) Can vote per member
- (C) Can vote in proportion of capital
- (D) Can vote as per efficiency

Answer:

- (B) Can vote per member

Question 2.

Co-operative society is called training school for what?

- (A) Service
- (B) Splendor
- (C) Autocracy
- (D) Democracy

Answer:

- (D) Democracy

Question 3.

Co-operative society

- (A) Is the institution of capitalists
- (B) Has the motive of service to member
- (C) Has the motive of profit
- (D) Encourages speculation

Answer:

- (B) Has the motive of service to member

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Question 4.

How many persons are required for the formation of co-operative society?

- (A) 10
- (B) 20
- (C) 30
- (D) 50

Answer:

- (A) 10

Question 5.

The upliftment of the members predominates in

- (A) Sole proprietorship
- (B) Private company
- (C) Public company
- (D) Co-operative society

Answer:

- (D) Co-operative society

Question 6.

Co-operative society

- (A) Cannot pay dividend
- (B) Can pay dividend in any proportion
- (C) Can pay dividend subject to the law
- (D) Can pay dividend subject in the permission of state and central government

Answer:

- (C) Can pay dividend subject to the law

Question 7.

What is considered as the engine of economic growth?

- (A) Sole proprietorship
- (B) Partnership
- (C) Co-operative society
- (D) Company

Answer:

- (D) Company

Question 8.

Which Companies Act is in force in India at present?

- (A) 1912
- (B) 1932
- (C) 1956

(D) 2013

Answer:

(D) 2013

Question 9.

How does a company express its consent?

(A) By name

(B) By common seal

(C) By memorandum

(D) By artificial personality

Answer:

(B) By common seal

Question 10.

In which document does a company state the liability of its members?

(A) Memorandum of Association

(B) Articles of Association

(C) Membership letter

(D) Contract letter

Answer:

(A) Memorandum of Association

Question 11.

What is the most important feature of the company form?

(A) Large scale capital

(B) Legal personality

(C) Perpetual entity

(D) Easy transfer of share

Answer:

(D) Easy transfer of share

2. Answer the following questions in one sentence each :

Question 1.

state the meaning of Co-operative society?

Answer:

A co-operative society is a voluntary form of business where in individuals intending to set-up a business get associated for economic interests but on the basis of equality i.e. to provide equal right and opportunity to all the members.

Question 2.

Why do persons join a Co-operative society?

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Answer:

Individuals who wish to uplift their economic society conditions on the basis of equality join the co-operative society.

Question 3.

What is the main objective of Co-operative society?

Answer:

To uplift the weaker sections of the society economically through co-operation among society members.

Question 4.

When does a Co-operative society get separate legal identity?

Answer:

When it gets registered.

Question 5.

Which type of Co-operative society provides day to day consumable goods to its members at fair price?

Answer:

Consumer Co-operative Societies.

Question 6.

What is meant by 'vote per member' in Co-operative society?

Answer:

Each member is allowed to have only one vote irrespective of number of shares he holds. This is called one vote per member.

Question 7.

Why is a Company called engine of economic growth?

Answer:

Companies involve in large scale production, provide very large employment opportunities, set-up huge industries and thus buy huge real estate, machinery, etc. Also, company pays crores of rupees as taxes. Hence,

Question 8.

What is the minimum number of members in Public company and Private company?

Answer:

7 and 2 respectively.

Question 9.

What does limited liability of the members of a company mean?

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Answer:

The liability of members/share-holders is limited to the face value of the number of shares of the company they have.

Question 10.

What is meant by one person company?

Answer:

- (A) Government company,
- (B) Holding company and
- (C) subsidiary company.

Question 11.

Give full form of SEBI.

Answer:

Securities and Exchange Board of India.

3. Answer the following questions in short :

Question 1.

Why is a Co-operative society called training school of democracy?

Answer:

Economic upliftment and growth of members:

- Co-operative societies play a significant role in the growth of its members. For example, consumers' co-operative societies supply day-to-day consumable products like milk, grains, etc. of good quality at fair prices and prevent economic exploitation of customer by the middleman.
- Similarly, producer's co-operative societies supply raw materials, equipment, tools, etc. at fair prices to the members.
- Small producers can sell their produce easily to these societies and attain economic growth.
- Co-operative societies have achieved much progress in sugar, milk, leather, and cotton industries.

Question 2.

Under what circumstances non Co-operation can be created in co-operative society?

Answer:

Non Co-operation among members:

- The success of a co-operative society depends highly on the honesty, loyalty and co-operative approach of the members.

- When members lack these values it may result in disharmony, conflicts, division of members in various groups, selfishness, enmity and ultimately non-co-operation.
- Owing to these reasons, the co-operative society may not be able to fulfill its objectives.

Question 3.

How is profit distributed in Co-operative society?

Answer:

Fair distribution of profit:

- The objective of a co-operative society is service'. However if the society makes surplus income it distributes some part of profit among the society members in the form of dividend as per the provision of law.
- The remaining profit is utilized for the welfare of the members and the society.

Question 4.

How do ownership and management differ in Company form?

Answer:

Management:

- The shareholders (investors) elect representatives from among themselves who are then called the director of the company. More than one director is elected and together they are called Board of Directors.
- The Board of Directors manages the company on behalf of the shareholders as per the Memorandum of Association and Articles of Association. Hence in a company the owners are the shareholders whereas the managers/directors are the Board of Directors i.e. ownership and management are separate unlike proprietorship/partnership.

Question 5.

Explain any three characteristics of a Company.

Answer:

1. Legal entity:

- Being an artificial person, a joint stock company has its own separate legal entity independent of its investors.
- This means a company can own property, enter into contracts, it can sue and can be sued by others.

2. Perpetual existence:

- As per the law, a 'company' is separate from its investors. So, it is not affected by the death or insolvency of the members.

- A company can be brought to an end only through liquidation procedure.

3. Division of capital in small fractions:

- If for a public company, the capital to start the company is raised from the public in the form of shares.
- The company asks the public to apply for purchasing shares of the company or in simple words 'purchasing a share' in the company.
- People buy company's shares from stock market and become shareholders. The company then starts its business with the share capital i.e. fund raised by selling the shares.

Question 6.

What are benefits to society and nation by Company?

Answer:

Benefit to society and nation:

- People invest in the shares, debentures and public deposits of the company. This induces saving habit.
- On the other hand they receive dividend and interest on their investment as income.
- The society gets advantage of employment and large scale production.
- Some companies also enhance the society by developing public gardens, schools and colleges, play grounds, art centers, etc.
- Companies pay crores of rupees to the government as taxes. This is then used by the government for the welfare of the country.
- Company provides several facilities to the employees.

Question 7.

What is vote per share in a Company?

Answer:

Voting right per share:

- The members of company can cast votes on the basis of the number of shares they hold.
- Unlike the single vote right that individuals commonly possess, the number of votes a share-holder can vote corresponds to the number of shares that he owns.
- Easy transfer of shares and voting per share are special characteristics of the company.

4. Answer the following questions in brief :

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Question 1.

state the advantages of co-operative society?

Answer:

Co-operative society:

- **A co-operative society is a voluntary form of business where individuals intending to set-up a business get associated for economic interests but on the basis of equality i.e. to provide equal right and opportunity to all the members.**
- **Thus, people with common interests voluntarily get associated to fulfill economic interest of members through co-operation among members but, by treating all members equally. In other words to uplift economically weaker sections of society. The co-operative societies are set-up by weaker sections of society to protect its members from the clutches of profit hungry businessman.**
- **Amul is one of the best examples of a co-operative society.**

Advantages of a co-operative society:

1. Easy establishment:

It does not require lengthy legal procedure to set-up a co-operative society. Ten persons can simply come together voluntarily and form a co-operative society. If they wish they can even easily register it.

2. Perpetual existence:

- **As soon as a co-operative society gets registered it becomes a separate legal entity i.e. members and society are considered two separate entities.**
- **The existence of the society than does not get affected by the exit, death or insolvency of the member.**
- **Hence, a co-operative society enjoys a long and also in many cases a perpetual life.**

3. Open membership:

The membership is open to all who have a common interest. Anyone can become a member irrespective of religion, caste, sex or economic condition.

4. Limited liability of the members:

The liability of each member is limited only to the number of shares he purchases.

5. Government aid:

Government provides financial assistance to the society for conducting

activities to uplift the members and serve the society. The assistance can be in the form of loan, grant or subsidy.

6. Democratic management:

- The business of co-operative society is managed by the committee elected by the members. Each member has a right to cast only one vote irrespective of the number of shares he holds.
- The decisions of the society are taken on the basis of majority.
- Every member can contest the election, cast vote and participate in meetings and elect the representatives of the society.

7. Lesser administrative expenses:

- The co-operative society works on the principle of thrift i.e. wisely managing money and other resources.
- Members provide honorary services for managing the society. Moreover, management is done on an economical way without spending or spending very less on advertisements and marketing of the products.
- These things together reduces overall administrative expenses of the society.

8. A specific class of customers:

Mostly the members are customers too. Members are specific and goods are sold to them.

9. Strong competitor against trading firms:

Sometimes business firms in order to earn more profit may involve in unfair practices like adulteration, cheating, profit-maximization, black marketing, etc. -» A co-operative society can stand strongly against such firms because it does not involve in unfair trade practices and aims at providing goods at reasonable prices. Also its administrative expenses are lesser and so it can provide a good competition to business firms.

10. Welfare activities for the society (public):

- Co-operative societies from their profits and reserve conduct various types of welfare activities for the society. They arrange activities like setting-up medical camps free of charge or at very nominal rates, develop schools, dispensaries, gardens, etc.
- These activities are advantages to general public of the country.

11. Training school for democracy:

- A co-operative society works purely on a democratic way. It gives importance to humans and not money or power.
- In this sense the co-operative society works as a training school democracy where ideals of democracy can be thoroughly learnt.

12. Economic upliftment and growth of members:

- Co-operative societies play a significant role in the growth of its members. For example, consumers' co-operative societies supply day-to-day consumable products like milk, grains, etc. of good quality at fair prices and prevent economic exploitation of customer by the middleman.
- Similarly, producer's co-operative societies supply raw materials, equipment, tools, etc. at fair prices to the members.
- Small producers can sell their produce easily to these societies and attain economic growth.
- Co-operative societies have achieved much progress in sugar, milk, leather, and cotton industries.

Question 2.

Clarify the limitations of co-operative society.

Answer:

Limitations of co-operative societies:

1. Limited capital:

It is difficult to raise capital in a co-operative society. The main reason for this is that the price of shares to be sold to members is quite low and members generally belong to poor class. Moreover, unlike companies any member can have only one vote irrespective of the number of shares he holds. So, members are not much interested in buying shares which further adds to capital shortage.

2. Lack of efficient management:

The directors of co-operative societies work on an honorary basis i.e. without taking any fees or salary. Hence, at times they may not take personal and deep interest in the management and administration.

- Since the directors work honorary the society may not get an efficient person / having specialized knowledge, business experience and time.
- Lack of personal interest may also result in formation of opposite groups within the society and hence poor management.

3. Political interference:

Various political parties directly or indirectly try to control the co-operative societies. If the society starts functioning according to their political will the

business freedom gets affected which in turn affects the objective of the co-operative society and its democracy.

4. Non Co-operation among members:

- The success of a co-operative society depends highly on the honesty, loyalty and co-operative approach of the members.
- When members lack these values it may result in disharmony, conflicts, division of members in various groups, selfishness, enmity and ultimately non-co-operation.
- Owing to these reasons, the co-operative society may not be able to fulfill its objectives.

Question 3.

Explain the types of company.

Answer:

The different types of companies are explained below:

(A) Statutory company:

- A statutory company is a public enterprise brought into existence by a special act of the parliament or legislative assembly.
- Reserve Bank of India (RBI), Life Insurance Corporation (LIC) of India, etc. are statutory companies.

(B) Companies from the view point of number of members:

(I) Public company:

- As per Companies Act, a company which is not a private company is called a public company.
- A public company needs to have minimum 7 members. There is no limit on maximum number of members.
- Such companies can invite public to buy its shares and debentures. Moreover, one can easily transfer the shares.

From liability of member's point of view a public limited company can be divided into three parts. They are:

1. Company limited by share capital:

In such companies the liability of members is limited to the face value of the number of shares held by them. These companies put a word 'Limited' at the end of the company name. For example, National Insurance Company Limited.

2. Company limited by guarantee :

- A company limited by guarantee does not usually have a share capital or shareholders but instead has members who act as guarantors.
- The guarantors give an undertaking to contribute the amount guaranteed by them at the time of liquidation of the company.

3. Company by unlimited liability:

- A company in which the liability of members is unlimited is called a company by unlimited liability.
- If the debts of such companies exceed their assets or if the company goes under liquidation than the members may have to pay their contribution even by selling their personal assets.

(II) Private company:

- A private company is a company that has minimum 2 members and maximum 200 members.
- Unlike public company there are restrictions on the transfer of shares of a private company.

From liability point of view a private company can be divided into three types. They are:

1. Company limited by share:

- The liability of the members is limited to the face value of the number of shares they possess.
- Such private company has to put the words 'Private Limited' at the end of its name. For example, ABC Private Limited.

2. Company limited by guarantee:

- A private company in which the liability of members of the company is limited to the amount of guarantee given by them is called a company limited by guarantee.
- In case of liquidation of the company the members have to pay the guaranteed amount to the company.
- Such companies add the word 'private' at the end of company name.

3. Company with unlimited liability:

- A company in which the liability of members is unlimited is called a company by unlimited liability.
- If the debts of such companies exceed their assets or if the company goes under liquidation than the members may have to pay their contribution even by selling their personal assets.
- Such companies add the word 'private' at the end of company name.

(III) One person company:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- The concept of One Person Company (OPC) is a new form of private company introduced by the Companies Act, 2013. It consists of only one member (person) and so the name.
- One Person Company can enter into contract with director who is its member (i.e. the person itself as a director) through written consent of that person.
- The OPC needs to present the Memorandum and Articles before the Registrar of Companies during the incorporation of the company.

(C) Companies from the point of view of domination:

1. Government company:

- A company whose 51 % or more capital is held by either (1) Central government or (2) State government or (3) more than one state governments or (4) Central government and one or more than one state governments is called a government company.
- For example, Ashok Hotels Limited, Bharat Heavy Electricals Limited (BHEL), Bharat Sanchar Nigam Limited (BSNL), etc. are government companies.

2. Holding company:

A company which holds more than 50% shares of another company and holds the right to appoint majority of directors of that company is called a holding company.

3. Subsidiary company:

A company whose more than 50% shares are with the holding company and the right to appoint majority of its directors also lie with the holding company is called a subsidiary company.

(D) Types of companies with the view point of place of registration.

1. Indian company:

- A company which is registered in India under the Indian Companies Act or under the special act passed by the parliament is called an Indian company.
- An Indian company can be private company, public company or government company.

2. Foreign company:

A company which is registered outside India and whose registered office is also outside India, but whose place of business is in India is called a foreign company. For example, Vodafone.

5. Answer the following questions in detail:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Question 1.

Explain the meaning of Co-operative society and describe its characteristics.

Answer:

Co-operative society:

- **A co-operative society is a voluntary form of business where in individuals intending to set-up a business get associated for economic interests but on the basis of equality i.e. to provide equal right and opportunity to all the members.**
- **Thus, people with common interests voluntarily get associated to fulfill economic interest of members through co-operation among members but, by treating all members equally. In other words to uplift economically weaker sections of society. The co-operative societies are set-up by weaker sections of society to protect its members from the clutches of profit hungry businessman.**

Characteristics of co-operative society:

1. Voluntary association:

Individuals with common interest associate voluntarily. They join on the basis of equality.

2. Easy formation process:

- **Compared to a company it is quite easy to form a co-operative society.**
- **To form a society a minimum of 10 members need to get associated and create , a co-operative society and register it with the Registrar of Co-operative society as per the Co-operative Society Act. On registering it gets a separate legal entity (identity) of its own.**

3. Equality of members:

- **All the members of the society have equal right and opportunity in the co-operative society.**
- **The members are not discriminated on the basis of capital investment caste or any other reason.**

4. Separate identity:

Though registering a co-operative society is not compulsory, one can get a separate legal identity on registering it. Moreover, one can become the member of society as and when he wishes to and also leave it on his will. The entry or exit of members does not affect the legal status of the co-operative society.

5. Democratic management:

- The business of co-operative society is managed by the committee elected by the members.
- The basic element on which the co-operative democracy works is 'One man one vote'. Here, one man or say one member may have 10,000 shares of the society and another may have only 1 share still both have the right of one vote only i.e. equal voting right. In this regard we can say that in a co-operative society it is the 'person' that counts and not the money he has or holds in the society. Whereas in companies a person is allowed the number of votes based on the number of shares he holds.
- Any member can contest the election of executive committee, participate in management, etc.
- Hence, we can say that the management of a co-operative society is truly democratic and also that the society is a training school of democracy where one can learn ideal principles of democracy.

6. Motive of service:

- The primary objective of the co-operative society is to serve its members. Profit is a secondary objective.
- The society aims to raise the economic conditions and living standards of the members and to make them self-reliant.
- For example, the objective of Amul is providing milk at desired quality and fair price. It does this by collecting milk from villagers, pay them reasonably well and sell it to market. This helps to improve economic condition of villagers who supply milk and hence make them self-reliant.

7. Fair distribution of profit:

- The objective of a co-operative society is service'. However if the society makes surplus income it distributes some part of profit among the society members in the form of dividend as per the provision of law.
- The remaining profit is utilized for the welfare of the members and the society.

8. Low priced shares:

The price of shares of a co-operative society is quite low. So, an economically backward person can easily purchase it to become the member of the society -> At times if the price of share is high the society also provides the facility of ' payment in installments.

9. Voting right per member:

- Unlike companies each member is allowed to have only one vote irrespective of the number of shares he holds.

- The representatives of the society are elected on the basis of 'one member one vote' principle.

10. Educations and training:

To promote equality and brotherhood and to increase literacy of members the society conducts various conferences and trainings.

11. Separate institution from politics and religion:

- A co-operative society does not exist on the basis of politics or religion. Any one belonging to any religion, caste or sex can become its member,
- Thus, the society is separate from politics and religion.

12. Unrestricted number of members:

There is no limit to the number of people that can join a co-operative society. Any individual who wishes to uplift himself economically can be a member.

Question 2.

Give the meaning of Company and state its characteristics.

Answer:

Joint stock company:

- As per Companies Act, 1956, a company is an artificial, invisible and intangible person created by law, having a separate legal entity.
- As per Companies Act, 2013, 'Company' means a company registered under this act or any former act.
- This means that the company 'is different' from investors who invest in the company. For example, if an investor has invested ₹ 1000/- in a particular company and the company goes bankrupt, an investor loses only that money which he has invested i.e. his liability is limited and in the eyes of law the company and investor are two different persons. The investor need not sell his personal assets to pay the company's debts.

Characteristics of a joint stock company:

1. Legal entity:

- Being an artificial person, a joint stock company has its own separate legal entity independent of its investors.
- This means a company can own property, enter into contracts, it can sue and can be sued by others.

2. Perpetual existence:

- As per the law, a 'company' is separate from its investors. So, it is not affected by the death or insolvency of the members.

- A company can be brought to an end only through liquidation procedure.

3. Division of capital in small fractions:

- If for a public company, the capital to start the company is raised from the public in the form of shares.
The company asks the public to apply for purchasing shares of the company or in simple words 'purchasing a share' in the company.
- People buy company's shares from stock market and become shareholders. The company then starts its business with the share capital i.e. fund raised by selling the shares.
- In case of a private limited company, fund is raised by members or borrowed from banks and other sources.

4. Easy transfer of shares:

- The shareholders sell and purchase the shares of the company in the stock market. They can easily do so subject to the provisions of the company and the law.
- If one sees that the company is performing well he can buy its shares from the stock market. On the other hand the holder of the shares can sell them at the stock market and book his profit.
- This way the share-trading is continuous in the market. Thus, trading and transfer of ownership of shares is one of the main and continuous characteristics.

