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Code Number



**INDIAN SCHOOL MUSCAT
SECOND TERM EXAMINATION
SUBJECT : BUSINESS STUDIES**

CLASS: XI
29.11.2017

Sub. Code: 054/2

Time Allotted: 3 Hrs
Max. Marks: 90

Q. No. MARKING SCHEME marks

1 VIRUS. 1

2	Social responsibility	Legal responsibility	1
	Social responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of the objectives and values of our society.	Legal responsibility may be fulfilled by mere compliance with the law.	

3 The Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.” 1

4 Improvement of performance through a MoU (Memorandum of Understanding) system by which managements are to be granted greater autonomy but held accountable for specified results. 1

5 Business is an economic activity involving the production and sale of goods and services undertaken with the motive of earning profit. 1

6 The term ‘business risks’ refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. 1

7 Life Insurance. 1

8 Equity share. 1

9 95% 1

10 Benefits of joint venture: 3
 (i) Increased resources and capacity
 (ii) Access to new markets and distribution networks
 (iii) Access to technology
 (iv) Innovation
 (v) Low cost of production

11 (i) Utmost good faith: A contract of insurance is a contract of uberrimae fidei i.e. a contract found on utmost good faith. Both the insurer and the insured display good faith towards each other in regard to the contract. 3

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

(iii) Indemnity: According to it, the insurer undertakes to put the insured, in the event of loss, in the same position that he occupied immediately before the happening of the event insured against.

(iv) Proximate cause: When the loss is the result of two or more causes, the proximate cause means the direct, the most dominant and most effective cause of which the loss is a natural consequence.

(v) Subrogation: It refers to the right of the insurer to stand in the place of the insured, after settlement of a claim, as far as the right of the insured in respect of recovery from an alternative source is involved.

(vi) Contribution: As per this principle it is the right of an insurer who has paid claim under an insurance, to call upon other liable insurers to contribute for the loss payment. Mitigation: This principles states that it is the duty of the insured to take reasonable steps to minimise the loss or damage to the insured property. (any three)

12 Business ethics refers to personal conduct and moral duty of business houses towards different sections of the society. Companies and business people who wish to thrive in the long-term must adopt sound ethical decision making practices. Such companies are much likely to enjoy ultimate success than those whose actions are merely motivated by short-term profits. Doing the right thing in right way leads to earning profits in the long run. 3

13

Shares	Debentures
1. Share are part of owner's funds	Debentures are part of debt funds
2. Dividend is the return on shares	Interest is the return on debentures
3. Share holders are the owners of the company	Debenture holders are the creditors of the company.

3

14 (i) Long-term sources of finance means those sources which provide finance to business firms for a period exceeding five years. 3

(ii) A form of internal finance which Amar could have used to buy the tractor is Retained Earnings. These earnings are a part of trading profits which are not withdrawn by the proprietor, but are reinvested by them in the business.

15 Global Depository Receipts (GDRs) 4

GDR is a negotiable instrument and can be traded freely like any other Security. In the Indian context GDR is an instrument issued abroad by an Indian company to raise funds in some foreign

currency and is listed and traded on a foreign Stock exchange. In short, GDRs are dollar-denominated instruments usually, representing a certain number of equity shares denoted in rupees.

American Depository Receipts (ADRs).

The depository receipts issued by a company in the USA are known as American Depository Receipts. ADRs are bought and sold in American markets like regular stocks. It is similar to a GDR except that it can be issued only to American citizens and can be listed and traded on a stock exchange of USA.

16 Social responsibility of business towards different interest groups: 4

(i) Responsibility towards the shareholders or owners: A business enterprise has the responsibility to provide a fair return to the shareholders or owners on their capital investment and to ensure the safety of such investment. The corporate enterprise on a company form of organisation must also provide the shareholders with regular, accurate and full information about its working as well as schemes of future growth.

(ii) Responsibility towards the workers: Management of an enterprise is also responsible for providing opportunities to the workers for meaningful work. It should try to create the right kind of working conditions so that it can win the cooperation of workers. The enterprise must respect the democratic rights of the workers to form unions. The worker must also be ensured of a fair wage and a fair deal from the management.

