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Code Number 66/2



INDIAN SCHOOL MUSCAT
FIRST PRELIMINARY EXAMINATION
ENTREPRENEURSHIP

CLASS: XII
14.12.2017

Sub. Code: 066
MARKING SCHEME

Time Allotted: 3 Hrs
Max. Marks: 70

- 1 Mr. Hemant is involved in production and sale of 'Masala Mix Powder' within his own state. Now he wants to expand his business by introducing his product in the neighboring states also. Name the necessary tax registration required for this interstate transfer of goods. 1

Central Sales Tax registration

- 2 What do you mean by order lead time? 1

It is an average time that elapses between placing an order and receiving the goods.

- 3 'Bikaner Wallah' is selling fast food to the customers. Write the name of channel of distribution used by the company. 1

Direct (Zero channel) distribution channels is used by Bikaner because this is the simplest, shortest and the most economical channel of distribution,, in which producers sell their product directly to the consumers.

- 4 What is a Proforma income statement? 1

A proforma income statement gives the projected net profit of the business based on projected revenue and projected expenses

- 5 Lalita wants to buy a house. The seller wants Rs.20 lakhs, but Lalita is willing to pay only Rs.17 lakhs. Which format of negotiation method would be appropriate for Lalita? 1

Distributive method of negotiation will be suitable for Lalita where one party's benefit is the other party's loss.

- 6 A factory is engaged in manufacturing coolers. The following information is available to you: 1+1

Sales	Rs.2,50,000
Direct Labour Cost (for 100 units)	Rs.25,000
Direct material cost (for 100 units)	Rs.62,500
Direct Expenses (for 100 Units)	Rs.12,500

Fixed Cost

Rs.75,000

Calculate (i) Variable cost per unit (ii) Quantity to be sold at Break Even Point.

Variable cost per unit = Variable cost/number of units produced Rs.1000

Break Even = Fixed cost/Gross profit = 50 units.

- 7 Aldi Products Ltd. has encouraged the consumers through its Aldi's Face Book and Twitter pages. These social media pages provided a platform through which Aldi can interact with consumers. It accesses their opinion about their brands and created Aldi advocates who recommended Aldi to others. Explain the method of promotion strategy Ali product Company has used in this case. 2

Ans. Above the line promotions uses mass media methods. This type of promotion focuses on advertising to a large audience. It includes conventional media like print, online, television and cinema advertising.

- 8 Give the meaning of 'Routing' and 'scheduling' as elements of operational plan. 1+1

Routing is a process concerned with determining exact route or path a product/service has to follow right from raw material till its transformation into finished product.

Scheduling means fixation of time, date, day when each operation is to be commenced and completed

- 9 With its help the consumers are able to identify the products of a firm and are also able to differentiate them from those of the competitors. Identify the concept and state its components. a) 1+1
Brand. (b) It has the following components- brand name; brand mark; trade mark.

- 10 'Apart from investing funds, they also provide proactive advice'. Who are 'they' in the above sentence? In which business do 'they' invest funds? 1+1

They are Angel Investors. Angel investors generally provide capital for a business startup and early stage companies having a high risk, high return matrix

- 11 Pankaj an entrepreneur started a new website SAVO ELECTRICITY to sell LED bulbs. In the first year he sold 2400 bulbs at the rate of Rs.100 each. His cost of placing an order and receiving the bulbs is Rs.500 per order. If the Economic Order Quantity is 200 bulbs, find out the inventory holding cost per year. 3

EOQ = root of $2PD/C$

$$200 = \sqrt{2 \times 2400 \times 500 / C} \quad 40000 = 2400000 / C$$

$$C = 2400000 / 40000 = \text{Rs.60}$$

- 12 What do you mean by Capital Market? Why is capital market important for entrepreneurs? 1+2

Capital Market means an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the investors to the entrepreneur.

(i) Mobilize the financial resources on a nation-wide scale.