5. Common seal:

- A company has a 'seal' or stamp used while dealing with third parties, entering into contracts, issuing share certificates, documents and day-to-day transactions of the company.
- This seal is called 'common seal' because it can be used by any authorized officer of the company.
- Stamping a document with this seal means that the company expresses its consent to whatever is mentioned in the document.

6. Management:

- The shareholders (investors) elect representatives from among themselves who are then called the directors of the company. More than one director is elected and together they are called Board of Directors.
- The Board of Directors manages the company on behalf of the shareholders as per the Memorandum of Association and Articles of Association. Hence in a company the owners are the shareholders whereas the managers/directors are the Board of Directors i.e.

ownership and management are separate unlike proprietorship/partnership.

7. Status of members:

The company and members are two separate entities. So a member can neither enter into a contract on behalf of the company nor can a company be held liable for the act of its members.

8. Number of members:

In a private limited company there are minimum 2 and maximum 200 members whereas in a public limited company there are minimum 7 members. There is no limit to the maximum numbers of members in a public limited company.

9. Liability of members:

The liability of members is limited to the face value of number of shares he possesses of that company. This means that if a share-holder possesses 50 shares of ₹1 00 each then his total share in that company is of ₹ 5000. If the company goes bankrupt the share-holder will lose only ₹ 5000 he invested in the company and he will not be liable for the entire loss of the company.

- Note that, the concept of unlimited liability is rarely seen in companies.
- The company in its Memorandum of Association mentions whether the share-holder will have limited or unlimited liability.

10. Fundamental rights:

Although a company is treated as a separate person in the eyes of law it cannot be considered as a citizen of the country because it is in invisible form. Hence, a company does not enjoy any fundamental rights just like the citizens of a nation.

11. Voting right per share:

- The members of company can cast votes on the basis of the number of shares they hold.
- Unlike the single vote right that individuals commonly possess, the number of votes a share-holder can vote corresponds to the number of shares that he owns.
- Easy transfer of shares and voting per share are special characteristics of the company.

Question 3.

Clarify the advantages and limitations of a Company.

Answer:

Advantages of company:

1. Huge capital fund:

- To raise the capital a company divides the entire capital it needs in tiny fractions known as shares.
This attracts people to invest in the company through buying their shares and hence become share holder or say part owner of the company.
- People also buy shares with an objective of earning profit by trading them in the share market.
- The voting right is per share so people get attracted and invest as much as possible which then helps the company to raise a very large capital.

2. Easy transfer of shares:

- Members or say share-holders can easily buy and sell the shares through the stock exchange where the company is registered. This means that the transfer of share in the company is quite easy.
- Note that in case of a private company it is not so easy to transfer the shares.

3. Limited liability of the members:

- The liability of the members is limited to the face value of the shares they possess.
- If a company goes bankrupt or is getting liquidated or is winding up, the shareholder / is at a loss of only the amount of share he holds.

4. Separate identity and perpetual life:

As per the law, the company has a separate identity from its members. So, the existence of a company does not get affected even in situations like death, insolvency, insanity of members or transfer of shares by members. The company remains a perpetual entity.

5. Advantage of large scale:

- Due to its special characteristics a public limited company is able to raise a large capital.
- Large capital enables set-up of modern machineries, hiring experts, research and development, purchasing raw material at lower prices and hence large scale production and sales.

6. Efficient management:

Efficient directors hire expert services and employ highly skilled people. The director makes best possible use of company's resources and command a highly efficient management.

7. Democratic management:

- A company is managed democratically by the elected representatives called the directors.
- The decisions regarding the company's operations, policy, etc. are taken by the majority in the general meetings of the directors.

8. Benefit to society and nation:

- People invest in the shares, debentures and public deposits of the company. This induces saving habit. On the other hand they receive dividend and interest on their investment as income.
- The society gets advantage of employment and large scale production.
- Some companies also enhance the society by developing public gardens, schools and colleges, play grounds, art centers, etc.
- Companies pay crores of rupees to the government as taxes. This is then used by the government for the welfare of the country.
- Company provides several facilities to the employees.

Limitations of company:

1. Lengthy and expensive incorporation procedure:

- Unlike other forms of businesses the formation of a company is lengthy, complicated and expensive.
- A company needs to hire services of experts who help the company to prepare the documents like Memorandum, Articles, etc. and submit them to the Registrar of Companies for obtaining certificate of incorporation.
- Over and above the registration fees the companies also pay fees to the experts for their services.

2. Legal restrictions:

- A company comes into existence by law and so it needs to observe the legal provisions lifetime.
- It needs to submit its statements, reports and accounts to the Registrar of Companies periodically.
- It also needs to follow the provisions laid by SEBI (Securities and Exchange Board of India)

3. Higher administrative expenses:

The administrative expenses of a company are quite high, due to higher fees of registration, fees of experts, very high salaries skilled and experienced personnels, expense on research, etc.

4. Autocratic management:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- Although the share-holders or say members are entrusted several powers as per the law but they enjoy only a few of them.
- Due to the existence of voting right per share, people having a very large quantity of shares of a company might get associated and dominate the company management. They may use company's money, assets and secrets for fulfilling their personal desires and goals.

5. Difficulty in maintaining secrecy:

- A company has to mandatory get itself audited and provide the audit report and accounts to the members and the Registrar of Companies.
- Moreover, as per the law, redemption of debentures, bonus shares, etc. should also be published by the company. Hence, it is difficult for a company to maintain its secrets.

6. Delay in deciding policies:

- A company needs to take consent of its members before taking decisions related to company's policies.
- It needs to notify the members before few days about the meeting it will hold for policy matters and then hold the meeting. Unless a resolution is not passed by the majority of members the decision cannot be taken.
- All these activities consume a lot of time and hence the decisions get delayed.

7. Less flexibility:

- Compared to proprietorship and partnership a company is less flexible.
- To make important changes it need to pass a resolution in the general meeting.
- It may also need approval from the central government in certain cases.

8. Encouragement to speculation:

- -> The directors of the company are very well versed with company's secrets. Hence, they can use these secrets to raise rumors in the market and create artificial changes in the stock market. This can encourage speculation of the shares which then badly affects the economic interests of small investors.
- —> For example, a company to raise additional capital may spread news in the market that it is planning to associate with international companies. The small investors unaware of the truth may start buying the shares in the hope of high profit and thus company's capital increases.

9. Disadvantages to the society:

- Large companies have huge powers to dominate the society.
- The decisions and behaviour of the companies may result in strikes of employees, removal of employees unless they agree to certain conditions of the employers, lock-outs, monopolistic evils, etc.
- Owing to these things there arise unequal distribution of income and wealth in the society.

Question 4.

Explain the procedure for getting the Certificate of Incorporation

Answer:

Procedure for obtaining certificate of incorporation:

Once the promotion phase is over the process of obtaining certificate of incorporation begins. A certificate of incorporation is to be obtained from the Registrar of Companies.

Following documents need to be prepared and submitted to the Registrar of Companies to obtain the certificate:

1. Memorandum of Association (MOA):

- A Memorandum of Association (MOA) is a legal document prepared during the formation and registration process of the company. MOA defines company's relationship with shareholders. General public can access company's MOA. It contains company's name, physical address of registered office, name of share-holders, etc.
- The MOA and Articles of Association together serve as a constitution of the company. Just like a constitution describes the country, a company's MOA and Articles of Association describe the company.

An MOA must compulsorily include the following clauses:

(A) Name clause:

As per the name clause, a public company with liability by share needs to insert the word 'Limited' at the end of company name whereas a private company needs to insert the words 'Private Limited' at the end of its name. A company cannot not select a name which resembles name of other registered company in India or which can harm the national interest.

(B) Address of Registered office clause:

The company needs to mention the physical address of its registered office so that the Registrar of Companies and public can communicate with the company. Moreover, based on the address the court can decide the jurisdiction of the company.

(C) Object clause:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- Object clause is the most important clause of memorandum.
- Under this clause, the company needs to clearly mention the objective and the type of business it would conduct. It cannot conduct activities other than mentioned in this clause.

(D) Liability clause:

- Under this clause the company mentions if the liability of members is limited, unlimited or limited by guarantee.
- In case of One Person Company, the company needs to mention name of the person who will replace the original person in case of death, inability to enter into contracts, etc. of the original person.

(E) Capital clause:

Under the capital clause the company mentions the amount of share capital with which the company proposes to register and the division of capital into shares of fixed amount.

(F) Association clause:

In this clause minimum 7 members in case of a public company and minimum 2 members in case of a private company need to give a statement along with their signatures showing their desire to establish the company.

2. Articles of Association:

- The Articles of Association is a document that contains the purpose of the company as well as the duties and responsibilities of its members.
- It also contains the rules and regulations under which the company will conduct its administration.
- Rights of members, share installment, share forfeiture, powers of Board of Directors, etc.
- Both the documents i.e. Memorandum of Association and Articles of Association become public documents after they get registered.

3. List of directors:

- The company needs to provide and register the list of persons who wish to work as directors to the Registrar of Companies.
- The list contains name of persons, address, age, sex, occupation, nationality, etc.
- The company must compulsorily include one female director in its Board of Directors.

4. Written consent of directors:

People whose name is mentioned as directors in the company need to give a written consent that they wish to work with the company on their own will.

5. Declaration of interest in other companies:

If the directors of company, managers, secretary or subscribers have interest in any other company, firms, etc, then they need to disclose it by filing a statement.

6. Statement of fulfillment of provisions of law:

- Once the company fulfills all the legal provisions discussed so far it needs to prepare a statement in the prescribed format and register it before the Registrar of Companies stating that the company has fulfilled all the legal provisions needed for incorporating a company.
- On completing all the procedures and documents the Registrar of Companies after verification and thorough investigation issues certificate of incorporation and Corporate Identification Number (CIN) to the company. The date of issue of this certificate becomes the date of establishment of company.

Question 5.

Distinguish :

(a) Co-operative society and Company

Answer:

Points of difference	Co-operative society	Company
Meaning	It is a voluntary association of people on the basis of equality to improve the economic conditions of all members.	It is a voluntary association of people to conduct business lawfully and earn profit.
Motive	Primary motive is service, economic development and upliftment of members. The motive of profit is secondary.	Primary motive is to earn profit.
Number of members	Minimum 10 members and maximum unlimited members.	In case of public company, minimum 7 members and maximum unlimited

		whereas in private company minimum 2 and maximum 200 members.
Process of establishment	Process of establishment is easier than company.	Process of establishment is quite lengthy and complicated.
Management	It is managed democratically. It works on principle of single vote per member.	Democratic management is only in principle. It is not followed at times of voting.
Issue of shares	Society can issue shares carrying equal rights and of same type.	Can issue equity shares in addition to preference shares.
Transfer of shares and end of membership	Transfer of shares does not take place. Members can end the membership by redeeming the shares to society.	Shares can be easily transferred. They cannot be redeemed from the company but can be sold to others.
Effect on share capital.	The members are allowed to redeem the shares from the society and take their capital back. So, capital of society may get reduced.	Members cannot redeem their shares from the company and hence company's capital is not affected.
Use of profit	As per the provisions of law the profit is used to give dividend to the members for their benefit.	Some part of profit may be distributed as dividend among members.

(b) Private company and Public company.

Answer:

Points of difference	Private company	Public company
Number of members	Minimum 2 and maximum 200.	Minimum 7 and maximum no limit.

Transfer of share	Private company puts restriction on the transfer of shares through its Articles.	One can freely transfer the shares.
Invitation to public	Private company cannot issue prospectus invite public to subscribe for shares or debenture	Public company can invite public to subscribe for share or debentures by issuing prospectus.
One person company	Private company can be of the type one-man or say one person company. One person can enter in contract with one member who is the director.	Public company cannot be a one person company and public company cannot do such contract.
Number of directors	A private company must have minimum 2 directors.	There must be minimum 3 directors of which one must be a female.
Name of company	A private company with limited liability must add the words 'Private Limited' at the end of company name and that with unlimited liability must add 'Private'.	The word Limited' is added after the name of the public company with limited liability.
Articles of Association	Articles of Association is to be prepared and get registered compulsorily with the Registered of Companies.	In case Articles are not prepared Model Articles stated in Schedule-1 gets automatically applicable.
Minimum subscription	The provisions of minimum subscription do not apply.	The provision of minimum subscription is applicable.
New issues	People other than the members can be offered issue of new shares.	Issue of new shares is first offered to existing members i.e. shareholders of the company.

❖ Chapter 7 Public Sector, Private Sector and Global Enterprises

1. Select the correct alternative and write answers to the following questions

:

Question 1.

Which is not a type of public sector?

- (A) Government department
- (B) Individual ownership
- (C) Public corporation
- (D) Government company

Answer:

(B) Individual ownership

Question 2.

In which of the following types, the employees are governed by government rules?

- (A) Government department
- (B) Public corporation
- (C) Government company
- (D) Private company

Answer:

(A) Government department

Question 3.

Which of the following is considered the oldest form of business?

- (A) Public enterprise
- (B) Private enterprise
- (C) Global enterprise
- (D) Public-Private partnership

Answer:

(B) Private enterprise

Question 4.

Which of the following statement is wrong for private global enterprise?

- (A) Active at international level
- (B) Massive size and scales
- (C) Direct control of Parliament/Legislative Assembly
- (D) Political supremacy exists due to strong economic capability

Answer:

(C) Direct control of Parliament/Legislative Assembly

Question 5.

Which of the following is incorrect for public-private partnership?

- (A) Necessary land is to be purchased by them from the government**
- (B) For a prescribed period fee is collected from the beneficiaries .**
- (C) Creation of infrastructural facility from their own investment**
- (D) After the stipulated time period the infrastructure set up will have to be handed over to the government.**

Answer:

- (A) Necessary land is to be purchased by them from the government**

2. Answer the following questions in one sentence each :

Question 1.

Define public enterprises.

Answer:

When a business is managed by an individual or group of individual with the objective of earning profit it is known as a private sector enterprise or private sector or even private enterprise.

Question 2.

Give name of types of public sector.

Answer:

Government department, government company and public corporation.

Question 3.

How much is the minimum share proportion of the government in government companies?

Answer:

51 %

Question 4.

In whose name shares are held in Government company?

Answer:

State government or central government or government of more than one state's government or of more than one states government and central government.

Question 5.

Which is the oldest form of business?

Answer:

Sole proprietorship i.e. private sector enterprise.

Question 6.

State the meaning of global enterprise.

Answer:

A business enterprise operating in various countries is called a global enterprise. Global or transnational enterprises produce, sell and invest across the world. Global enterprises are highly organized companies which make use of factors of production of the world and global wealth to earn profit from the world market. Coca-Cola, Pepsi, Cadbury, Nestle, Ford, Hyundai, Tata, Birla, etc. are all very strong global enterprises.

Question 7.

What is public private partnership?

Answer:

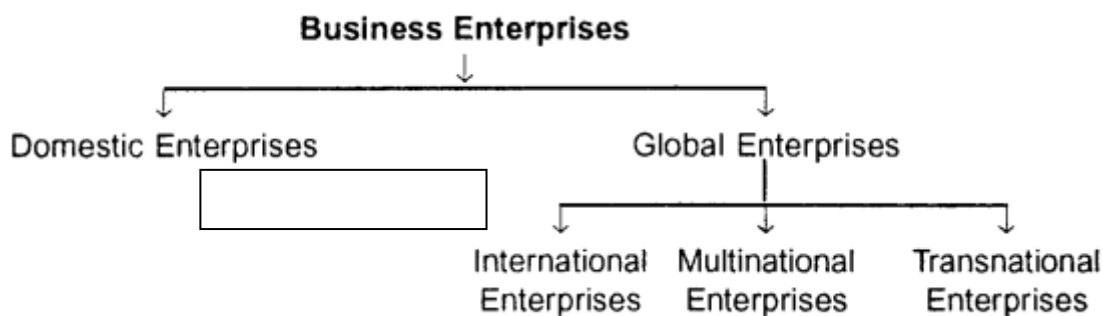
Public-private partnership is a new arrangement initiated by Indian government between public and private enterprises. Under the PPP arrangement government combined public i.e. government sector with private sector for together raising infrastructure in the country.

3. Answer the following questions in short.

Question 1.

Give a list of various types of business unit.

Answer:



Question 2.

How can balanced regional development be achieved through public sector enterprises?

Answer:

- Public sectors have objectives of social welfare, raising employment and then earning profit.
- To provide balanced development to all the citizens government puts industries in several regions. This also includes setting up industries and other avenues of employment in backward areas or rural areas.
- Production and processing takes place in these plants.

- On the other hand government set-ups administrative offices of public sectors in urban areas. This helps in generating employment in urban areas. In this sense, government tries to all the regions of a country through public sector and achieves regional development.

Question 3.

What is government department? Explain with an example.

Answer:

Government department:

- A public sector unit run and managed either by state or central government as per the laws, rules and regulations of either state or central government or both is called a government department. The employees working in these units are called government employees.
- For example, Postal department, Railway etc. are government departments.

Characteristics of government department:

1. Financial allocation:

Government allocates budget for government departments and industry and so these departments need to manage their expenses and administration from the allotted budget. Income earned by these departments is deposited in government treasury.

2. Maintenance of accounts:

The maintenance of account of government department is done by the respective department. The accounts are audited by CAG i.e. The Comptroller and Auditor General.

3. Appointment of employees:

The employees of the government departments are considered as government employees. So, the process of appointing them, their work conditions, rules and regulations are all set by government.

4. Government management and control:

The civil service officers of respective government enterprises, as well as the minister of concerned department, directly controls the administration.

5. Responsibility:

The responsibility of running the unit lies with the departmental heads. They are directly answerable to the Member of Parliament or Vidhan Sabha (Legislative Assembly) for the progress and status of the department.

Question 4.

“The only objective of private enterprise is to earn profit” – Discuss

Answer:

- Private enterprises are owned and managed by individuals or group of individuals.
- Individuals set-up private enterprises to earn a living raise their standard of living and maximize wealth.
- For achieving these objectives they focus on profit. Higher the profit higher the fulfillment of their objectives.
- Private enterprise is not concerned with national objectives of regional development or providing employment.
- Thus the only objective of private enterprise is to earn profit.

Question 5.

State the importance of private enterprises in the economy.

Answer:

In 1991, India adopted the policy of liberalization, privatization and globalization. As a part of these policies due importance was given to the private sector. Also, foreign countries were allowed to enter into Indian market.

- Private sector expanded in all the areas in which they were allowed to operate. They invested huge capital in all the possible industries that too in all the parts of the country. As a result Indian economy grew drastically. Millions of people got employment and their living standards improved.
- Though public sector was given an opportunity due to weaknesses of public sector, they took Indian economy to great heights and left public sector far behind.
- Today, private sector boasts of a very high economic contribution in India's growth. It holds a lion's share in Indian economy. Although private sector can be considered as old as mankind but its role and importance has been evergrowing. Realizing the contribution and overall development that the private sector has made, the government makes continuous efforts to motivate and strengthen this sector.

Question 6.

What is the importance of global enterprise in the Indian economy?

Answer:

- Before 1991 the presence of global enterprises was quite less in India. Moreover, owing to the political condition of India that time it was quite difficult for foreign companies to enter Indian market.

- In 1991, India adopted the policies of liberalization and globalization. These policies changed the entire form of Indian market. These policies led to faster entry and expansion of global enterprise in India.

If we wish to prepare a list of global companies present in India we can divide them in two parts. They are:

1. Companies of other countries present in India
2. Indian companies present in countries outside India.

- It is quite obvious that there are much more foreign companies present in India than presence of Indian companies in foreign countries.
- Coca-Cola, Pepsi, McDonalds, Nokia, Sony, Samsung, Ford, General Motors etc. are all global enterprises of foreign origin present in India.
- In recent years companies of Indian origin such as Infosys, Reliance, Maruti, Wipro, ONGC, Tata Steel, Asian Paints, Royal Enfield, etc. have also spread their business in other countries.
- The number of Indian based companies spreading their wings in foreign countries is constantly increasing. These Indian enterprises now turned into global enterprises are supplying products and services to several countries.
- Global enterprise companies of both foreign and Indian origin have boosted Indian economy to many folds. These companies have revolutionized the Indian economy. Today, they hold a very strong hold in Indian finance, economy and politics.
- The sales and income of global enterprise are much higher than that of domestic industries. Global enterprises are proving to be more effective in contributing to, Indian economy and employment because of their mammoth capital, very high reputation, use of modern technology, very aggressive marketing and highly efficient administrative systems. For example, McDonalds, a global enterprise is able to sell a burger for as low as ₹ 27 Sony and Samsung till date rule the Indian electronics market.