(ii) **Secure the required foreign capital and know how to promote economic growth at faster rate.**

(iii) **Ensure the most effective allocation of the mobilized financial resources.**

13 What is manpower planning? Why is it necessary for every business unit? 1+2

Manpower planning is a process by which an entrepreneur ensures that he/she has the right number of people and right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.

It is necessary for every business units or it helps to access:

(i) **What kind of people is required?**

(ii) **How many people are required?**

(iii) **How will they be selected?**

14 What are the rules for goal setting? 1+1+1

(i) **Business goals needs to be relevant**

(ii) **Business goals needs to be actionable**

(iii) **Business goals needs to be achievable stretches.**

15 Naveen after completing his M.Tech. in Nano technology wanted to start his own business. He thought to manufacture sophisticated instruments used in surgery. He knew that his knowledge of Nano technology will help the surgeons to operate upon the patients with accuracy, with minimum blood loss and quick post operation recovery. Such types of instruments are used in advanced countries only and there was a risk in marketing the same. The cost price of machinery required, for manufacturing such instruments was very high and more research was required in this field of Nano technology. For seed funding, Naveen approached, 'Himani Capital Ltd.' Who finance such types of projects. 'Himani Capitals Ltd' after analysing the proposal agreed to provide seed capital to Naveen. Explain the different stages of 'Early stage financing' to seek venture capital finance after the one discussed above. 3

(a) Pre-start up and start up finance: A business plan is presented by the entrepreneur to the VC firm. A management team is being formed to run the venture. If the company has a board of directors, a person from the VC firms will take seats at the board of directors. The VC firm monitors the feasibility of the product and the capability of the management-team from the board of directors.

(b) Second round financing: This is the first encounter with the rest of the market. The entrepreneur, at this stage, needs assistance from the Venture Capitalist for expansion, modernization, diversification so that the economies of scale and stability could be attained.

16 'Pure Neer India Ltd' is the manufacturers of water purifiers. The company has developed a new water purifier that not only converts the hard water into soft water but also kills the bacteria and other harmful microorganisms present in it. The company has named this water purifier as 'NirmalNeer' and for its marketing, appointed salesmen throughout the country. The company also trained the salesmen to provide information about the usefulness of the 'NirmalNeer' water 2+1

purifiers to the customers and motivate them to buy the same.

(A) Name and explain the type of promotion strategy adopted by the company (B) Also identify the channel of distribution used by the company.

(a) Personal selling. It means selling products personally. It involves oral presentation of message in the form of conversation with one or more prospective customers with the purpose of making sales.

(b) Direct channel/zero level of distribution

17 State the advantages of 'Good Negotiations'.

1+1+
1

1. Helps in building better relationships

2. Delivers lasting, quality solutions- rather than poor short-term solutions that do not satisfy the needs of either party

3. Helps in avoiding future problems and conflicts

18 Calculate Return on Investment and Return on Equity on the basis of given information.

2+2

You have newly started a restaurant business. You spend Rs.10,00,000 to open the restaurant. You have invested Rs.4,00,000 of your own money and borrowed a loan for Rs.6,00,000. Interest rate per annum is 10%. Monthly sales revenue is Rs.6,00,000 and cost of goods sold is Rs.3,00,000. Fixed expenses per month Rs.2,00,000 (salary 1,50,000, rent and utility Rs.50,000), depreciation Rs.10,000 and tax @ 20%.

ROI = Net profit/Total capital investedx100 = 10%

Return on Equity = Net profit/Equity x100 = 16.8%

19 Nitin, an entrepreneur, is living in a beautiful village of Kerala. This village was famous for its natural beauty but very few people know about it. Due to this entrepreneurial inclination he always tried to find out opportunities. People of the village are very poor as they are mostly dependent on fishing. Nitin thought of starting a 'Holiday Resort' with cultural Centre, restaurant and other facilities in the village. All the villagers agreed and supported Nitin for this project. They agree to co-operate to make this project a success. Nitin needed capital for this project.