4. Answer the following questions in brief :

Question 1.

What is departmental management? state its features.

Answer:

Question 2.

After giving the meaning of public corporation explain its features.

Answer:

Public corporation:

Public corporation is a corporation which comes into existence through a special Act of Parliament or Legislative Assembly i.e. Vidhan Sabha. The authority to run these units, the powers, duties, rights and responsibility,

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

service rules and relationship with government department are all mentioned in this special Act passed in the Parliament.

For example, Life Insurance Corporation (LIC) of India, Food Corporation of India, Gujarat State Text Book Board, etc. are all public corporations.

Characteristics of public corporation:

1. Establishment:

- Public corporation is a corporation which comes into existence through a special act of Parliament or Legislative Assembly i.e. Vidhan Sabha. The authority to run
- these units, the powers, duties, rights and responsibility and labour laws are all as per the special act passed in the Parliament.

2. Ownership:

- Government makes provisions for raising capital for these units. So, the ownership is either with the central or state government or both.
- Government decides ways and strategies of making these units profitable. The loss made by these units becomes burden on the government.

3. Capital accumulation through government:

The government provides capital to these corporations. Public corporations can also borrow from government's budget or from public if needed.

4. Separate identity:

Public corporations have a special legal identity and they enjoy and command all the facilities and rights available to a company.

5. Managerial autonomy:

Though public corporations are owned by the government, they enjoy complete autonomy in management. Politicians cannot interfere in the day to day activities of the corporation. The corporation gets enough freedom to take even important decisions and implement them.

6. Service rules:

- The employees of public corporations are not bound by the rules similar to that of government employees.

- The rules and regulation and laws applicable to the employees of corporation are determined by the concerned corporation. The employees then need to adhere to them.
- At times, government deutes its officers in these corporations for management.

7. Management through Board of Directors:

Public corporations are managed by the Board of Directors. Government appoints the president of Board of Directors from eminent personalities, prominent industrialists, expert professionals, celebrities, etc. The Board of Directors formulates policies to take care of the day to day activities.

8. Answerable to parliament /legislative assembly:

Public corporations work using public money. Hence the government expects them to make profit and questions them if they make loss. The corporations need to submit financial reports to the Parliament/Legislative Assembly and face them for any loss they make.

Question 3.

Define government company and write a note on its features.

Answer:

Government Company:

- A company established as per the Company Act and in which minimum 51% stake is with State or Central Government or both together is called a government company. Since the government owns the largest stake of shares in such companies they are called government companies. Due to major stake, government can exercise its control and supremacy in government company.
- The share of government in government company lies in the name of the president of India.
- The objective of government company is purely to do business, make profit and compete with private companies.
- Hindustan Machine Tools (HMT), Hindustan Aeronautics Ltd., etc. are examples of government companies.

Characteristics of government company:

1. Establishment:

These companies are established as per the Indian Companies Act.

2. Separate identity:

A government company has an independent legal identity and hence it can sue or can be sued as individuals in the court of law. Just like any other

company it can also own property or enter into contract with any individual or company.

3. Capital:

Government brings and owns at least 51 % share capital of these companies.

4. Administration:

Just like any other company the administration of a government company is also done as per Companies Act.

5. Appointment of workers:

The workers of these companies are appointed on the basis of rules and regulations of the company.

6. Appointment of members of Board of Directors:

The Board of Directors and its members are appointed by the government.

7. Appointment of auditors:

When it comes to maintenance of accounts and auditing the company, the government companies are exempted from the rules and regulations of Company Act. However, government appoints auditors who submit annual report of the company in the Parliament/Legislative Assembly.

8. Arrangement of capital accumulation:

Based on the requirement government companies accumulate capital from the shares of government and private shareholders. They can also sell shares to the private individuals.

9. Policy decisions:

The policy decisions of the government companies are taken by the respective ministers.

Question 4.

State the changing role of public enterprise.

Answer:

1. When India became independent it planned to establish and expand industries in public sector. The era of 1950-1990 was quite important for public sector. It was expected that public sector would play a major role in fulfilling the important objectives of Indian economy.

2. It was also expected that public sector would create facilities and infrastructure necessary for the development of key industries which form a base for economic development.

3. For example, areas such as railways, custom department i.e. building of ports and its management, etc. needed a huge investment with a very low return on investment. Private sectors were not at all willing to venture into such high risk industries.

4. These set-ups were then purely on the shoulder of public sector. It was also expected from public sector to produce or procure for such heavy industries, process them and provide service. Owing to poor economic conditions and weak political system India was not in a position to deliver expected results via. public sector.

5. In 1991, India adopted the policy of liberalization, privatization and globalization.

This transformed the role and scenario of public sector.

- As a part of these policies due importance was given to the private sector. Also, foreign countries were allowed to enter into Indian market. The, public sector then started competing with private sector. Just like private sectors, the public sectors also started giving importance to profit rather than just providing service.
- Loss making public sector units started making structural changes to convert themselves into profit making units. Those units who made severe losses which could not be recovered by any new strategies were closed. Certain public enterprises were dissolved and their equity shares were distributed to the shareholders where as some were sold to private companies.
- Government appointed various committees to develop strategies for converting non-performing public sector units into profitable units.
- Today, private sector boasts of a very high economic contribution in India's growth. It holds a lion's share in Indian economy. Although private sector can be considered as old as mankind but its role and importance has been ever growing.

Question 5.

State the points of difference between public and private sector.

Answer:

Point of difference	Public sector	Private sector
Ownership	Ownership lies with either state government or central government or both	Owned by individuals or group of individuals
Control	It is owned by government and so it is also controlled by the government	Individuals or group of individuals who owns the unit controls it as per government laws
Main objective	Main objective is social and economic welfare of the citizens	Main objective is to earn profit
Profitability	The profit is quite less because the objective is not to maximize profit but welfare	Private sector earns high profit and is keen for profit maximization
Nature/Form	Government department, public corporations and government companies are the various forms	Sole proprietorship, partnership, co-operative society joint stock company, etc. are its various forms

Question 6.

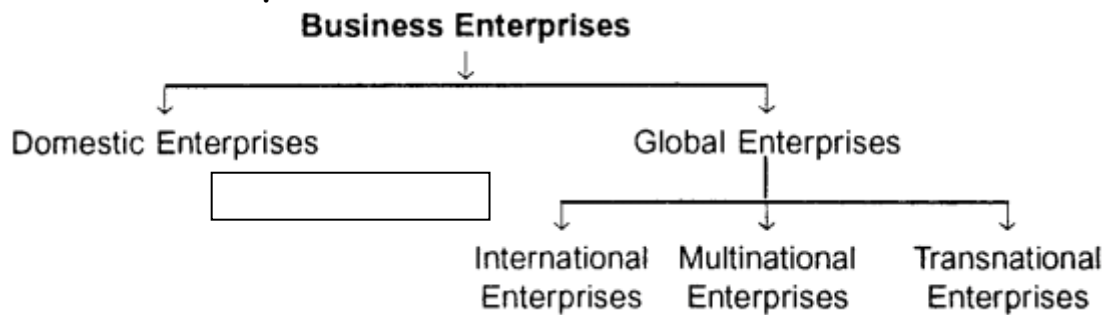
After giving the meaning of global enterprises, state its characteristic features.

Answer:

1. Domestic (local) enterprise :

An enterprise which operates within the political boundaries of a country is known as a domestic or a local enterprise. The business policies of domestic enterprises are framed by the country as per the business and social environment of the country.

2. Global enterprise:



A business enterprise operating in various countries is called a global enterprise. Coca-Cola, Pepsi, Cadbury, Nestle, Ford, Hyundai, Tata, Birla, etc. are all very strong global enterprises.

Characteristics of a global enterprise:

1. Business in more than one country:

Global enterprises work on a very large scale at international level. They conduct business in different countries in different manners.

2. Priority:

Global enterprises give priority to regional aspects, while making investment, and production and distribute their resources accordingly in each country.

- They understand that different countries have different religions, culture and social and economic set-up.
- They also are very well aware about the behavioral patterns and mindset of people of each region.
- Based on their rich knowledge and research they plan separate strategies for each country and even state and expand their business. For example, McDonalds have highly changed their product range and taste as per the taste and preference of Indians.

3. Size and sales:

The size and sales of global enterprise is extremely huge. In most cases the annual income of these companies is more than national income of some small countries.

4. Economic capability:

Global enterprises are very strong financially. Many times they can even afford to operate at very low profits or even losses that too for a very long period in order to penetrate into the market of a country. Since they are very sound financially they can produce and sell at a massive scale.

5. Political supremacy:

Due to their very strong economic (financial) power, they also enjoy political supremacy. Global enterprise invests very heavily in a country and so in return the country has to compromise with some of its rules, regulation and policies. In many cases they can even influence the economic policy of the country by influencing the political leaders.

6. Loyalty:

Global enterprises do business with a number of countries and make huge profits. But when it comes to loyalty, they are majorly loyal only to their native countries.

7. Emergence in developed countries:

Global enterprises mainly belong to economically developed countries whereas their business mostly exists in developing and under developed countries of the world.

8. Massive expenditure on Research and Development (R&D):

Global enterprises spend huge amount of money on R&D and strengthen their knowledge and strategies. They spend a huge amount of their income for research and development and develop new products, services, processes, modern technology and administrative strategies. Owing to massive finance they have they are able to invest in capital intensive technologies.

9. Brings life style changes:

To develop their products and services Global enterprise brings changes in the life style of the people the countries in which these companies operate. For example, global enterprises have changed the way we eat. Due to their marketing strategies and options we now eat burgers and pizza and drink coffee in cafe quite frequently.

5. Answer the following questions in details :

Question 1.

What is public sector? explain in detail their characteristics.

Answer:

Public sector:

- **An enterprise, which is owned, managed and controlled by government is called a public sector enterprise. For example, Postal department, Indian Railways, LIC of India, Indian Airlines, etc. are all examples of public enterprise.**

- The ownership of such units is either partially or fully in the hands of central government or state government. Such units can be either government department or part of it could be set up through the act of parliament

Characteristics of public sector:

1. Aims at establishing basic industries:

- The basic objective of establishing units in public sector is to provide base for accelerating those industries which require huge investment. Post-independence it was quite important for India to attain growth in industrialization to improve its economic condition.
- Basic industries require huge investment for their set-up in the initial stage. However returns in initial years are quite low compared to the capital invested. As a result, private sectors were not much interested in setting up heavy industries.
- Government invests in such industries with an objective to achieve faster economic growth.

2. Elimination of monopoly:

By owning basic industries government can stop private units from creating monopoly.

3. Balanced regional development:

Private enterprises are not interested in investing in backward areas whereas government can set-up industries in such areas and play an important role in developing them. For example, government established iron and steel industries in Rourkela, Bokaro, Bhilai etc. and developed these backwards areas.

4. Objective of social welfare:

- Generally, the objective of private sector is to maximize profit whereas public sector aims at achieving social welfare along with profit.
- Moreover, all sections of society without any discrimination receive benefits from public sector. Speeding up industrialization leads to faster establishment of basic industries which ultimately welfares the entire society.

5. Low profit:

- When public sectors were first set-up they either made very less profit or loss.

- However, government continued industries set-up in public sector. After 1991, government changed its policies and aimed at converting such industries into profit making units along with social welfare.

6. Maintenance of national interest:

Public sector units also aim at interest of the nation. For example, the production of defence equipment is done by the government via. its public sector units. Since defence is a very confidential and sensitive issue, production of its equipment can be done only through government units.

7. Generation of employment opportunities:

Countries like India which are developing and highly populated too need to provide employment to its population. Investment in public sectors boosts industrial growth and solves the problems of unemployment.

8. Increase in economic development of the country:

Public sector industries create a base for industrialization which leads to economic development.

9. Social and economic justice:

The management of public sector is in the hands of the government and hence public sector industries need to compulsorily follow government policies and regulations. Due to this reason we can see positive trend of providing free or concessional services, job security, better working conditions, importance to labour laws, priority to women, etc. in public sector units. This forces public sector units to provide social justice to the society.

10. Ideal wages and facilities for employees:

As the ownership of public sectors rests with the government they pay decent wages to the workers. Employees of public sector get quite good facilities like conveyance, paid holidays, pension, etc. compared to private sector employees.

Question 2.

Compare the three types of public enterprise.

Answer:

No.	Points of difference	Government department	Public corporation	Government company
1.	Establishment	By state or central government	By special act of Parliament or Legislative Assembly.	By government as per Companies Act.
2.	Example	Indian Railways, Postal department, Indian Army, etc. GSEBSolutions.com	Life Insurance Corporation (LIC), Gujarat State Finance Corporation (GSFC) etc.	Hindustan Machine Tools (HMT)
3.	Legal entity	Does not have a separate identify from government.	Has a separate legal entity.	Has a separate legal entity as per Companies Act.

4.	Favourable for which sector	Public services, like railway, post, etc. and defence.	For industrial enterprise and public services like Indian Airlines, GSTB, etc.	For industrial and trade enterprises or joint ventures with foreign companies.
5.	Source of capital	Capital is allotted from government's budget	Government provides the capital or raises it from public.	51% or more capital is raised by government or by borrowings from private share-holders
6.	Working capital	Allotted from government's budget.	It needs to source fund on its own.	It needs to source fund on its own.
7.	Responsibility	Minister of the related department. For e.g. Railway minister.	Primarily the responsibility lies with Parliament or Legislative Assembly	The Board of Directors is responsible for the working of the company.
8.	Autonomy in management	Officers do not have autonomy to take decisions.	Public corporation has more autonomy to take decisions.	Government companies have autonomy to take decisions.
9.	Employees	All employees are considered government employees and hence have to follow rules set by government.	Employees of public corporations are not considered government employees and so they follow rules set by the corporation.	They are not government employees and so they follow rules set by the government company.
10.	Management	Civil servants or say officers of Indian Administrative Services manage these departments.	Board of Directors and the Managing Directors appointed by the government manage these corporations.	Government appoints eminent personalities, industry experts, etc. to manage these companies.
11.	Control	Control is in the direct hands of the respective minister.	Control is in the hands of Parliament/ Legislative Assembly.	Controlled by related ministry and Board of Directors.

Question 3.

Prepare a note on meaning and characteristics of private enterprise.

Answer:

Private sector enterprise:

- When a business is managed by an individual or group of individual with the objective of earning profit it is known as a private sector enterprise or private sector or even private enterprise.
- Sole proprietorship, Partnership, Hindu Undivided Family (HUF), Co-operative society, Joint stock companies, etc. are all private sector enterprise.

Characteristic of private sector enterprise:

1. Oldest form of business:

Private sector is the oldest form of business. We can also say that the concept of business started with private sector. Today private sector is a very important characteristic and a special entity of our economy.

2. A big share in our economy:

Private sector occupies a strategic place in India's economy. It is difficult to imagine our economy without private sector.

3. Need based changes:

From the time of its inception private sector has been open to adapt itself as per the demand of market and time.

4. Acceptance priority to profit and of social responsibility:

- Although the main objective of private sector is profit, it has also accepted and fulfilled responsibilities in various areas.
- For example, private sector has played a very active role in fulfilling social and environmental responsibilities. Along with this it has also taken care of women empowerment, literacy, etc.

5. Exists in all countries:

- Private sector exists in one form or the other in all the countries of the world.
- Every city, town and village has private sector enterprise.
- Although the laws governing these private sectors may be different in different countries but all the countries have accepted private sector existence and cannot do without it.

6. Inclusion of Multinational Corporation (MNC):

- Any business activity undertaken by a firm in more than one country is known as multinational corporation (MNC).
- Multinational companies started gaining pace in 19th century. This increased the presence of private sector in many countries that too in large scale. Many MNCs started producing and selling in more than one country which increased the standard of living of people across the world.

7. Employment generation:

- Maximum people around the world are employed in private sector rather than government sector.

- Private sector has expanded leaps and bounds which has resulted in employing a very large population. This in turn has increased people's income and standard of living.

Question 4.

Give a detailed explanation of meaning and characteristics of joint enterprises.

Answer:

Joint venture:

When two or more business units join with each other to conduct the business activities together it is called a joint venture. Units joining hands can be private enterprises, government-owned or global enterprises.

Joint venture between countries:

- If joint venture occurs between enterprises of two different countries then it is called joint venture between two enterprises of two countries. Under such joint ventures, both the enterprises must compulsorily follow rules framed by their countries.
- In, India, there are no separate laws for joint ventures. Companies listed in India are considered as domestic company and Indian laws are applicable to them.
- Global enterprises who wish to undergo joint venture with Indian enterprises or Non-resident Indians (NRIs) who wish to invest in Indian industries must follow specific procedures and must have all the approvals from Indian government.

Such approvals must adhere to the policies of the Reserve Bank of India or foreign investment promotion board.

- A joint venture is generally done for a very long period. Business units of any size can join with each other under joint venture with an objective of fulfilling and safe guarding mutual interests.
- Joint venture aims at making maximum use of resources and expertise available with both the enterprises to expand the business, share and enjoy the profits jointly and also jointly bear the risk and loss.
- The main objective of creating joint venture is to expand business, develop new products and create and expand new markets. In recent times several industrial units have created joint ventures with other industrial units. These joint ventures have started utilizing their full capacities to develop distribution channels, improve production techniques, expand market and achieve higher financial goals.

Characteristics of joint venture:

1. Mutually beneficial for both parties:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Joint venture proves to be beneficial for both parties. Both parties compliment each other due to their individual capabilities, resources and strategies. Together they expand the market which then benefits both.

2. More resources and capabilities:

Enterprises forming joint venture share their resources and capabilities to increase their mutual benefits. Thus the associated resources and capabilities bring several – opportunities for the joint venture.

3. New technology:

Both enterprises have their own set of technological expertise and applications. Through joint venture they can utilize the technologies in the joint venture and produce new, improvised products at faster rate with better technology and more effectiveness. This overall reduces time and money and increases productivity.

4. Development of new market:

When a business unit undergoes joint venture with a business unit of a foreign country the market expands and even a new market may emerge. For example, when an Indian company enters into a joint venture with a foreign country, the market expands in India due to the new products, services, brand and strategies that the foreign country offers.

Many companies who have already established market in their countries, after saturation join hands with enterprises of other countries for entering into new market and making profit.

5. Innovation:

Through joint venture new and innovative products are placed in the market. Foreign partners often bring products that are based on new and advanced technologies. This adds innovation to the products and processes existing in the market.

6. Low production cost:

Use of modern technology results in large scale production. This reduces cost of production. As a result products can be sold at cheaper prices which in turn increase their demand.

7. Increase in business credit:

When companies join hands under joint venture, the news spread in market. This also increases credit i.e. reputation of their individual businesses. Sometimes under joint venture a foreign company may even allow an Indian partner to use its brand name.

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Question 5.

What is public utility? Explain its features.

Answer:

Public utility:

- **Basic facilities like water, electricity, transportation, communication, cooking gas, sewage, etc. that are needed by people on a daily basis are called public utilities.**
- **Public utilities form a part of basic infrastructure of any nation. A nation needs to provide these utilities to every city, town and village.**
- **Every citizen has a right to avail and use these utilities irrespective of his caste, sex or income.**
- **Government tries to provide public utilities at nearest locations to each citizen.**
- **For example, we have bus-stands near our house, we get clean water to drink, electricity, sewage facilities, etc.**
- **Any deterioration in the quality of these services can affect human health and life badly. To see that these facilities are available to all on a continuous basis government joined hands with private sectors. Private companies like Torrent ' Power supplies electricity in few cities of Gujarat, Adani gas provides cooking gas lines, etc.**
- **It is quite possible that private sectors can monopolize the market if strict regulations and policies are not framed and observed by the government. Hence, government takes several measures to safeguard the interests of citizens and protect them from exploitation of private sectors.**
- **Similarly, monopoly existed at government level too. In olden times, government owned few sectors and so the customers suffered due to monopoly of the government.**
- **Later, by a law of parliament other private companies were also allowed to operate and hence the market became open. For example, more than one company and even private companies were allowed to provide services of telecom. This led to better, faster and cheaper telecom services in the nation.**

However, government keeps a control over these companies to see that customers are not exploited.

- **At local level the public utility services are raised and managed by village panchayat, taluka panchayat, zilla panchayat, nagar-palika or mahanagar-palika.**
- **The state government company or corporations takes care of utilities like transportation, electricity, health centres, etc.**

- At national level, the central government, companies or corporations provide utilities like Post and Telegraph, Railway, Telecommunication, etc. to the entire nation.

Question 6.

“Public-private partnership is an arrangement due to the need of time.” – Explain,

Answer:

Public-Private Partnership (PPP):

1. Public-private partnership is a new arrangement initiated by Indian government between public and private enterprises.

2. In 1991, the Indian government adopted the policy of liberalization, privatization and globalization. Owing to the policy of globalization many foreign companies entered into Indian market. They brought several products and services which were earlier not available in India.

3. International companies were invited to make investment in India, set-up factories and establish market. However, India did not have modern and sufficient infrastructure to give proper platform to these companies. For example, India did not have very good roads, good connectivity within various regions through roads and communication, airports, bridges, dams, electricity, etc. Unless these infrastructural facilities are raised, foreign countries cannot be lured to India.

4. Generating such infrastructure in the country required massive investment. For example, for providing air services we need airport and other allied services. For new and modern foreign cars to be introduced in Indian market a good roads are must. For all these infrastructural development, government needed massive investments which was not possible for the government.

5. It was possible that private sector which was capable of such high investments be given the task of raising the required infrastructure in the country. But at the same time governments feared the private sector would become economically very strong and dominate the country. Hence, the India government thought of a middle way out. It proposed a new arrangement of Public-Private Partnership.

6. Under the PPP arrangement government combined public i.e. government sector with private sector for together raising infrastructure in the country. For example, government (public sector) gave land to private enterprise for developing infrastructure. The private enterprise would then put its own money raise the infrastructure as per government’s specifications. To

recover its investment, the private enterprise would be allowed to collect fee from the beneficiaries of that services for a fixed duration. For example, Ahmedabad-Vadodara express highway is built under PPP arrangement. The private enterprise built it and now it collects a toll fee from the passers. Once the investment is recovered the private enterprise will take away its stake from the express highway.

❖ Chapter 8 Sources of Business Finance

1. Select the correct alternative and write answers to the following questions

:

Question 1.

out of the following which is not a source of ownership capital?

- (A) Ordinary equity share
- (B) Sweat equity share
- (C) Preferences share
- (D) Debenture

Answer:

(D) Debenture

Question 2.

Who are called the true owners of company?

- (A) Equity share holder
- (B) Preference share holder
- (C) Debenture holder
- (D) Bond holder

Answer:

(A) Equity share holder

Question 3.

Which shares are offered to the managers at a discounted price or instead of cash?

- (A) Ordinary equity share
- (B) Sweat equity share
- (C) Bonus share
- (D) Rights share

Answer:

(B) Sweat equity share

Question 4.

Who has the first right to receive dividend from profit of company?

- (A) Preference share-holders
- (B) Debentures holders
- (C) Equity share-holders
- (D) Creditors

Answer:

- (A) Preference share-holders

Question 5.

At time of liquidation who gets capital first?

- (A) Preference share-holders
- (B) Ordinary equity share-holders
- (C) Promoters
- (D) Debentures holders

Answer:

- (D) Debentures holders

Question 6.

The capital invested in the assets of capital is known as which capital?

- (A) Working capital
- (B) Short time capital
- (C) Current capital
- (D) Fixed capital

Answer:

- (D) Fixed capital

Question 7.

What are the debenture holders of the company called?

- (A) Owners
- (B) Debtors
- (C) Creditors
- (D) Promoters

Answer:

- (C) Creditors

Question 8.

_____ Is the internal source to satisfy the long term finance requirements for business unit.

- (A) Ordinary Equity shares
- (B) Preference share
- (C) Public deposits
- (D) Ploughing back of profits

Answer:

(D) Ploughing back of profits

Question 9.

Which companies can plough back the profits?

- (A) New establishing company**
- (B) Running company**
- (C) Financially sound company**
- (D) Loss making company**

Answer:

(C) Financially sound company

Question 10.

How does the government get finance to implement long term project?

- (A) By ordinary share**
- (B) By bond**
- (C) By debentures**
- (D) By public deposits**

Answer:

(B) By bond

Question 11.

The proper source of getting short term working capital is

- (A) Preference share**
- (B) Bond**
- (C) Financial institution**
- (D) Trade credit**

Answer:

(D) Trade credit

2. Answer the following questions in one sentence each :

Question 1.

Which shareholders are the true owners of business?

Answer:

Equity share holders.

Question 2.

Who has the first right to receive dividend from company's profit?

Answer:

Preference share holders.

Question 3.

State the sources of borrowed capital.

Answer:

Borrowed capital can be raised majorly through

- **Debentures**
- **Bonds**
- **Public deposits**
- **Loans from financial institutions**
- **Commercial banks**
- **Trade credit and**
- **Internal deposits.**

Question 4.

What is a convertible debenture?

Answer:

If a company has announced that after specific time debentures will be converted fully or partly into equity shares then such debentures are known as convertible debentures.

Question 5.

Explain the following terms :

- (1) IFCI**
- (2) IDBI**
- (3) ICICI**
- (4) GSFC**
- (5) GIIC**

Answer:

The full forms for the abbreviations are as follows:

- (1) IFCI (Industrial Finance Corporation of India)**
- (2) IDBI (Industrial Development Bank of India)**
- (3) ICICI (Industrial Credit and Investment Corporation of India)**
- (4) GSFC (Gujarat State Finance Corporation)**
- (5) GIIC (Gujarat Industrial Investment Corporation)**

Question 6.

State the main lending policies of commercial banks.

Answer:

Banks thoroughly analyses the financial requirement of a business, its ability to repay, income tax returns, old and current accounts, profit, etc. If the bank gets satisfied it can lend money in the form of loans, cash credit and overdraft.

3. Answer the following questions in short :

Question 1.

Give meaning of capital from the view of commerce.

Answer:

Business finance:

- The word 'capital' has a limited scope when one talks in terms of accountancy. As per principle of accountancy, money invested, goods and assets when clubbed together is called capital.
- Commerce has a broader meaning for capital. As per commerce, capital includes owner's invested money and money borrowed from different financial sources. Thus, capital means 'funds raised to satisfy the various financial requirements of the business.'

Question 2.

What is called sweat equity share?

Answer:

Equity shares issued by a company to its directors or employees at a discounted price or for consideration other than cash for their specialized knowledge and skills that they provide to the company are known as sweat equity shares.

Question 3.

Why preference shares are called the share of preference?

Answer:

The shares that get the first preference to obtain dividend and during liquidation the first right to get the capital back are called preference shares. Since these shares get the first preference to obtain dividend and claim the capital they are called preference shares.

Question 4.

State types of preference share.

Answer:

- Preference shares redeemable before 20 years and
- Preference shares redeemable after 20 years.

Question 5.

Why ordinary equity share is called risky share?

Answer:

- The buyers of equity shares take a lot of risk on their heads by buying the shares.
- They know that the price of shares may go down in the market. They also know that they may or may not get dividends and also that the amount of dividends will never be fixed.
- In case of liquidation when company pays off all its debts and then if it has some money left only then it will give the capital back to equity share-holders.
- Owing to several risks that equity share-holders take and still remain stuck to the company as investors they are known as true owners of the company.

Question 6.

What is the main difference between bond and public deposits?

Answer:

Question 7.

What is a floating charge?

Answer:

Floating charge:

- Floating charge is used by a company to borrow capital against debentures. It is a charge on the assets of the company. The charge keeps on floating as per the property which is to be covered.
- A specific characteristic of the floating charge is that the company can continue to use the assets even when the assets are mortgaged for debentures.

4. Answer the following questions in brief :

Question 1.

Explain advantages and limitations of ordinary equity share.

Answer:

Advantages of ordinary shares:

- Share-holders/investors buying these shares are considered the true owners of the company.
- Share-holders can earn good dividends.
- Share-holders have right to attend general meetings and right to vote and elect directors.
- Prices of these shares fluctuate frequently and so one can make good money by trading them in the share market.
- Share-holders may also get bonus shares from the company.

Disadvantages of ordinary shares:

- Owners of ordinary shares are under high risk of price fluctuations of share in the market.
- In case of liquidation of the company they are the last to receive their capital invested in the shares.
- They may not get or may get very less dividend.
- Though they have voting rights but small investors may not be able to put their words in company's management due to domination of directors and big investors. Share-holders may become victims of speculation.

Question 2.

Distinguish between equity share capital a preference share capital.

Answer:

Points of difference	Equity share capital	Preference share capital
Compulsion	A company needs to compulsorily issue these shares	A company may or may not issue these shares.
Rate of divided	Rate of dividend varies	Rate of dividend is fix
Rights	Equity share holders have the right to attend meetings and to vote and elect directors	Generally, preference share-holders do not have voting rights except matters related to their interests
Risk	Risk is more	Risk is less
Investors interest	Investors interested in taking high risk and speculation prefer equity shares	Investors interested in fixed income and safety of capital prefer preference shares.
Market price	Market price of these shares increase and decrease	Market price generally remains steady
Addition of capital	Capital can be raised by rights shares and bonus shares	Capital cannot be raised

Question 3.

Explain the lending policy of commercial bank.

Answer:

Banks thoroughly analyse the financial requirement of a business, its ability to repay, income tax returns, old and current accounts, profit, etc. If the bank gets satisfied it can lend money in the form of loans, cash credit and overdraft.

Question 4.

Distinguish between ownership capital and borrowed capital.

Answer:

Points of difference	Ownership capital	Borrowed capital
Meaning	A fund invested by shareholder is called owner's funds.	Funds borrowed from sources other than owner's fund are called borrowed funds.
Source	Can be obtained through equity and preference shares, retained earnings, depreciation fund and reserves.	Can be obtained through debentures, commercial banks, financial institutions, etc.
Mode of returning	As dividends	As interest at a fixed rate.
Rate of return	Rate of return is not fixed	Rate of return is fixed
Repayment of capital	Owner's fund is repaid at the end i.e. after all the debts are paid.	Borrowed funds are debts and so they are to be returned before owner's funds.

Question 5.

Write short notes on.

(A) Bond

Answer:

Bonds:

- Bonds are issued just like debentures to obtain capital.**

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- Bonds are borrowed capital and hence the debt of the company. The bond holders are creditors of the company. Bond holders get interest at specific rate and time. At the end of pre-fixed duration the company returns the borrowed capital to the bond holders.
- Generally, bonds are costlier than debenture. They are a good source of finance for long-term large-sized projects.
- Bonds can be issued by companies, municipality or even government and are called corporate bonds, municipal bonds and government bonds respectively.
- Bonds are known by the project for which they are issued. For example, bonds issued by government for Sardar Sarovar project were known as Sardar Sarovar Bond.

(B) Trade credit

Answer:

Trade credit:

- When a businessman buys raw material, finished goods, etc. from producers or traders and pays after a pre-decided time he is said to have obtained trade credit.
- The businessman is said to have purchased on credit from other businessmen for some time. This helps the purchasing businessman save his working capital and use it elsewhere.
- The businessman then pays the money after a decided time. Here, the creditor does not give the money directly but gives goods on credit and satisfies the short-term capital need.

(C) Inter-corporate deposits.

Answer:

Inter-corporate deposits:

- When a company having surplus funds deposits a part or whole of it in another company it is called inter-corporate deposit.
- Usually these kinds of transactions take place between major and minor companies. Such transactions may also take place between various companies owned by one group. For example, Tata group owns Tata Teleservices and Timex watches. In need Tata Teleservices may provide inter-corporate deposit to Timex.
- The rate of interest and duration of deposit is decided by an agreement. Compared to borrowing from other sources this form of borrowing is an easier option.

Question 6.

“Public Deposit is known as Fair Weather friends’-Explain statement.

Answer:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- Fair weather friend is a friend who is friendly or available only when it is advantageous to him.
- People invest money as public deposit in the companies when they get assured returns.
- Interest of these depositors is purely to earn by lending money to the company. When the company is under financial crisis and if such news or rumors gets spread in the market then depositors rush to company to withdraw their money even before the maturity date. This creates financial problems for the company and so public deposits are considered fair weather friends.

Question 7.

“Ploughing back of profit is not possible for every company’ - Explain statement.

Answer:

- A company retains profits in the good times of business.
- A company can only retain profits if it does not have liability more than its assets. For a new company, a small company or a financially weak company making profits and maintaining its position against strong and established companies itself is a challenge.
- Moreover, such companies also need to invest more in modernization, expansion and innovation of their business so that they can have a strong foot in market.
- They also need to provide dividends to maintain the faith of investors and encourage them investing in their company. Hence, retaining profits is not possible for every company.

5. Answer the following questions in detail :

Question 1.

Explain the factors deciding the need of capital.

Answer:

Need of business finance:

A businessman needs capital to conduct all the business activities effectively and on time.

Following points clarify the need of business finance:

1. For establishing business:

- Several activities need to be done and documents to be prepared and submitted for starting a business. Expenses are incurred on conducting primary and detailed research, preparing documents like certificate of registration and incorporation, etc.

- The businessman also needs to hire experts of legal procedures, registration procedures, etc. Businessman need to pay fees and charges at several stages of the establishment and also pay fees to these industry experts.

2. For purchasing fixed assets:

- Assets such as land, building, furniture, machinery, etc. which are purchased for long-term business use and are not likely to be converted quickly into cash are called fixed assets.
- One may need huge long term finance in terms of loans to buy these assets.

3. For current assets:

- Once a business is set up it requires working capital i.e. capital to manage daily expenses. These expenses include salaries and wages, various utility bills, purchasing raw material, production and transportation charges, etc.
- Working capital can be either raised by oneself or even borrowed as loan from banks or other sources.

4. For modernization and expansion of business:

Scientific inventions and technology upgradations take place constantly across the world. This leads to faster production of newer products and quality enhancement. A businessman needs to keep pace with these changes so that he can maintain and expand his business. For this, he may have to invest in modern equipment and machineries and production methods.

5. For unforeseen situations:

A business may witness many unforeseen internal and external factors which may lead to financial crisis. For example, strikes, changes in government policies, changes in trade cycle, natural calamities, etc. are unforeseen events that demands capital reserve.

Question 2.

Define share and explain the characteristics of equity share.

Answer:

Equity shares:

An equity share, commonly known as ordinary share represents the fractional or part ownership of the person i.e. share-holder in the company. Equity shares have ' the right to obtain dividend (i.e. earn income) as per company's laws and right to claim repayment of share value after the company has made all its payments. After paying all the business expenses,

taxes, etc. the company may earn profit. The equity share-holders have a right to claim a share in this profit. The company based on its policy may distribute a part of residual income in the form of dividends to the share-holders. The equity share-holders have a right to claim this dividend.

A company can invite people to buy its shares. The share-holders become part owners and the company gets its capital.

Characteristics of equity shares:

1. True owners:

Owners of equity shares i.e. equity share-holders are considered as true owners of the company or faithful companions because they take much higher risk on their head by investing in equity shares as compared to preference share-holders.

2. Right to vote:

Equity share holders have right to vote for electing directors of the company. One share is equal to one vote. Thus, higher the number of shares held, higher the votes one can cast.

3. Dividend:

Whether to distribute the dividend or not and how much to distribute depends upon the company.

4. Dividend is based on profit:

- The dividend a share-holder gets depends on the profit a company makes.
- A company earning higher profit may distribute higher dividend and that making lesser profit or loss may distribute lesser dividend or may not distribute at all.

5. General meeting:

Share-holders have the right to attend general meetings and also have right to vote and elect the directors.

6. Repayment of capital:

Share capital is not repaid to the share-holders as long as the company exists. If the company winds up it returns the share capital after paying off all its business debts.

7. Dissolution (Liquidation):

At the time of liquidation the company first pays off capital of preference

share-holders and all other business debts and then if it has money, it pays to equity share-holders.

8. Share qualification:

If there is a provision in the memorandum and directors have given consent that if a particular person holds a specific number of shares decided by the company then he can become the director of the company then the shares are considered as share qualification.

9. Capital benefits:

Share-holders get various capital benefits by owning the shares. They earn dividend, company may also give them bonus shares, they earn by selling the shares whose prices have increased, etc.

10. Registration of shares:

Equity shares are registered in recognized share markets or say stock exchange. Investors can buy/sell the shares in these markets freely.

Question 3.

Give the meaning of preference share and explain its characteristics.

Answer:

Preference shares:

The shares that get the first preference to obtain dividend and during liquidation the first right to get the capital back are called preference shares.

Types:

(A) Preference shares redeemable before 20 years

(B) Preference shares redeemable after 20 years

Characteristics of preference shares:

1. Dividend:

Preference share-holders possess the right to obtain dividend that too at a fixed rate irrespective of the volume of profit.

2. Right to vote:

Generally, preference share-holders do not have voting rights except for matters related to their interests.

3. Preference:

Investors prefer to buy these shares because they get a fixed income and security for their capital.

4. Market price:

The price of these shares generally remains steady i.e. it neither increase nor decrease. Their prices may change only when the rate of interest changes in the market.

5. Proportion of risk:

The risk is quite less in preference shares because holders of these shares are first paid their capital back during liquidation of company.

6. Repayment of capital:

In case the company is wound up and its assets are sold, the money that comes in this sale is first given to the preference share-holders.

Question 4.

Give the meaning of debenture and explain its types.

Answer:

Debentures:

- A debenture is a certificate issued by a company to public in order to obtain public money as loan.
- The way a company invites public to buy shares it can ask public to buy debentures.
- The basic difference between a share and a debenture is that a shareholder becomes the part owner of the company whereas a debenture holder becomes creditor of the company from whom the company has taken the money as loan.
- Debentures are issued when company is in need of additional capital but does not want to issue shares. The total capital needed is divided into small parts i.e. debentures and then public is invited to subscribe for them.
- Debenture is a liability to the company. Buyers of debentures become creditors of the company. The company needs to pay them interest at pre-decided rates and period. At the end of the pre-decided time frame the company as per conditions returns the entire money to the debenture holders or convert the money equal to the share value and gives shares to the debenture holders.
- Issuing debentures is a good medium-term as well as long-term finance option for the company.
- When a company issues debentures it appoints trustees who work for protecting the interests of debenture holders as per the Trust Deed.

Characteristics:

1. Creditors of company:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Since the amount of debenture is considered as loan debenture is a debt of the company and the debenture holders are the creditors of the company.

2. Fixed rate of interest:

Debenture holders are paid interest at fixed-rate at a pre-decided time.

3. Fixed burden and charge on asset:

A Company mortgages assets as security to obtain capital through debentures. -> The company needs to pay interest on debentures to the debenture holders. This interest is considered as a 'fixed charge on the assets' or say on the profits. This means that the company has to pay this charge even if it makes no profit. Moreover, company cannot raise loan on such assets unless it fully pays up capital borrowed from debentures. However, it can use the assets.

4. Satisfy need:

Debenture is a useful tool to satisfy the needs of medium term and long-term finance.

5. Registration at stock-exchange:

If the debentures are listed at stock-exchange, one can trade them just like shares.

6. Repayment:

At the end of the duration, the company returns the debenture money to debenture holders either all at once or in installments as per the pre-decided conditions.

7. First preference for payment:

Since debentures are debt of the company the debenture holders get the preference to receive the money before the share-holders at the time of dissolution of the company.

Types of debentures:

1. Secured debentures:

Debentures that are secured against company's assets are called secured debentures. This means that at the time of dissolution if the company does not . have sufficient funds to repay the debentures than it will sell the mortgaged assets to repay. These assets carry floating charge when mortgaged.

2. Convertible debentures:

- If a company has announced that after a specific time debentures will be converted fully or partly into equity shares then such debentures are known as convertible debentures.
- If the company has made a provision of converting debentures in its Memorandum of Association then the company would give equity shares against the debentures in a pre-decide ratio.