4

(i) Name the specialized financial institution which Nitin should approach to meet his requirements.

(ii) When this institution was incorporated as a public limited company and became operational?

(iii) What is the main function of this institution?

(iv) State any one value which Nitin wants to communicate to the society.

Ans. Tourism Finance Corporation of India

27 January 1989 and became operation with effect from 1st February 1989.

- **TFCI provides financial assistance to entrepreneur for setting up or the development of tourism related projects such as hotels, restaurants, holiday resorts, ,amusement parks etc.**
- **Preserve the natural resources.**

20 Explain the ways in which an organization can expand. 2+2

- (i) **Internal Expansion:** results from the gradual increase in the activities of the concern. The concern may expand its present production capacity by adding more machines or by replacing old machines with new machines with higher productive capacity. Internal expansion may be financed by the issue of more share capital or by issuing long term securities.
- (ii) **External expansion:** It refers to business combinations where two or more concerns combine and expand their business activities. In the process of combination, two or more units engage in similar business or related process or stages. The main forms are Franchising, Mergers and acquisitions.

21 Lalit introduced a new mobile phone in the market with some innovative features which were liked by the customers. He fixed a very high price for this. Name and explain the method of pricing Lalit had followed. 4

Skimming Price Method. It is the method of pricing in which the product is introduced in the market with a very high price. High price is kept for recovering the cost of production quickly. Such entrepreneurs normally bring something new in the market with more utility value. Product is introduced with a lot of expenditure on advertisement. High price tends to bring back revenue quickly, high class people are the target of such method of pricing

22 Unicon Ltd. and Nahata Communications provide cable TV network in adjacent areas of Delhi. After sometime the market was slowly taken over by big cable companies. Both Unicon Ltd and Nahata communications understood the competition and decided to come together so as to increase their market shares. This strategy helped them in cost saving through economies of scale as they could cover more areas now. It led to the overall growth of both the companies. 1+5

- (a) Identify the enterprise growth strategy adopted by the two,
- (b) State the benefits that the companies have after this arrangement.

(a) **A market extension merger takes place between the two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.**

(b) **Benefits:**

- (i) **Synergy**
- (ii) **Acquiring new technology**
- (iii) **Improved profitability**
- (iv) **Acquiring a competence**
- (v) **Entry into new markets**
- (vi) **Access to funds**
- (vii) **Tax benefits.**

23 Mahesh a young man of 20 years. He has completed a tailoring course from an industrial training institute. He wants to start big size tailoring shop in a modern locality where young men and women working in various multinational companies live. He went to one of his friends who had completed a diploma course in textile designing to discuss about the opening of the tailoring shop. His friend advised him to prepare a written document describing formally all the relevant external 1+5

and internal elements involved in starting a new venture. It will not only help in understanding the feasibility and viability of the proposed venture but also facilitate in assessing and making provisions for the bottlenecks in the progress and implementation of the idea. Identify the concept and state any five points of importance of the concept discussed by Mahesh with his friend.

Ans. Concept discussed by Mahesh with his friend is business plan.

- (i) The business plan helps in determining the viability of the venture in the designated market**
- (ii) It guides the entrepreneur in planning his activities such as identifying the resources required, obtaining licenses, meeting the legal requirements as desired by the government.**
- (iii) It provides room for self-assessment and self evaluation by the entrepreneur and to plan ways to avoid obstacles.**
- (iv) It helps to identify obstacles which cannot be avoided.**
- (v) It helps in satisfying the concerns, queries, and issues of each group of people interested in the venture.**

24 Stock exchange performs a number of functions in respect of marketability of different types of securities for investors and borrowing companies. Explain the important functions of stock exchange. 6

- (i) Continuous and ready market for securities**
- (ii) Facilitates evaluation of securities**
- (iii) Provides safety and security in dealings**
- (iv) Regulates company management**
- (v) Serves as economic barometer**
- (vi) Facilitates bank lending. (Explain)**