3. Non-convertible debentures:

Debentures that are not converted into shares and whose money is returned to the debenture holders as per specific conditions and time frame are called non-convertible debentures.

Question 5.

What is the ploughing back of profit? Explain its advantages and limitations.

Answer:

Retained profits OR Ploughing back of profits:

- In good times of business a company makes quite good profit. In such times instead of distributing the entire profit as dividend company saves i.e. retains some part of profit for future business needs.
- The company may use such reserved profit or say retained earnings for expansion, investing in new products, etc. This re-invested money in the business is known as ploughing back of profit.

Advantages of retained profit:

1. Useful in times of recession :

Retained (saved) profit can be very useful in times of recession, changed market trends, etc.

2. Useful in Implementing future plans

- The saved earnings can be used to successfully implement future plans of expanding business, modernizing equipment and infrastructure, raising capital for buying assets, additional raw material, etc.
- By wisely retaining the profits the company will not have to depend on external sources for raising capital for these activities.

3. Useful for purchasing new assets:

The retained earnings can be used to replace old or worn out assets like machinery, furniture, etc. with new and modern assets.

4. Fixed dividend policy:

By retaining profits a company can prepare a stable policy to distribute

dividends. This will keep the share-holders happy and motivated to re-invest in the company.

5. Burden on assets:

If the businessman borrows money from financial institutions like banks it has to mortgage its assets. If the business can retain its earnings it can keep its assets free of burden of mortgage.

6. Borrowed capital can be repaid:

Retained earnings can be used to repay capital borrowed from banks or other financial institutions.

7. Decrease in cost of capital:

- When money is borrowed from banks or other financial institutions one needs to pay interest on it. The interest paid can be termed as the 'cost of capital'.
- If the company has sufficient retained earnings it can use it as capital and thus save itself from additional cost of capital

8. Owner's funds:

Earnings retained are infact owner's fund and so the businessman can plough them back in the business and save himself from borrowing capital from outside and paying interest.

Limitation of retained earnings:

1. Encourages monopoly:

When a company retains its profit too much it becomes economically quite strong. It can then dominate the market by over stocking very large amount of raw material, forcing vendors and suppliers to follow company's policies, ask them to create artificial scarcity etc. and hence create monopoly.

2. Promotes speculation:

- At times the directors of the company may distribute very less dividends and put the excess profits in company's reserve.
- This would lead people believe that company is not doing well and so price of company's share would decrease.
- The directors would then buy lots of shares in low prices and later announce high dividends.
- Higher dividends would again lure investors and they will start buying the shares. At that time the directors would sell their shares and make huge personal profits out of difference they get in the share trading.

3. Difficult for financially weak and new companies:

- Retaining earnings is not possible or possible at a very small scale for financially weak and new companies.
- No benefit to small investors:
- Small investors invest in company's shares with an aim of earning high dividends. When directors retain more earnings than necessary or speculates, small investors cannot earn dividends or earn very less dividends and hence they are in loss.

Question 6.

What is public deposits? Explain advantages and limitations of public deposit.

Answer:

Public deposits:

When a company accepts deposits of about 6 months to 36 months from public to satisfy its short-term financial need such as working capital, the amount it receives is called public deposits.

The deposit is borrowed capital and so a debt of the company. The investors who invest their money as public deposits are called creditors of the company. The company pays them a specific interest quarterly half yearly or on maturity i.e. at the end of duration along with the principle amount as per decided terms. According to the provisions of companies Act, 2013 private companies excluding ' banking companies and non-banking finance companies cannot accept deposit from public.

Advantages of public deposits:

- **Easy to obtain:** It is quite easy for a well-established and profit making company to obtain finance.
- **Less expensive finance option:** Compared to other sources of finance, a company can easily obtain public deposits that too quickly and) with lesser expenses.
- **Assets do not have a charge i.e. no need to mortgage assets:** A company need not mortgage its assets to obtain public deposits. Hence, it can mortgage the assets to obtain finance from other sources in future.
- **Interest is an expense:** A company needs to pay interest on the public deposits. The interest paid is considered as an expenses and it is to be subtracted from profit while preparing accounts for income tax. Thus, a company needs to pay lesser income tax.

- **Useful as working capital:** A company can satisfy its short-term need of working capital through public deposits.

Limitations:

- **Uncertainly:** It is quite uncertain to obtain public deposits. The investors may not be interested in investing due to their personal preferences, behaviour, lack of spare money etc.
- **Insecurity to investors:** Company does not give under-writing like in case of shares and debentures and so investor consider it as risk and feels insecure. Hence, public deposits are also called unsecured debts.
- **Fair weather friends:** When the company is under financial crisis and if such news or rumors gets spread in the market then, depositors rush to company to withdraw their money even before the maturity date. This creates financial problems for the company and so public deposits are considered fair-weather friends.
- **Difficult for new and weak companies:** Investors do not have much faith in new and financially weak companies. Hence, they do not wish to risk their capital in such companies. So, such companies face difficulties in raising public deposits.

Question 7.

Explain the functions of financial institutions.

Answer:

Functions of financial institutions:

1. Provide finance by buying shares:

- **When the company is in the phase of incorporation, modernization or expansion it associates with financial institutions and asks them to buy its shares.**
- **This helps the companies to obtain necessary capital from these institutions. Companies may also ask such institutions to become their underwriter i.e. guarantors.**

2. Provide finance by loan:

A company can mortgage its assets to take loan from these institutions. To further satisfy its financial needs companies can even mortgage personal properties and avail loan.

3. Help through direct payment for technological services:

At times a company may have to spend heavily in raising technological infrastructure or obtaining technological services. For example, developing and maintaining intranet of the company. Under such situations the financial

institutions makes payment on behalf of the companies to the companies providing technology services.

4. Provide guarantee:

A financial institution may agree to become a guarantor of the company i.e. the institution will be liable to pay the company's debts in case the company is unable to pay. This helps the company in gaining faith of investors and other financial institutions for obtaining finance.

5. Other services:

Financial institutions offer help in establishing a company, conducting market research, providing information about foreign markets, etc.

❖ Chapter 9 Internal Trade

1. Select the correct alternative and write answers to the following questions

:

Question 1.

Link between wholesaler and customers is

- (A) Producer
- (B) Broker
- (C) Retailer
- (D) Customer

Answer:

- (C) Retailer

Question 2.

Link between producer and retailer refers to

- (A) Customer
- (B) Wholesaler
- (C) Retailer
- (D) Broker

Answer:

- (B) Wholesaler

Question 3.

Who is the first middleman in the channel of goods distribution?

- (A) Wholesaler
- (B) Producer
- (C) Retailer
- (D) Customer

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Answer:

(A) Wholesaler

Question 4.

Trader in direct contact to customer refer to

(A) Broker

(B) Wholesaler

(C) Producer

(D) Retailer

Answer:

(D) Retailer

Question 5.

In which type of shops middleman does not exist?

(A) Departmental store

(B) Mail order shops

(C) Chain store

(D) Wholesaler's shop

Answer:

(B) Mail order shops

Question 6.

For which type of goods mail order shops are not suitable?

(A) Valuable

(B) Low in weight

(C) Perishable

(D) Durable

Answer:

(C) Perishable

Question 7.

Which is the shop where various types of goods are available at the same place?

(A) Franchise

(B) Chain store

(C) Mail order shop

(D) Shopping mall

Answer:

(D) Shopping mall

Question 8.

A shop with a contract with a company having a particular brand or

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

trademark sells the product of that company or manufacturer and sells is known as

- (A) Super market
- (B) Franchise
- (C) Shopping mall
- (D) Chain store

Answer:

(B) Franchise

Question 9.

Why can goods and services be supplied to the customers at fair price by telemarketing?

- (A) Due to large number of customers
- (B) Due to objective of service
- (C) Due to wholesale sales
- (D) Due to absence of middleman

Answer:

(D) Due to absence of middleman

2. Answer the following questions in one sentence each :

Question 1.

Give the meaning of Internal Trade.

Answer:

A trading activity done within the geographical boundary of a country is known as internal trade.

Question 2.

State the types of the big shops.

Answer:

- Departmental stores,
- Chain stores
- Mail order stores
- Franchise
- Supermarket and
- Shopping mall

Question 3.

Which types of goods are suitable for selling through mail order shops?

Answer:

A limited number of goods that are light weight, durable, costly and non-perishable.

Question 4.

Which types of goods and services are useful of Telemarketing?

Answer:

Financial products such as home loan, vehicle loan, insurance, mutual funds, bank accounts, etc. are sold through telephonic marketing. Through television marketing products varying from home utility to luxury are sold. These products could be mixer grinder, bed-sheets, gym equipment, crockery, clothes, etc.

Question 5.

Who has invented automatic vending machine?

Answer:

Greek engineer and mathematician called Hero of Alexandria invented vending machine.

3. Answer the following questions in short :

Question 1.

“Departmental stores save the time and labour of the customers” – Explain

Answer:

- A departmental store is a retail store that sells a wide range of consumer goods in different product categories known as departments
- The wide variety of products that such stores offer is categorized into various departments. For example, there will be a department of fruits and vegetables, another for grocery, cosmetics and so on.
- A customer can make his exhaustive shopping list and simply walk-in a departmental store.
- He can then buy all the items from one single store itself. This saves him from going to various stores and wasting time and effort.

Question 2.

State the types of mobile shop.

Answer:

Goods sold by moving from one place to another on foot, carts, temporary stalls, bicycles, van, etc. are called mobile shops.

- Hawkers,
- Temporary traders,
- Fix day trader of Gujau or Hat and
- Street sellers.

Question 3.

Bad debt is not possible in mail order shops, why?

Answer:

- In mail order the customer informs the seller that he wish to buy a particular product from him.
- The buyer then needs to first make the payment of the product to the seller through VPP.
- Alternatively, the buyer can ask the seller to send the product on cash on delivery basis. The person who delivers the product, collects cash and then hands over the product.
- Since, in both the cases the customer needs to pay in advance, he cannot create any bad-debt for the company.

Question 4.

“A wholesaler is a link between producer and retailer” – Explain

Answer:

Wholesaler receives orders from various retailers. It then places a large order to the producer and helps the producer in large scale sales.

- **A wholesaler is in direct contact with several retailers spread across a vast geographical region.**
This helps him to obtain information about demand of the product, its feedback, customer’s preference, fashion, etc. of various regions.
- **The wholesaler then shares this information with the producer. The producer thus gains insight about market trend and market situation and keeps his product updated as per the market. Wholesaler purchases goods in large quantity. This saves producers from selling goods in smaller quantities to several people.**
- **For example, 10 retailers in total may need 500 books. One the other hand a wholesaler alone can buy 500 books and supply them to those 10 retailers. Hence, wholesaler serves as link between producer and retailer.**

Question 5.

Which types of risks are borne by the retailer?

Answer:

1. Options of selection:

A retailer keeps and sells products of several producers. Hence, customers get several options to choose from.

2. Home delivery of goods:

Some retailers provide their customers the facility of delivering the purchased goods at their homes even if the customers order on phone. This help customers to save their time and effort.

3. Redressal of customer complaints:

- Retailers are in direct contact with customers. If customers have any complaints regarding a product then they complain to retailers.
- Retailers pass these complains to wholesalers and wholesalers pass them to producers and solve the complains quickly.

4. Selling goods on credit:

Frequent customers develop good rapport with retailers. So, retailers also provide credit or even installment facility to such few customers based on their rapport with retailer and economic condition.

5. After sales service:

Retailers provide after sales services such as assisting in installation, repair, exchanging faulty products or taking them back, etc.

6. Helps customers to make purchase decision:

Retailers provide customers information on utility, features, quality, price, etc. of the products. Their explanation and selling skills helps the customer make decision about buying a product.

7. Freedom from storage:

Retailers provide goods to customer as and when they need. This helps customers to free themselves from unnecessarily stocking products.

8. Guidance to customers:

- Retailers guide the customers in various ways. They guide them about the changes likely to occur in near future, new products and schemes about to be issued by producers, guide them about supply or demand of a product, price rise that it may witness, etc.
- Correct guidance can help the customer to choose a right product at a right time.

Question 6.

How is payment made in television marketing?

Answer:

In television marketing, customers can make payment in two ways:

- Pay in advance through credit/debit card or
- Pay cash to the person who delivers the product i.e. Cash on Delivery (COD) method.

4. Answer the following questions in brief :

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Question 1.

State the difference between :

(i) Departmental store and Chain stores

Answer:

Points of difference	Departmental store	Chain store
Objective	To sell all types of goods of daily needs and luxury to customers from one place.	To set-up stores at various places near potential customers' residencies and sell the goods.
Sales method	Sells from same place i.e. from the store but by categorizing goods in various departments.	Sells from various branches spread across city, state or even country.
Risk	Risk is more because there is one large store at one place selling all the goods.	The risk is less because there are several stores spread across a region and so sales get balanced.
Sales of goods	Sale of goods is either on cash or installment.	Sale of goods is in cash.
Options of selection	Customers get a large number of options to select from.	Customers get a selected number of goods to choose from.

(ii) Retailer and wholesaler

Answer:

Points of difference	Retailer	Wholesaler
Capital investment	Less capital investment is needed for business	More capital investment is needed for business
Purchase and sales	Retailer purchases goods in small quantities and sells	Wholesaler purchases goods in large quantities and sells

	directly to customers in retail.	them to retailers in small quantity.
Distribution channel	Retailer works as a distribution link between wholesalers and customers.	Wholesaler works as a distribution link between producers and retailers.
Sale of products	Sells a large number of products of several producers.	Sells limited number of products bought from limited producers.
Number of traders	Retailers exist in very large number.	Wholesalers are in less number compared to retailers.
Storage space	They require less storage space.	They require large storage space.

Question 2.

Write short notes :

(i) Mail order shops

Answer:

Mail order shops:

- A method of trading where in buying and selling of goods takes place through mails without coming in direct contact is called mail order trading. The owners of such businesses are called owners of mail order shops or direct mail shops.
- In mail order form of retail selling the sellers gather database of name, address and e-mails of prospective customers from market. Then they send their product catalogue to these people either through e-mail or post. After studying the catalogue if people like the product they contact seller and place the order on telephone or through website.
- The sellers deliver the items to the buyers at their address and receives money either in cash i.e. COD or through VPP, etc.
- The biggest advantage of mail shops is that goods can be sold and sent to any person residing at any part of the country.
- Mail shops generally sell limited products that are light weight, durable and high priced.
- Thus, mail order shops do the entire business from advertising to delivery and sending payment receipts through mail.

(ii) Franchise

Answer:

Franchise:

- A well-known and established brand when gives a special right or privilege to someone to use his brand name or trade mark and process for manufacturing or selling the products or service is called franchise.
- A legal contract is signed between the company i.e. franchisor and the person to whom franchise is given i.e. the franchisee.
- For example, McDonalds, Domino's pizza, Aptech computers, etc. all run on – franchise model.

Business model:

The brand or trademark owner (example: McDonalds) is called the parent company. -> The parent company signs a legal contract with the person who wishes to take franchise of the company. The company collects franchise charges and royalty i.e. commission on sales from the seller i.e. franchise. Against this the company allows the seller to use company's brand name, trademark and products and processes.

Business support that the franchisee receives:

Based on the product type, the parent company supplies raw materials, semi-finished material or even finished material to the franchisee. For example, a pizza franchisor may supply pizza base, gravy, cut-vegetables, etc. to the franchise. The company also provides training on how to assemble the product, how to serve it, how to deal with customers, etc.

- In case of educational franchises like Aptech, the company provides training to staff on teaching methods, provides reading material, etc.
- The company maintains an identical method of business, identical exterior and interior, identical products, menu, teaching courses, etc. across all franchises. This means that irrespective of the franchise a customer visits he gets same products and services.
- The franchisee gets the advantage of the strong brand of the parent company and its processes and support and hence, can save itself from the risk of starting a whole new business of his own.
- The parent company advertises to promote its brand. This saves advertisement expenses of franchisee.

(iii) Super market

Answer:

Super market:

A super market is a huge retail shop selling a very large variety of products on a large scale.

- These markets purchase a very large quantity of products directly from the company or producers. Such stores sell all the daily utility as well as life essential products.
- They buy, stock and sell goods at such a large volume that even many retail shop owners purchase products from these stores and then sell them.
- The stores are very huge even from point of view of construction. They are mainly located in big cities or towns where population density is large.

(iv) Shopping mall

Answer:

Shopping malls:

- A large enclosed building that contains many small and big shops selling various types of national and international brand goods both for daily utility and luxury is called a shopping mall or simply a mall.
- Shopping malls are much bigger than super markets.
- The ownership of the shops of a mall may be with one person or more than one person.
- Shopping malls offer a large variety of national and international brand products under one roof so customers can have a wide variety of options to select from. The owners make several efforts to offer various schemes, discounts, freebies, etc. to attract customers and increase sales.
- Similar discount schemes and sales are offered on products of identical categories. This increases competition among such products and it can be termed as a special characteristic of the mall. For example, both Reebok and Nike brands that are present in a mall may offer discount of flat 40% during festive season. Malls are built with modern infrastructure, centralized air-conditioning, decorative lightning, high level security and ample parking facilities.
- Apart from various stores malls also contain various eateries and restaurants, cafe, theaters, game zones for kids, Wi-Fi, etc. to attract customers on a large mall they spend more.

(v) Automatic Vending machine

Answer:

Automatic vending machines:

An automatic vending machine is a machine that dispenses items such as snacks like wafers, biscuits, etc. beverages, ice-cream, chocolates, newspapers, etc. to customer automatically after the customer inserts currency coins as mentioned on the machine.

- Greek engineer and mathematician called Hero of Alexandria invented vending machine.
- The owners of such machines load the machine with the products. The price of each item is mentioned on the machine in the form of currency coin. For example, a cold-drink charging ₹ 30 can be obtained by inserting three coins of denomination ₹ 10 each. He then, inserts the coins in the machine slots and press specific buttons. The items will be dispensed in the machine tray.
- The customer looks through the transparent glass of the machine and decides the item he wish to buy.
- The biggest advantage of these machines is that they can be operated for twenty-four hours non-stop.
- Moreover, one does not need to incur expense of staff, training, establishing a shop, etc.
- Vending machines are generally installed at public places like shopping malls, airports, railway station, etc.

5. Answer the following questions in details :

Question 1.

Giving the meaning of wholesale trade, explain various services of the wholesaler to the producer

Answer:

Wholesale trade:

- A trader who purchase goods in large quantity from the producer and sells them to retailers in small quantities as per their requirements is called a wholesaler and the trade is called wholesale trade.
- A wholesaler serves as a link between the producer and the retailer. Wholesalers provide various services to producers and retailers.

They are as follows:

(A) Services to producers:

1. Orders large quantity:

A wholesaler receives orders from various retailers. It then places a large order to the producer and helps the producer in large scale sales.

2. Information about market:

- A wholesaler is in direct contact with several retailers spread across a vast geographical region.
- This helps him to obtain information about demand of the product, its feedback, customer's preference, fashion, etc. of various regions. The wholesaler then shares this information with the producer.

- The producer thus gains insight about market trend and market situation and keeps his product updated as per the market.

3. Freedom from storage of goods:

- Wholesaler orders goods in large quantity and stores them in his own godowns.
- This saves producers from owning unnecessarily large godown for storage.

4. Freedom from sales worries:

Wholesaler purchases goods in large quantity. This saves producers from selling goods in smaller quantities to several people. For example, 10 retailers in total may need 500 books. On the other hand a wholesaler alone can buy 500 books and supply them to those 10 retailers.

5. Relief of capital:

At times either producer can ask for advance payment from wholesalers or wholesalers themselves may pay in advance to the producers as per trade policies or to assure that wholesaler would receive their order quantity on time. This helps producers to maintain less working capital. ‘

6. Freedom from the risk:

- Wholesalers purchase goods in large quantities. The storage and maintenance of goods then becomes their liability.
- On the other hand producers become free from risk of goods getting diminished, wasted, destroyed, expired, etc.

(B) Services to retailers:

1. Supplies goods as per retailer's requirement:

Wholesalers take orders from retailers and supply them as per their need. This saves retailers from having large storage spaces.

2. Goods on credit:

At times, wholesalers sell the goods to retailers on credit. This motivates retailers to conduct and expand their business with quite less capital.

3. Decrease advertisement expenses:

Apart from producers wholesalers also advertise the products to promote sales. This helps retailers to save their advertisement costs.

4. Redressal of complaints:

- Retailers are in direct contact with customers. If customers have any complaints regarding a product then they complain to retailers,
- Retailers pass these complains to wholesalers and wholesalers pass them to producers and solve complaints quickly.

5. Freedom from risk:

Wholesaler stores goods in large quantity and retailers have an option to buy them as per their demands. This help retailers to free from risk of goods getting diminished, wasted, destroyed, expired and price fluctuation.

6. Guidance:

Wholesaler has a large network of retailers of various types belonging to various areas or regions. So, wholesaler possesses a rich knowledge and information about a vast market. He shares his knowledge with retailers which work as guidance for them to increase their business.

Question 2.

Giving the meaning of retail trade, explain the services of retailer to wholesaler and producer.

Answer:

Retail trade:

- A trader who purchase goods in small quantity from wholesaler or in some cases from producer and sells them directly to the customers is called retailer and the trade is called retail trade.
- The retailer comes in direct contact with customers. So, he understands their needs, preferences and mind sets better. He can also provide them personalized services, help to solve their complaints quickly via. wholesalers and hence works as a link between wholesaler and customers.

Services that retailers provide to wholesalers and producers:

1. Information about market:

Retailer is always in direct contact with customers. He understands their demands, preferences and mindsets. So, he can share customer's views with wholesalers and producers and provide them rich information about the features that customers seek in a product.

2. Helps in advertising:

Producers and wholesalers can print advertisement displays boards, pamphlets, posters, etc. and ask the retailers to put these in their shops. This way retailers help in advertising the products.

3. Increase creditability:

Good retailers tend to buy goods and promote good products, provide good service for those products and make customers happy. This also increases the creditability of retailers i.e. customers, wholesalers and producers all find them trustworthy. This overall enhances the product experience for customers and the sale increases.

Question 3.

Explain the advantages and limitations of retail trade.

Answer:

Advantages of retail trade:

1. Options of selection:

A retailer keeps and sells products of several producers. Hence, customers get several options to choose from.

2. Home delivery of goods:

Some retailers provide their customers the facility of delivering the purchased goods at their homes even if the customers order on phone. This help customers to save their time and effort.

3. Redressal of customer complaints:

- Retailers are in direct contact with customers. If customers have any complaints regarding a product then they complain to retailers.
- Retailers pass these complains to wholesalers and wholesalers pass them to producers and solve the complains quickly.

4. Selling goods on credit:

Frequent customers develop good rapport with retailers. So, retailers also provide credit or even installment facility to such few customers based on their rapport with retailer and economic condition.

5. After sales service:

Retailers provide after sales services such as assisting in installation, repair, exchanging faulty products or taking them back, etc.

6. Helps customers to make purchase decision:

Retailers provide customers information on utility, features, quality, price, etc. of the products. Their explanation and selling skills helps the customer make decision about buying a product.

7. Freedom from storage:

Retailers provide goods to customer as and when they need. This helps customers to free themselves from unnecessarily stocking products.

8. Guidance to customers:

- Retailers guide the customers in various ways. They guide them about the changes likely to occur in near future, new products and schemes about to be issued by producers, guide them about supply or demand of a product, price rise that it may witness, etc.
- Correct guidance can help the customer to choose a right product at a right time.

Limitations of retail trade:

1. More capital investment:

Customers of different taste, preference and economic condition come to retailers. Hence, retailers need to keep a variety of products to cater their needs. As a result, retailer needs more capital investment.

2. Risk of deterioration of perishable goods:

Perishable goods like milk and milk products, fruits and vegetables, etc. perish very fast. If a retailer is unable to sell them on time they perish and the retailer has to bear the loss.

3. Risk of goods getting outdated:

The market trend changes with changes in technology, customer's taste, fashion, etc. For example, people now mostly prefer smart phones over regular mobile phones. In such situations a retailer need to sell old unsold outdated stock at cheaper prices to recover his investment.

4. Risk of loss, shortage or fluctuations of price:

At times goods may get damaged at retailer's shop, or their prices may fall or increase, or their supply would be less compared to their demand. All such situations cause loss to retailer.

5. Bias:

Sometimes a retailer may have some bias for a particular producer or his product. For example, he may not be happy with the commission he gets on the product or he may dislike the product personally. Owing to these reasons he may be bias towards them and not promote their sales.

Question 4.

What is the departmental store? Explain its characteristics.

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Answer:

Departmental stores:

- A departmental store is a retail store that sells a wide range of consumer goods in different product categories known as departments
- The wide variety of products that such stores offer is categorized into various , departments. For example, there will be a department of fruits and vegetables, another for grocery, cosmetics and so on.
- The objective of such stores is to offer customers goods for his daily needs to luxuries. So, a department store may sell vegetables and grocery for daily needs as well as well as luxurious cosmetics.
- The ownership and management of such stores is in the hands of a single person.

Characteristics:

- **Large scale sales:** Departmental stores sales a variety of goods on large scale.
- **Separate department for each item:** Each category of product is displayed in separate department.
- **Ownership and management:** The ownership and management of a departmental store is in the hands of a single person.
- **Based in urban areas:** These stores are mostly found in big cities.
- **Training to employees:** The store owner arranges special training for the store employees. The employees are trained on how to behave warmly with customers, how to encourage them to buy, how to arrange stock in departments, etc.
- **High maintenance:** Building infrastructure of departmental store and maintaining it is a costly affair. High cost is incurred on making departments, refrigeration and air-conditioning, lightening, salaries, etc.
- **Facility to customers:** Various facilities like drinking water, sitting area, Wi-Fi, eatery, etc. are provided to customers.
- **Guidance:** Customers are welcomed by the cordial staff. The staff provides information about various products by providing demonstration of those products. The staff also guides the customers in selecting and purchasing the right product for them

Question 5.

What is the chain store? Explain its characteristics.

Answer:

Chain stores:

- Chain stores or retail chain are very large retail shops that have branches at different areas, cities or even states.
- All the stores are owned by a single person and have standardized trade practices. D-mart is one such example of chain stores.
- Chain stores generally sell limited items falling in similar categories and which are essential for daily needs.
- The exterior and interior lay-out of store, glow-sign boards, uniform of employees, etc. are same for all stores.

Characteristics:

- **Single owner:** A chain store is owned by a single person.
- **Same exterior layout:** The exterior designs and even interior lay-out of chain stores are similar. This helps customers to recognize and associate them easily with the store brand.
- **Trained employees:** Employees of all chain stores are provided same training. They are trained on customer relationships, business objectives, etc. As a result the customers obtain same shopping experience in each outlet of chain store.
- **Centralized management:** The management of all the stores is centralized i.e. handled from one location which is called its head office. For example, which new product to introduce, which to remove, discounts, policies, festive offers etc. is handled by the head office.
- **Common identification:** All the outlets have same exterior and interior lay-out, way of putting sign boards, uniform for employees, etc. this develops a common identity for all stores. Whenever a customer sees an outlet of the chain store he develops familiarity and identifies and recognizes the store easily. This works as an advertisement and increases sales.

Question 6.

Explain telemarketing and internet marketing.

Answer:

Telemarketing:

Marketing of goods or services through telephone calls or promotion through demonstration of product as advertisements on television is called telemarketing.

Types:

- (A) Telephonic marketing
- (B) Television marketing

(A) Telephonic marketing:

- A trade method where in potential customers are contacted through telephones and information and features about products is given and then sold is called telephonic marketing.
- If the potential customers show interest on telephone, the telemarketers take – their appointment and visit them at decided time. They then explain the product in detail and try to sell.
- This method is largely used for selling financial products like home loans, vehicle loan, insurance, credit cards, etc.
- Telemarketing is advantageous to customers as they can meet the sales executives at their convenient time and place.
- The products are demonstrated and sold directly by executives of companies i.e. without involving any middleman. Hence, they can sell the products cheaper and also offer discounts and schemes.

(B) Television marketing:

- The method of demonstrating features of products and providing their information on television to attract viewers and encourage them to buy the shown products is called trade through television marketing.
- Telemarketers display their telephone numbers and website address on which customers can contact and place their orders. Products are then delivered at customer's home.
- Customers can make payment in two ways;
 1. Pay in advance through credit/ debit card or
 2. Pay cash to the person who delivers the product i.e. Cash on Delivery (COD) method.
- Products of home utilities and luxury such as mixer grinder, bed sheets, gym equipments, crockery, clothes, etc. are sold through television marketing. Television marketers sell their products directly to customers without having any wholesalers or retailers in between. Hence, customers get products at reasonable prices.

Internet marketing:

- The process of marketing and selling products or services by promoting them on company's websites, shopping websites like Amazon, Snapdeal, Flipkart, etc. or social networking websites like Facebook or by sending e-mails to prospective customers is called internet marketing.
- Customers while browsing the internet come across such advertisements or promotions or purposely visit shopping sites, studies the features of the products, compares them with other products and on other websites and then place their orders.
- Internet is a very large and effective way of marketing. Customers get products at cheaper prices compared to local markets because

internet marketers do not bear expenses of shops and send the products directly to customer eliminating wholesalers and retailers. Customers also get after sales services such as product installation, demonstration, repair, replacement and refund, etc.

- Payment is made either through credit/debit cards, internet banking or cash on delivery mode.

❖ Chapter 10 International Trade

1. Select the correct alternative and write answers to the following questions :

Question 1.

What is the trade of a country with another country called?

- (A) Local trade
- (B) Regional trade
- (C) National trade
- (D) International trade

Answer:

- (D) International trade

Question 2.

What is the letter known on which the importer describes the details of the order?

- (A) Input
- (B) OGL
- (C) L/C
- (D) Indent

Answer:

- (D) Indent

Question 3.

By which thing of trade, foreign exchange can be earned?

- (A) Export trade
- (B) Import trade
- (C) Internal trade
- (D) Regional trade

Answer:

- (A) Export trade

Question 4.

Who issues the bill of lading to the exporter?

- (A) Insurance company

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- (B) Shipping company
- (C) The captain of a ship
- (D) Bank

Answer:

(B) Shipping company

Question 5.

Name the certificate that states the country in which the goods were produced.

- (A) Consular invoice
- (B) Certificate of origin
- (C) Shipping order
- (D) Letter of credit

Answer:

(B) Certificate of origin

Question 6.

Who issues the shipping order?

- (A) The captain of a ship
- (B) Shipping company
- (C) Owner of the ship
- (D) Central bank

Answer:

(B) Shipping company

Question 7.

Which bank holds the control over foreign exchange in India?

- (A) Local bank
- (B) Merchant bank
- (C) Reserve bank
- (D) Agriculture bank

Answer:

(C) Reserve bank

Question 8.

What kind of receipt does the captain of the ship issue to the exporter when there is no proper packing of the goods?

- (A) Foul receipt
- (B) Clean receipt
- (C) Incomplete receipt
- (D) Torn out receipt

Answer:

(A) Foul receipt

Question 9.

Which of the following media provides export incentives?

(A) World bank

(B) Merchant bank

(C) Merchant agreement

(D) Merchants

Answer:

(C) Merchant agreement

Question 10.

Name the document that the bank issues to the importer against the payment of the bill amount as per the instructions given by the exporter.

(A) D/A

(B) D/P

(C) OGL

(D) LOC

Answer:

(B) D/P

Question 11.

Name the agreement which is made between the shipping company and the exporter to rent the whole ship.

(A) Intent agreement

(B) Credit agreement

(C) Charter party agreement

(D) Exporter agreement

Answer:

(C) Charter party agreement

2. Answer the following questions in one sentence each :

Question 1.

What is International Trade?

Answer:

When individuals, business units or government of a country trades i.e. either buys or sells with individuals, business units or government of another country it is called international or foreign trade.

Question 2.

What is import?

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Answer:

Bringing goods or services into a country from a foreign country for selling them is called import.

Question 3.

What is Export?

Answer:

Sending goods or services to another country for selling them is called export.

Question 4.

Explain the terms :

(i) OGL

Answer:

If a businessman wish to import/export goods/ services mentioned in the list published by the government he needs to obtain an Open General License (OGL).

(ii) WTO

Answer:

The World Trade Organization (WTO) is an intergovernmental organization which regulates international trade. 104 nations including India signed an agreement and established WTO on 1st January, 1995 by replacing the General Agreement on Tariffs and Trade (GATT)

(iii) GATT

Answer:

In 1948, 23 nations also known as founding members established the General Agreement on Tariffs and Trade (GATT) in Geneva. India was one of those 23 nations

(iv) SEZ

Answer:

A special economic zone (SEZ) refers to certain fix area of a country which enjoys special economic regulations and liberal economic laws compared to other parts of the country.

(v) EPZ

Answer:

Export processing zone:

Indian government has established export processing zones or say free processing zones to encourage export trade. In such zones exporters can

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

import goods, re-process them if needed, manufacture goods and export them without interference of custom authorities. This helps in bringing more foreign earnings to our country.

- Excise duties, financial transaction regulations and some labour laws are liberal in these zones.
- Government assures people that it will provide all basic facilities such as roads, electricity, water, communication, transportation, facility to procure high quality raw material, etc. to industries set-up in such zones.
- Government also provides information on export procedures, international market, demand of products for export, political conditions favorable export, etc. to people interested in export business.
- Under its economic policy India has developed various free trade zones (FTZ) in places like Kandla, Santa Cruz (Mumbai), Falta (West Bengal), Noida, (Cochin, Chennai, Vishakhapatnam, Kosindra, (Near Dwarka) and Dahej (near Bharuch), etc.

(vi) D/A

Answer:

Documents against acceptance bill. A method of payment for goods that have been exported in which the exporter sends the title and shipping documents with a bill of exchange to a bank or agent at the port of destination. The bank or agent releases the goods when the bill has been accepted by the consignee. ... Compare cash against documents.

(vii) D/P

Answer:

Documents against payment bill. The document that the bank issues to the importer against the payment of the bill amount as per the instructions given by the exporter

3. Answer the following questions in short :

Question 1.

What is Bill of Lading?

Answer:

Obtaining bill of lading:

- A bill of lading is a legal document between the shipper (i.e. exporter) of the goods and the carrier i.e. the transporter. It contains details like quantity of goods, destination, etc.
- It is issued by the carrier to the exporter.

- The shipping company makes three copies of bill of lading. It keeps one copy and gives the other two to the exporter.
- The exporter then makes a mark on one copy i.e. endorses it and sends it to the importer as a part of documentary bill. The importer can obtain the goods from the carrier only if he shows the bill of lading.

Question 2.

What is called Consular Invoice?

Answer:

Consular invoice is a document certifying shipment of goods and shows details of exporter, importer, quantity of goods and their price, etc. calculating and collecting excise becomes easy on the basis of this invoice.

Question 3.

Why the certificate of origin is required in foreign trade?

Answer:

A certificate obtained by exporter certifying that the products to be exported are wholly procured or produced or manufactured in India is called the certificate of origin.

Question 6.

What is Mate Receipt?

Answer:

A receipt issued by the 'mate' i.e. captain of the ship or his representative certifying that the goods are loaded on the ship and are packed well to transport is called mate's receipt.

Question 5.

What is Charter Party Agreement?

Answer:

After packing and marking the goods the exporter needs to ship them. If the exporter wants to rent whole ship for sending the goods it is called 'charter'. The agreement between the shipping company and the exporter to rent the whole ship is called 'Charter party agreement'.

Question 6.

What is the Shipping Order?

Answer:

When an exporter instructs a shipping company to deliver goods to the importer the shipping company provides a copy called 'shipping order' to the exporter.

4. Answer the following questions in brief :

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

Question 1.

Explain briefly the different incentives for export trade.

Answer:

Incentives for export trade:

1. Trade agreements:

- **State or central government enters into trade agreements with various countries. Under these agreements they agree to trade several products/services with each other.**
- **Such trade agreements boost exporters to increase their export business.**

2. Financial and economic encouragement reward:

- **Exporters are provided several financial and economic benefits to encourage them for producing and/or exporting. These encouragements include:**
- **Give some pre-decided reward directly to the exporter.**
- **Give exemption or collect very less sales tax and income tax on exported products.**
- **Give partial or full exemption of income-tax for income earned through export. Provide land, raw material, electricity, equipment, etc. at cheaper rates for producing goods/services for export.**

3. Collective and systematic economic encouragement:

- **Under this system if an exporter is able to export a pre-decided quantity of products than he is allowed to import products equivalent to the foreign exchange earned from export.**
- **The exporter who guarantees to export the said quantity is given several benefits as a form of encouragement. These benefits are:**
- **Provide land at subsidized rates for producing such items that can be exported.**
- **Assistance in setting up factories for producing products that can be exported. Encouragement to establish factories in free trade zones i.e. trade zones (areas) which are exempted from taxes and regulations. Oblige to export total production or as per pre-decided ratio.**

4. Financial facilities and services:

- **Several financial facilities and services are provided to exporters that encourage them. They are:**
- **Make arrangement so that the exporters receive export-bill (a document needed by customs department) on the same day of export.**

- Provide ways to protect exporters against fluctuations that occurs in exchange rate of foreign currency.
- Making arrangements so that the importer or importing country can easily import goods exported to them.
- Provide services as guarantor of the importer after assessing the financial soundness of the importer.

5. Non-financial facilities:

- Exporters are also provided several non-financial facilities and services for motivation. They are:
- Provide information on export opportunities, procedures and benefits.
- Train people for producing products that can be worth exporting.
- Arranging competitions among exporters and rewarding highest exporter.
- Provide information about export market i.e. international market.
- To lock-out or create strike in factories that produce export items illegally.

6. Special economic zone (SEZ):

- A special economic zone (SEZ) refers to certain fix area of a country which enjoys special economic regulations and liberal economic laws compared to other parts of the country.
- In 2005, government of India passed law for SEZ in the parliament and brought it in force from 10th February, 2006.
- Special economic zones contain several types of zones like:
 - (a) Export processing zone
 - (b) Free trade zone (FTZ)
 - (c) Free ports
 - (d) Industrial zone
- SEZ is set-up with the aim of attracting direct local and foreign capital investment.
- Under SEZ the government provides part or full exemption of custom duty, central excise, service tax, central sales tax, security transaction tax, etc. on products produced in SEZ.

7. Export processing zone:

Indian government has established export processing zones or say free processing zones to encourage export trade. In such zones exporters can import goods, re-process them if needed, manufacture goods and export them without interference of custom authorities. This helps in bringing more foreign earnings to our country.

- Excise duties, financial transaction regulations and some labour laws are liberal in these zones.
- Government assures people that it will provide all basic facilities such as roads, electricity, water, communication, transportation, facility to procure high quality raw material, etc. to industries set-up in such zones.
- Government also provides information on export procedures, international market, demand of products for export, political conditions favorable export, etc. to people interested in export business.
- Under its economic policy India has developed various free trade zones (FTZ) in places like Kandla, Santa Cruz (Mumbai), Falta (West Bengal), Noida, (Cochin, Chennai, Vishakhapatnam, Kosindra, (Near Dwarka) and Dahej (near Bharuch), etc.

Question 2.

Explain the role of World Trade Organization (WTO) in international Trade.

Answer:

Role of World Trade Organization (WTO) in international trade:

- The World Trade Organization (WTO) is an inter-governmental organization which regulates international trade.
- 104 nations including India signed an agreement and established WTO on 1st January, 1995 by replacing the General Agreement on Tariffs and Trade (GATT)
- WTO deals with regulating trade between participating countries so that the countries can work on a common platform and the concept of globalization can be expanded.
- Both manufacturing and service sectors have grown rapidly due to efficient work policies and administration of the WTO.
- Owing to WTO, the entire world has come closer and has become a global village.
- Due to the activities and encouragement of WTO products related to agriculture, industries, health, etc. are produced on a very large scale and are freely traded between countries.
- WTO has also boosted international education. Many foreign universities have established in India.
- Countries like America, Canada and Australia have set-up their offices in India to promote foreign education.

Question 3.

Write a note on General Agreement of Trade and Tariff (GATT) in International Trade.

Answer:

General Agreement on Tariffs and Trade (GATT):

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- In 1948, 23 nations also known as founding members established the General Agreement on Tariffs and Trade (GATT) in Geneva. India was one of those 23 nations.
- The main aim of this agreement was to remove barriers from international trade by reducing tariffs, boost international trade and encourage distribution of regional labour.
- The policies established under GATT encouraged free-trade i.e. liberalization and globalization.
- Under GATT, Government of India made several agreements with different countries so that Indian industries can join hands with industries of those countries and make progress.
- Due to GATT, many modern fields of trades emerged in India.

Question 4.

“Sometimes the captain of the ship issues a foul receipt”. Explain the statement.

Answer:

- Goods packed for export need to be packed with extra care and precaution. Bad weather, sea-storms, excessive humidity, etc. can damage the goods.
- For these reasons the exporter needs to follow the packing instructions very strictly. No flaw in the packing can be compromised.
- Once the packing is done the captain or his representative checks the packing. If any of them finds packing improper they give a receipt called foul receipt or dirty chit to the exporter.
- Unless the exporter packs the goods properly again, he is not allowed to load them on the ship.

Question 5.

Explain ‘world – a global village’.

Answer:

No country in this world is self-reliant. Each country needs other countries to share its resources, products and services. This gives rise to international trade.

- International trade activities exist since ancient time. With time, science and technology advanced to unprecedented heights.
- As a result countries started producing a very large number of goods and services. These countries then kept on searching for countries where they could sell their products.
- With the establishment of various international trade organizations countries came closer and traded freely.
- Moreover, due to fast transportation, internet and e-commerce trade became much faster and countries came much closer.

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- Now we can trade with any country without even moving out of our offices. The entire world is now connected with each other and seems so close as if it is a small village.
- Hence, it is rightly said world – a global village.

5. Answer the following questions in detail :

Question 1.

Give the meaning of Foreign Trade and explain its importance.

Answer:

International (foreign) trade:

- When individuals, business units or government of a country trades i.e. either buys or sells with individuals, business units or government of another country it is called international or foreign trade.
- The one who buys from foreign country is called the importer of goods/services whereas the one who sells is called the exporter.
- According to Thomas, 'Exchange of product of one country with another country is called foreign trade.

Importance of foreign trade:

1. Benefit of division of labour and specialization:

- A country may not be producing all the needed resources that too in sufficient quantity.
- It may also not have enough labour or specialized skills to produce such resources.
- Under such situations a country can easily obtain those resources from another country. For example, India has a very large population that specializes in farming that too at very low labour rates, whereas this is not the case with America. So, America can import agricultural products from India.
- A country may also not have suitable weather, government policies, skilled people, etc. for production of a specific resource and so it can obtain it through foreign trade.

2. Development of under developed countries:

- Under developed countries lack specialized skills, scientific technology research and other resources.
- These countries can import technology and processes, modern administrative methods, research knowledge, advanced products, etc. and develop itself.
- Government of under developed countries can enter into various trade agreement with other countries and uplift their own countries.

3. Maximum utilization of resources:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- A country imports technology, machinery, human labour, business processes, etc.
- It then deploys these resources and makes best possible use of resources available in the country. For example, importing a highly advanced printing machine may reduce the printing time by half. The printer can then make use of remaining time in other printing jobs.
- Thus, people living in various countries can enter into foreign trade and improve their production efficiencies and processes and make maximum utilization of their resources. Moreover, excess production resulting out of improved efficiency can be exported.

4. Development of auxiliary services:

When a product/service is traded internationally then over and above the traded things various other sectors also gain benefits. Banks, insurance, warehouse, communication, ports, commissions agents, etc. all become part of foreign trade and their development takes place.

5. Maintains price stability:

- A country producing excess can export to other countries and prevent price of that product from falling below a level in local market.
- In case if the price of a product/service rises drastically, the country can import it to control its price.

6. Improves standard of living:

- International trade results in competition among countries. Each country tries to produce high quality and technologically advanced products that too at lowest possible price.
- By doing so it can compete international producers and increase its exports and earn revenues. On the other hand such approach improves the standard of living of people because they get better and better products at lower prices.

7. Exchange of culture, fashion and knowledge:

When countries involve in international trade they come in contact with each other's culture, food, fashion, and society. They share and exchange these things and values and strengthen their ties. Over a period of time brotherhood co-operation and harmony increases between them.

8. Helpful in calamities:

- International trade is very helpful in times of natural calamities such as flood, drought, earthquake, tsunami, etc.

- In such situations all countries provide help to the affected country and help it re-develop.
- For example, if agriculture fails in India due to drought, India can import agricultural products from other countries and overcome its calamity.
- Moreover, a country like India having good trade relations with foreign country easily gets several types of helps during calamities.

9. World as a market:

- Industrially developed and wealthy nations use very advanced technologies and scientific methods which results in very large scale production that too with precision and less time.
- Such countries are always in search of countries where they can sell their excess production. This gives rise to international trade.
- As a result many countries fall in the network of international trade and so world itself becomes a market.

Question 2.

Describe Import procedure.

Answer:

Import procedure:

In order to conduct import trade one needs to follow procedure framed by the Government of India. It is discussed below.

1. Obtaining import license:

Open General License (OGL):

If an importer wants to import those items/services which are listed in government list, he needs to obtain Open General License (OGL) which is quite easy.

License from trade director:

- If an importer wants to import items that are not mentioned in the government list then he needs to apply for the license to comptroller of import trade.
- The importer needs to provide various details in the application like his name, address, complete detail of goods to be imported, financial records of the importer, name of the exporter and exporting country, etc.
- If and only if the assessing officers are thoroughly satisfied with all the details, they will provide the import license to the importer.
- If the government has set some quota for importing only a specific quantity of goods than the importer is given a quota certificate. As per

the quota certificate, the importer can import only upto the maximum quantity mentioned in the certificate.

2. Obtaining foreign exchange:

- When goods are imported from a foreign country the payment has to be made in the currency from which he is importing. For this the importer needs to raise necessary foreign currency or say foreign exchange.
- The Reserve Bank of India (RBI) controls the foreign exchange in India.
- The importer has to submit an application in the prescribed form along with import license to any bank that deals with foreign exchange. The bank then forwards the application to RBI. RBI scrutinizes the application and then sanctions the release of foreign exchange.
- The importer can then obtain the sanctioned foreign exchange from the bank. The applicant needs to mention the amount he needs in American Dollar as per the prevailing currency rate.

3. Placing the indent or order:

- The order that the importer places for importing the goods is called 'indent'. He places the indent to the exporter.
- The importer first collects information of different manufacturers and exporters of the exporting country. He collects information regarding the details of goods, price and other conditions and then gives the indent to the exporter he selects. -> Indent contains details regarding quantity of goods, price, packaging, insurance, name of transporter, etc.

4. Dispatching Letter of Credit (L/C):

Generally, foreign traders are not acquainted to each other and so before the exporter exports the goods he wants to make sure he will receive his payment. For this, the importer obtains a Letter of Credit (L/C) from his bank and sends it to the exporter to assure his credit worthiness.

5. Receipts of documents:

- Once the exporter receives L/C, he prepares various shipping documents like bill of lading, invoice, the insurance policy of goods, etc., and sends it to the importer via. a foreign exchange bank. All these documents together are called 'Documentary bill. There are two types of documentary bills. They are:
 1. D/A (i.e. Documents against acceptance) bills
 2. D/P (i.e. Documents against payment) bills
- The exporter may send the type of bill as per terms decided with importer.

6. Obtaining bill of lading:

- A bill of lading is a legal document between the shipper (i.e. exporter) of the goods and the carrier i.e. the transporter. It contains details like quantity of goods, destination, etc.
- It is issued by the carrier to the exporter.
- The shipping company makes three copies of bill of lading. It keeps one copy and gives the other two to the exporter.
- The exporter then makes a mark on one copy i.e. endorses it and sends it to the importer as a part of documentary bill. The importer can obtain the goods from the carrier only if he shows the bill of lading.

7. Paying import duty or say excise:

- Goods are not allowed to bring out of port unless duty is paid on them.
- If the importer is exempted from import duty he can collect the goods without paying it.
- If the importer is exempted from import duty he need to present consular invoice and the certificate of origin of goods (from the exporter) and obtain a certificate of exemption of import duty from the excise department.
- If the importer is liable to pay full import duty then he needs to pay it to possess the goods.
- If at all the importer has to pay only partial duty i.e. lesser than actual then he needs to fill a form called 'bill of entry form'. The form contains the details of name of the ship, name of the port of the country from where goods were loaded, name of exporter, name and address of importer and complete details of the goods.
- Based on this form the excise department decides the amount of duty to be paid by the importer. Once the importer pays the duty, the excise officer endorses the 'bill of entry' and hands it to the importer.

8. Payment of dock charges:

A place where the goods are kept once they arrive is called a dock. Since goods of importer are unloaded from the ship and handled and stored by dock employees the importer needs to pay dock charge for these dock services he received. Dock charges also include charges on equipment and facilities that were used for the goods in the dock.

- Dock charge is to be paid irrespective of the mode of arrival of goods i.e. airway, waterway, roadway or railway.
- After paying the dock charges the importer gets a dock receipt.

9. Obtain possession of goods:

- After completing all the formalities the importer can then obtain possession of the goods.
- The importer needs to take the goods from the bonded warehouse where they are stored by the customs department within the specified time. If the importer does not collect the goods on time, he will have to pay demurrage along with the additional rent.

Question 3.

Explain steps of Export procedure.

Answer:

Export procedure:

- When a merchant sells the goods to someone outside his country it is called export trade or export.
- A company which specializes in the export of goods manufactured by other companies is called export house.
- Procedure of export in India is as follows.

1. Getting an order:

- The exporter receives order from importer. The exporter then obtains information related to economic capacity, credit worthiness, reliability etc. of the importer.
- Once he gets the assurance he examines the details mentioned in the export order. These details are quantity of goods ordered, price as decided earlier with importer, type of packing, expected date of delivery, details of insurance, details of transporter through which goods will be sent, amount of bill, mode of payment and terms and conditions finalized before placing the order.

2. Obtaining export license:

- The exporter then needs to obtain an export license so that he can export the goods. The exporter needs to obtain license which comes under Imports and Exports Control Act.
- An exporter can easily obtain a general license for those goods/services whose list is published by the government of India.
- Items not mentioned in the list can also be freely exported but one needs to apply for a specific license to the trade department of government.
- Along with the license form the exporter needs to provide clear identity of the exporter, detail of exporter, assurance of regular payment of income tax and other tax.

3. Manufacturing or procuring goods:

After obtaining the export license if the exporter is a manufacturer he starts

producing the goods as per the order. However, if the exporter is just a trader he starts procuring goods from the market as per the order specifications.

4. Foreign exchange activity:

- Importer's make payment to exporters in exporter's currency or in American dollars. However, the exporter does not get the money directly.
- Although many controls related to foreign exchange have been liberalized after economic corrections of 1991, still the export needs to follow some. To keep a watch on export income, it is compulsory for the exporter to apply to RBI and ask it to convert the foreign exchange it received in his local currency.
- The exporters provide complete details about how much foreign exchange he will obtain from importer.
- The exporter needs to submit a copy of this application to the bank or institution through which he will perform this financial transaction.

5. Obtaining letter of credit:

- To make sure that the importer is financially capable to make payment, the exporter demands a letter of credit from the importer before exporting the goods. The importer gets this from his bank.
- Sometimes, if the bank of exporter has its branch in importer's country then the exporter's bank may ask that branch to provide the letter of credit of the importer.

6. Obtaining shipping order:

- When an exporter instructs a shipping company to deliver goods to the importer the shipping company provides a copy called shipping order' to the exporter. To obtain a shipping order the exporter writes an application to the shipping company asking it to deliver the goods at a certain date. The application contains all the details of goods such as quantity, weight, sending date, cost, etc. based on the application the shipping company prepares a shipping order and gives it to the exporter.
- If the exporter wants to rent whole ship for sending the goods it is called 'charter'. The agreement between the shipping company and the exporter to rent the whole ship is called 'Charter party agreement'.

7. Payment of excise duty:

- Excise duty is levied on products manufactured in India.

- The exporter prepares a shipping bill that contains details such as name and address of importer, price of goods, quantity, weight, name of the port where goods will be boarded, name of ship and the shipping company, etc.
- Based on these details and inspection of goods if necessary the excise officer calculates the amount of duty.
- Once the exporter pays the excise duty he gets permission to bring the goods on the port.
- If a product comes under duty-free category then the exporter needs to fill a form containing public notification certifying that the goods are duty-free and submit it to the excise officer. The excise-officer then gives certificate to the exporter for exemption of duty.

8. Packing and marking of goods.

- The exporter needs to properly pack and mark the goods before shipping.
- The goods in long distance transit should be properly packed to prevent their damage in moist air of the sea. An exporter also needs to follow any specific packing instruction mentioned by the importer.
- Based on the size, weight and other factors the shipping company decides its shipping charge.
- The exporter also marks important details like name and address of importer and exporter, name of destination port, weight of goods, etc. on the goods.

9. Taking insurance of goods:

- To protect goods against the possible risks in the sea like cyclone, damage due to weather getting robbed by pirates, sinking of ship, etc. the goods must be insured.
- The exporter approaches an insurance company, pays the said premium and obtains a cover-note from the company. Based on the cover-note the insurance company then issues insurance policy to the exporter.

10. Obtaining carting order:

- Carting order is the final clearance given by the customs department to either load the goods or to transport the goods after import clearance.
- To obtain carting order the exporter needs to make an application to the port authority informing them the location from where the goods are to be exported. The exporter in this application mentions all the details of the shipping bill and also details of payment of excise.

- The exporter then pays port related expenses such as bringing the goods at the port, boarding them on the ship, etc. and obtains carting order.

11. Mate receipt:

- The chief officer of the ship or representative of the captain of the ship is called 'mate'. Mate checks whether the goods loaded on the ship are as per the shipping bill or not. If details and packing of goods are proper the captain or his representative issues 'mate-receipt' certifying that they accept the goods.
- If the captain finds that the goods are not packed properly and hence not suitable for transportation he makes a mark in the mate's receipt. Such receipt is called 'foul receipt' or 'dirty chit'. The exporter then settles the matter and obtains a 'clean chit' to export the goods.

12. Obtaining bill of lading:

- A bill of lading is a legal document between the shipper (i.e. exporter) of the goods and the carrier i.e. the transporter. It contains details like quantity of goods, destination, etc. It is issued by the carrier to the exporter.
- The exporter when produces mate receipt to the shipping company, the company provides him the insurance of the goods during transport through the document called 'Bill of Lading'.
- The bill of lading contains details like name of exporter, name of ship, fare, details of goods, price, weight, name of exporting port, terms and condition of export, etc.
- The shipping company makes three copies of bill of lading. It keeps one copy and gives the other two to the exporter. The exporter sends one copy to the importer to enable him obtain the goods.

13. Certificate of origin.

- A certificate obtained by exporter certifying that the products to be exported are wholly procured or produced or manufactured in India is called the certificate of origin.
- Various countries have made agreements to provide concession on import excise. An exporter must have certificate of origin in order to get concession under this agreement.
- The exporter can obtain this certificate from Trade' Association, Chamber of Commerce or Government.

14. Consular invoice:

- When goods reach to the importer, he needs to pay excise on the goods.
- To simplify the payment of excise some countries demand consular invoice.
- Consular invoice is a document certifying shipment of goods and shows details of exporter, importer, quantity of goods and their price, etc. calculating and collecting excise becomes easy on the basis of this invoice.
- The exporter can obtain consular invoice from the consular of importing country located in exporting country.

15. Sending documents:

The exporter sends 'Documentary bill containing important documents like invoice, insurance policy or cover-note, bill of lading, certificate of origin, consular invoice, bill of exchange, etc. to the importer's foreign exchange bank via. his foreign exchange bank.

16. Collection of money:

- The exporter advises his bank to collect money from the importer. The exporter then writes Bill of Exchange for the amount mentioned in the export invoice.
- This bill of exchange may be of the type:
 1. Document against acceptance i.e. D/A bills or
 2. Document against payment i.e. D/P bills.
- If the Bill of Exchange is a D/A bill, then the documents of title of goods are released to the drawee i.e. importer only when he accepts the D/A bill.
- If it is a D/P bill, the documents of title of goods are given to the drawee i.e. importer only when he makes full payment.
- The bank collects money on behalf of exporter as per the maturity date of the D/A bill. In case of D/P bill the bank sends the amount to the exporter.

Question 4.

Describe the problems of International Trade.

Answer:

Problems of International trade:

Though international trade has several advantages and high profit, it comes with some problems too. They are:

1. Problem of currency:

Different countries have different currencies. So it becomes difficult for an exporter to complete the transaction. Moreover one needs to convert foreign currency through foreign exchange banks. For this one has to pay charges. Also, one needs to have knowledge about dealing in foreign exchange.

2. Diversity of language:

- Different countries have different languages which makes communication quite difficult. For example, while dealing with China an Indian exporter needs to know basic Chinese language.
- However, since English has become an internationally accepted language it has solved this problem to a large extent. Even though language becomes a problem while dealing with backward or rigid countries.

3. Problem of distance:

International trade requires transportation over a large distance. This becomes costly, time consuming and also poses communication problems.

4. Restrictions and controls:

- Every country has its own political and economic policies. A trader needs to deal with such policies and situations of each country.
- Too much restrictions imposed by countries becomes barrier for international trade.

5. Risk:

International trade mainly occurs through sea which has several risks. Bad weather, extremely humid atmosphere, etc. may damage goods at times. Moreover, a ship may sink or pirates may hijack the ship which again results in loss of goods.

6. Difference in laws:

Different countries have different trade laws. This makes international trade difficult.

7. Lack of trader's contact:

Generally, international traders do not know each other personally nor do they come in physical contact. This may result in bad debts. Moreover, in times of disputes it becomes very difficult to solve the problems.

8. Problem of common weights and measurements:

Sometimes countries follow different weights and measurements which may result in errors of understanding and other problems. For example we measure in kilogram but other countries may measure in pounds.

Question 5.

State the difference between Internal and International Trade.

Answer:

Points of difference	Internal trade	International trade
Meaning	Trade occurring within the boundaries of a country is called internal trade. Example: trade between Gujarat and other states.	Trade occurring between two or more countries i.e. outside the border of a country is called foreign trade or international trade. Example: Trade between India and other countries.
Currency	Since a common currency exists in entire country trade becomes easier.	Currencies vary with countries which poses several problems.
Laws	Trade laws are similar in entire country.	Trade laws are different in different countries.
Problem of language	Language does not create much problem in trade.	Language becomes a barrier in trade especially while trading with backward and rigid countries.
Control of government	There are less government controls.	There are several government controls.
Proportion of risk	Risk is less.	Risk is very high.
Distance	Distance is short as trade occurs within country.	Distance is very large as trade may take place between countries situated anywhere in the world.
Insurance	Insurance of goods is not compulsory.	Insurance of goods is compulsory.

Payment of excise duty	Excise duty is less and also it is easy to pay.	Process of paying excise is complicated and also it is too high.
Market	Market is limited within the country.	One can extend market to whole world.

❖ Chapter 11 Social Responsibility of Business

1. Select the correct alternatives and write answers to the following questions :

Question 1.

As per the provision of Company's Act, 2013 it is becoming mandatory to perform social responsibility for below given company.

- (A) The company which have yearly turnover worth Rs. 5 crore
- (B) The company which have yearly turnover worth Rs. 50 crore
- (C) The company which have yearly turnover worth Rs. 500 crore
- (D) The company which have yearly turnover worth Rs. 1000 crore

Answer:

- (D) The company which have yearly turnover worth Rs. 1000 crore

Question 2

As per the provision of Company's Act, 2013 it is mandatory to make expenditure for a company as a part of its social responsibility.

- (A) Minimum 2% of its average yearly profit
- (B) Minimum 5% of its average yearly profit
- (C) Maximum 2% of its average yearly profit
- (D) Maximum 5% of its average yearly profit

Answer:

- (A) Minimum 2% of its average yearly profit

Question 3.

Select a stake-holding group which includes in external stake-holding group in a company.

- (A) Employee
- (B) Investor

- (C) Owner
 - (D) Consumer
- Answer:
- (D) Consumer

Question 4.

Social responsibility of a business means.

- (A) Responsibility of the society towards a business
- (B) Responsibility of the consumer towards the society
- (C) Responsibility of a business towards the society
- (D) Responsibility of the society towards a consumer

Answer:

- (C) Responsibility of a business towards the society

Question 5.

Towards how many stake-holding groups the social responsibility of a business is there?

- (A) Five
- (B) Two
- (C) Seven
- (D) Eight

Answer:

- (B) Two

Question 6.

Who is a king of the market in regard to the social responsibility?

- (A) Investor
- (B) Consumer
- (C) Owner
- (D) Employee

Answer:

- (B) Consumer

Question 7.

Not depicting obscenity or sexual discrimination through advertisements

- (A) Is a political responsibility
- (B) Is a religious responsibility
- (C) Is a financial responsibility
- (D) Is a social responsibility

Answer:

- (D) Is a social responsibility

Question 8.

Implementation of business ethics is

- (A) As per Companies Act**
- (B) As per Partnership Act**
- (C) Voluntarily**
- (D) As per Co-operative Society Act**

Answer:

(C) Voluntarily

Question 9.

The scripture which interprets ethical behaviour of human refers to

- (A) Sociology**
- (B) Psychology**
- (C) Political science**
- (D) Ethics**

Answer:

(D) Ethics

Question 10.

According to the Companies Act, 2013, as per which section the concept of social responsibility has been made mandatory?

- (A) 135**
- (B) 143**
- (C) 153**
- (D) 137**

Answer:

(A) 135

2. Answer the following questions in one sentence each :

Question 1.

Give the meaning of social responsibility.

Answer:

The services and contribution that a business receives from the society right from its establishment to its expansion can be considered as society's obligation to business. The responsibility of the business to perform such social duties which can return these obligations to the society is called social responsibility of the business.

Question 2.

Producing zero pollution in atmosphere called what type of responsibility?

Answer:

Preservation of air and other gases i.e. is atmosphere as a part of environmental responsibility.

Question 3.

What is a reasonable price?

Answer:

A price for a good/service that is fair for both the parties i.e. buyer and seller is called fair, reasonable price.

Question 4.

Give the meaning of ethics.

Answer:

A set of accepted principles and standards that guides how a business should behave and operate is called business ethics.

Question 5.

To preserve atmosphere called which type of responsibility?

Answer:

Environmental responsibility.

3. Answer the following question in brief :

Question 1.

‘Timely and appropriate wages becomes social responsibility of a unit’ – describe.

Answer:

- Remuneration i.e. salary/wages an employee earns reflects his standard of living.
- Based on company’s financial status it must provide a reasonable remuneration to the employees which can maintain their standard of living. For this the business over and above remuneration, need to provide incentives, bonus, etc. at pre-decided intervals.
- Moreover, on time and appropriate wages keeps the employees motivated and loyal towards the firm. They put in their best efforts to deliver the best to the unit.
- Hence, timely and appropriate wages becomes social responsibility of a unit.

Question 2.

‘Protecting the interest of consumer increase reputation of a unit’ – Explain

Answer:

- Existence of business is impossible without customers. Customers form the axis of business. Without customers a business cannot exist.
- Interest of customers lies in obtaining good quality products and their after sales service. Customers also wish that they do not get cheated through equality, weight and measurement, adulteration, etc.
- If a business satisfies these requirements and takes care of customer's interest it can gain their trust. On developing trust the customers associate themselves with the product and remain loyal. They prefer buying products/services of that brand and also publicize them among their associates. This overall increases the reputation of the business unit.

Question 3.

Which elements are included in business ethics?

Answer:

Following elements are included in business ethics:

- Commitment of higher management
- Publishing directional rules
- Establishing structure to follow business ethics
- Employees participations in decision making
- Evaluation of results

4. Answer the following questions in brief :

Question 1.

Explain in details: In which sector a business unit should have to serve regarding environment?

Answer:

Today, the world is facing severe global warming and other environmental issues. Under this situation it becomes the social responsibility of a business to follow the environmental laws and standards put by government and avoid causing loss or cause minimal loss to the environment.

With respect to environment a business needs to fulfill its social responsibility in following four sectors:

1. Land and forest preservation:

- A business unit requires land to do business. If it has to cut trees from that land to use it for business then it should plant an equal or proportionate number of trees to balance the environmental loss.
- If the unit is disposing its waste such as chemicals, polluted water, etc. in surrounding area then it should be first well treated before disposal. If the waste decreases fertility of surrounding land or pollutes water resources then society should not hesitate to boycott the business unit.

2. Preservation of water resources:

The unit should take care that while disposing pollutants it does not pollute or harm the surrounding water resources. If needs to treat the waste before disposing so that it does not harm the water resources.

3. Preservation of atmosphere:

The unit before releasing the pollutants should treat them well so that they do not harm the atmosphere. Smoke, fumes and harmful chemicals coming out of industries can deteriorate atmosphere and air quality.

4. Preventing noise pollution:

- Units should carry out its production processes in such a way that they cause minimal noise. This helps in preventing noise pollution.
- Any form of pollution can affect human health and our environment. Pollution may lead to allergies, several diseases, deafness, etc. Hence, it is the social responsibility of the business to prevent pollution and preserve environment.

Question 2.

“A business unit can increase its goodwill by performing social responsibilities.” – Explain.

Answer:

- A business cannot function without the existence of a variety of internal and external stake holding groups. These groups oblige the business by performing several activities directly or indirectly.
- When a business unit fulfills its social responsibilities it is thanking these stake holding groups and inturn getting several indirect benefits. For example, by paying taxes and following laws regularly it is proving its loyalty towards the government. By paying good wages, bonus, incentives, etc. it is keeping its workforce motivated and loyal for the work.
- By providing good quality products and services it gains trust and popularity among customers. By making regular payments to suppliers and keeping them well informed about its business needs it is making its rapport strong with suppliers.
- Thus, overall the business by fulfilling its social responsibilities can build a strong reputation and trustworthy brand in the market.

Question 3.

“Social responsibility towards employees eliminates displeasure from the unit.” How?

Answer:

- Employees form the base of any business unit. Without their whole-hearted contribution a business unit cannot work with its full efficiency.
- Whole hearted contribution of employees can only be obtained if a business unit fulfill its responsibilities towards employees. If the unit does not pay enough salaries, incentives, bonus, etc. the employees will remain demotivated. Also, their standard of living will not be maintained which will then affect their work efficiency and morale.
- Lack of basic facilities like cleanliness, transportation, sanitation, air-conditioning, ventilation, etc. also creates displeasure in work.
- Hence, to maintain the efficiency of employees and keep them motivated the business unit needs to provide them pleasure of work which can be achieved by fulfilling social responsibilities.

Question 4.

Implementation of business ethics is not possible by law.

Answer:

Business ethics refer to a set of accepted principles and standards that guides how a business should behave and operate. On the other hand laws are rules and regulations framed by the government to maintain and control the society. Business ethics depends on morale and belief of a person. There are no definite rules to follow them. For example, one business unit may think of using recycled paper to preserve nature whereas the other unit may think of using fresh paper in order to maintain prestige among its clients. Both units are correct on their own. One cannot force the second unit owner to use recycled paper through law because that unit is not doing anything illegal. Business ethics are purely based on a person's approach towards the various sections of society and his personal belief and principles. Law has nothing to do with business ethics.

Laws come in picture when a person or unit fails to follow the rules and regulations set by the government. As long as someone is following the laws one cannot enforce him to be ethical. Hence, implementation of business ethics is not possible by law.

Question 5.

Explain the difference between Ethics and law.

Answer:

Ethics	Law
--------	-----

1. Ethics are rules stating how a business should behave.	1. Laws are rules developed by the government and to be followed mandatorily.
2. Ethics comes from people's awareness of what is right or wrong.	2. Laws are enforced by the government and so business needs to learn from laws what is right or wrong.
3. Ethics are moral codes which everyone must follow to maintain a healthy society.	3. Laws are rules that everyone needs to follow for controlling the wellbeing of the society.
4. A person cannot be punished if he violates the ethics.	4. A person is punished if he violates the laws.

5. Answer the following questions in detail :

Question 1.

Describe social responsibility of a business towards owner.

Answer:

Social responsibility of a business towards customers:

Existence of business is impossible without customers form the axis of business. They are called the king of market.

Business needs to fulfill following responsibilities towards its customers:

1. Selling goods and services properly:

It is the social responsibility of a business to maintain the said quality and quantity of goods and services it provides to customers. It should see that it provides proper packing and delivery, does not tamper weight or does not provide adulterated goods/services.

2. Reasonable profit:

In today's competitive environment, the business unit should focus on earning a reasonable profit rather than overcharging and exDloiting the customers. A business should satisfy its customess by maintaining reasonable margins.

3. Maintaining continuity of supply in the market:

A business unit should supply its products on a regular basis in the market. It should not hoard and create artificial scarcity.

4. Should not issue misleading advertisements:

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

- Some units exaggerate their products and services through advertisements. When in reality the products might not be that worthy.
- Customers get lured by these misleading advertisements. When they buy they realize they have been cheated. A business unit should not issue such advertisements to mislead and cheat its customers.
- A business should also not release obscene advertisements.

5. After sales service:

- The real test of a product or service starts not when it is produced and sold but after it is sold.
- It is the social responsibility of the business to provide proper after sales service to the customers. Business unit must make proper provision for grievance redressal of customer for faulty or damaged products. It should provide facility for repair, return and refund.

Question 2.

Describe social responsibility of a business towards society.

Answer:

Social responsibility of business towards society:

As per management consultant Mr. Peter F. Drucker, a business should be managed in such a way that balance can be maintained between interest of business units and various communities/sections of the society. The business unit must maintain economic and social interests of the society.

It should fulfill the following responsibilities towards society:

1. Preserve environment:

The business unit should conduct production and other processes in such a manner that it causes least pollution and hence environment remains preserved.

2. Contribution in national development works:

- When every business unit focuses on growth and development it will lead to national development and prosperity.
- The unit needs to make best use of its financial and other resources to enhance its productivity and hence support national development.

3. Give importance to research:

A company needs to give importance to research. It needs to invest a part of its profit in research and development. By doing so it will be able to improve its product quality, improve its business processes and productivity. Through research company will be then able to roll out better products at fair prices and give their benefit to a vast section of society. This will also help the company to maintain its position in strong competition.

4. Remain helpful during natural calamities:

In times of calamities the business units must help government to raise food-packets, medical facilities etc. for the victims.

5. Conserve social and cultural heritage of country:

Business units should neither produce goods/services nor follow policies and practices that harms the social and cultural legacy of the nation. It should not use such advertisements which harms this legacy. For example, company's advertisements should not portray vulgarity, sexual discrimination, etc.

6. Participate in social encouragement:

Business units should try to create equality in society. It should try to provide equal opportunity to all the sections of society. It should also focus on raising opportunities for backward and downtrodden sections of society.

7. Create employment opportunities:

A unit should grow and raise employment. By doing so, it will help the country to achieve national equality and increase national growth ratio.

8. Maintain human rights:

Business unit should follow national and constitutional rights so as to maintain human rights in the society.

Question 3.

Explain the Internal social Responsibilities of a business in detail.

Answer:

Social responsibility of a business towards its internal stake-holding groups can be classified in three parts.

They are:

A. Social responsibility of business towards owners:

Here, owners refer to the share-holders which are considered to be the true owners of a company. When business units grew in size, they started obtaining capital from share-holders which were considered true owners separate from management. So, from the view point of a company, it has certain social responsibilities towards its owners. They are:

1. Allow participation in decision making:

Share-holders are the owners of the company. So, it is important to maintain their confidence and trust in the company. It is social responsibility of the company to allow the owners to participate in decision making process.

2. Provide capital security and growth:

Company's managers need to put their personal interest aside and use their skills and experience for providing security to the capital that the shareholders have invested and give them good returns through company's growth.

3. Protecting interests of the owners:

The company should focus on providing safety and growth to the capital invested by owners i.e. share-holders. It should fulfill its responsibility of providing long-term growth to the company and maintain owners' interest in the company.

4. Priority in development of company:

When company plans to expand/develop itself and is in need of capital then it should first give the priority to the existing owners and offer them rights share.

B. Social responsibility of a business towards investors.

When a company needs additional capital it raises it from investors. These investors could be banks, preference or debenture share-holders, etc. social responsibilities towards these investors are as follows:

1. Timely payment of good returns:

Investors invest with an expectation of high returns at regular interval or a present time. Thus it is the social responsibility of the business unit to pay good returns to investors regularly.

2. Provide necessary information:

It is the responsibility of the business unit to inform its current position and future plans to the investors.'

3. Provide growth to the invested value:

Better the financial results of the unit better will be the market value of the funds invested in the company. So, a unit should take such decisions which gives growth to the investment of investors.

4. Security of money:

Investors invest their money in the business unit believing that the company will work efficiently and deliver good returns. It is the social responsibility of the business to make proper use of investor's money so that it remains safe and grows. This will also help company to borrow more money from investors in future.

5. Welcome suggestions:

Generally, the investors who invest their money are aware of the market trends. So, the business units should welcome the suggestions of investors and try and use them for betterment of the company.

C. Social responsibility of business towards employees.

Employees form the base of any business unit. Without their whole hearted contribution a business unit cannot work with its full efficiency. Thus, it is the social responsibility of a business unit to take proper care of its employees. This includes:

1. Maintaining standard of living :

Remuneration i.e. salary/wages an employee earns reflects his standard of living. -> Based on company's financial status it must provide a reasonable remuneration to the employees which can maintain their standard of living. For this the business over and above remuneration, need to provide incentives, bonus, etc. at pre-decided intervals.

2. Provide proper work atmosphere and facilities:

- The business unit must provide positive work atmosphere that encourages growth of peer relationship and strong bonding towards company.
- Based on unit's size it can provide canteen, transportation, clean and well ventilated environment, etc. to the employees.
- If possible a business unit should provide air-conditioning and separate arrangements for female employees.

3. Provide social security:

In addition to timely and reasonable salary, employees should be provided facilities like provident fund, pension, sick and casual leaves, medical and life insurance, etc.

4. Give recognition to employees (labour) union:

Employees form employee (labour) union to present their problems and demands in an organized way to the management. The management must provide recognition to such union. It should listen to union's reasonable demands and fulfill them for maintaining motivation and moral of the employees.

5. Maintaining a compromising attitude by top management:

- Top management should have a flexible and compromising attitude for the betterment of the business unit.

- It should keep in mind that employees are an asset and they will work efficiently and remain motivated only if their reasonable demands are fulfilled and their genuine complains are solved.
- By maintaining a compromising attitude the business can let go its few incorrect or egoistic decisions or policies and compromise them for employees and business growth.
- A warm and cordial relation should be maintained with employees so that family like healthy atmosphere can be maintained in the company.

6. Motivation:

- A business unit must create several opportunities through which it can constantly motivate its employees.
- A unit can arrange competitions for best performance, arrange tours or dinners with employees, award them for their specific contribution in enhancing business, etc. The business unit also encourages its employees through increments, promotions, rewards, cash vouchers, travel vouchers, etc.

7. Other responsibilities:

- Business unit should involve employees in decision making, inform them about company's important decisions and plans, terms and conditions of work before appointing them, etc.
- The unit should also care for education and health of employee's family, etc.

Question 4.

Describe the External Social responsibility of a business in detail.

Answer:

Social responsibility of a business towards its external stake-holding groups can be classified in four types. They are:

(A) Social responsibility of a business towards customers:

Existence of business is impossible without customers form the axis of business. They are called the king of market.

Business needs to fulfill following responsibilities towards its customers:

1. Selling goods and services properly:

It is the social responsibility of a business to maintain the said quality and quantity of goods and services it provides to customers. It should see that it provides proper packing and delivery, does not tamper weight or does not provide adulterated goods/services.

2. Reasonable profit:

In today's competitive environment, the business unit should focus on

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)

earning a reasonable profit rather than overcharging and exploiting the customers. A business should satisfy its customers by maintaining reasonable margins.

3. Maintaining continuity of supply in the market:

A business unit should supply its products on a regular basis in the market. It should not hoard and create artificial scarcity.

4. Should not issue misleading advertisements:

- Some units exaggerate their products and services through advertisements. When / in reality the products might not be that worthy.
- Customers get lured by these misleading advertisements. When they buy they realize they have been cheated. A business unit should not issue such advertisements to mislead and cheat its customers.
- A business should also not release obscene advertisements.

5. After sales service:

- The real test of a product or service starts not when it is produced and sold but after it is sold.
- It is the social responsibility of the business to provide proper after sales service to the customers. Business unit must make proper provision for grievance redressal of customer for faulty or damaged products. It should provide facility for repair, return and refund.
- It is a customer's social as well as legal right to obtain solutions for his products and services.

(B) Social responsibility of a business towards suppliers:

Suppliers supply raw materials, finished products and/or services to business on a constant and consistent basis. The business then sells them in market and earns profit.

Hence, a businessman should fulfill the following social responsibilities towards its suppliers.

1. Inform the suppliers well in advance:

A business unit should inform its suppliers well in advance about the products/ services it will require. Doing so will help the business to obtain a constant supply of material which can then be used to process and put products in market on time and in continuity. This also improves credit of business in the market in the sense that it supplies products to customers whenever they need.

2. Clarify the quality and quantity specifications:

The unit should clearly mention the quality and quantity requirements in advance to avoid any misunderstandings later. This will save time and effort of supplier as well as business and also not affect the production cycle.

3. On time payment:

The business unit should make timely payment to its suppliers as per mutually agreed terms and conditions.

(C) Social responsibility of business towards government:

- **Obey laws:** It is the social as well as legal responsibility of the business to obey the laws established by government.
- **Pay taxes honestly:** The business unit should pay all its taxes honestly and on time.
- **Participate in government programmes:** Government arranges various programmes for the welfare of the nation. A business unit should involve in such programmes to support the government's vision. For example, business unit should participate and support programmes like Swachh Bharat Abhiyan, Make in India, etc. to strengthen our nation and enhance its growth.
- **Participate in the implementation of industrial policy:** Government establishes and modifies its industrial policies as per the need of the , hour. It is the social responsibility of the business unit to participate in successful implementation of such policies.

(D) Social responsibility of business towards society:

As per management consultant Mr. Peter F. Drucker, a business should be managed in such a way that balance can be maintained between interest of business units and various communities/sections of the society. The business unit must maintain economic and social interests of the society.

It should fulfill the following responsibilities towards society:

1. Preserve environment:

The business unit should conduct production and other processes in such a manner that it causes least pollution and hence environment remains preserved.

2. Contribution in national development works:

- **When every business unit focuses on growth and development it will lead to national development and prosperity.**

- The unit needs to make best use of its financial and other resources to enhance its productivity and hence support national development.

3. Give importance to research:

A company needs to give importance to research. It needs to invest a part of its profit in research and development. By doing so it will be able to improve its product quality, improve its business processes and productivity. Through research company will be then able to roll out better products at fair prices and give their benefit to a vast section of society. This will also help the company to maintain its position in strong' competition.

4. Remain helpful during natural calamities:

In times of calamities the business units must help government to raise food-packets, medical facilities etc. for the victims.

5. Conserve social and cultural heritage of country:

Business units should neither produce goods/services nor follow policies and practices that harms the social and cultural legacy of the nation. It should not use such advertisements which harms this legacy. For example, company's advertisements should not portray vulgarity, sexual discrimination, etc.

6. Participate in social encouragement:

Business units should try to create equality in society. It should try to provide equal opportunity to all the sections of society. It should also focus on raising opportunities for backward and downtrodden sections of society.

7. Create employment opportunities:

A unit should grow and raise employment. By doing so, it will help the country to achieve national equality and increase national growth ratio.

8. Maintain human rights:

Business unit should follow national and constitutional rights so as to maintain human rights in the society.



8780038581

9099818013

FOCUS ACADEMY AHMEDABAD

TUITION CLASSES FOR PRIMARY, 9 TO 12 ENGLISH & GUJARATI MEDIUM

8780038581 9099818013

(FOR GETTING FREE PDF OF NOTES OF ANY CHAPTER ANY SUBJECT MSG US OR CALL US ON ABOVE GIVEN NUMBER)