(iii) Responsibility towards the consumers: Supply of right quality and quantity of goods and services to consumers at reasonable prices constitutes the responsibility of an enterprise toward its customers. The enterprise must take proper precaution against adulteration, poor quality, lack of desired service and courtesy to customers, misleading and dishonest advertising, and so on. They must also have the right of information about the product, the company and other matters having a bearing on their purchasing decision.

(iv) Responsibility towards the government and community: An enterprise must respect the laws of the country and pay taxes regularly and honestly. It must behave as a good citizen and act according to the well accepted values of the society. It must protect the natural environment and should avoid bad, effluent, smoky chimneys, ugly buildings dirty working conditions.

17 National Small Industries Corporation (NSIC) 4

This was set up in 1955 with a view to promote, aid and foster the growth of small business units in the country.

This focuses on the commercial aspects of these functions.

- (i) Supply indigenous and imported machines on easy hire-purchase terms.
- (ii) Procure, supply and distribute indigenous and imported raw materials.
- (iii) Export the products of small business units and develop export-worthiness.
- (iv) Mentoring and advisory services.
- (v) Serve as technology business incubators.
- (vi) Creating awareness on technological up gradation.
- (vii) Developing software technology parks and technology transfer centers.

18 Auxiliaries to business activities: 4

Activities which are meant for assisting trade are known as auxiliaries to trade.

These activities are generally, referred to as services because these are in the nature of facilitating the activities relating to industry and trade.

Transport, banking, insurance, warehousing, and advertising are regarded as auxiliaries to trade, i.e., activities playing a supportive role.

These activities help in removing various hindrances which arise in connection with the production and distribution of goods facilitates movement of goods from one place to another.

Banking provides financial assistance to the trader.

Insurance covers various kinds of business risks.

Warehousing creates time utility with storage facility.

Advertising provides information.

19 Arguments in favour of social responsibility:

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(i) Justification for existence and growth: Business exists for providing goods and services to satisfy human needs. Though, profit motive is an important justification for undertaking business activity, it should be looked upon as an outcome of service to the people.

(ii) Long-term interest of the firm: A firm and its image stands to gain maximum profits in the long run when it has its highest goal as 'service to society'.

(iii) Avoidance of government regulation: From the point of view of a business, government regulations are undesirable because they limit freedom. Therefore, it is believed that businessmen can avoid the problem of government regulations by voluntarily assuming social responsibilities, which helps to reduce the need for new laws.

(iv) Maintenance of society: The argument here is that laws cannot be passed for all possible circumstances. People who feel that they are not getting their due from the business may resort to anti-social activities, not necessarily governed by law.

(v) Availability of resources with business: This argument holds that business institutions have valuable financial and human resources which can be effectively used for solving problems.

(vi) Converting problems into opportunities: Related with the preceding argument is the argument that business with its glorious history of converting risky situations into profitable deals, can not only solve social problems but it can also make them effectively useful by accepting the challenge.

(vii) Better environment for doing business: If business is to operate in a society which is full of diverse and complicated problems, it may have little chance of success.

(viii) Holding business responsible for social problems: It is argued that some of the social problems have either been created or perpetuated by business enterprises themselves. Environmental pollution, unsafe workplaces, corruption in public institutions, and discriminatory practices in employment are some of these problems. (any five)

- 20 Characteristics of cottage industries. 5
- (i) These industries are organised by individuals, with private resources;
 - (ii) Normally use family labour and locally available talent;
 - (iii) The equipment used is simple;
 - (iv) Capital investment is small;
 - (v) Produce simple products, normally in their own premises;
 - (vi) Production of goods using indigenous technology. (any five)
- 21 Role of Small Business in India. 5
- (i) Small industries in India account for 95 per cent of the industrial units in the country. They contribute almost 40 per cent of the gross industrial value added and 45 per cent of the total exports (direct and indirect exports) from India.
 - (ii) Small industries are the second largest employers of human resources, after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries.
 - (iii) Small industries in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods etc.
 - (iv) The contribution of small industries to the balanced regional development of our country is noteworthy. Small industries which produce simple products using simple technologies
 - (v) Small industries provide ample opportunity for entrepreneurship.
 - (vi) Small industries also enjoy the advantage of low cost of production. Locally available resources are less expensive.
 - (vii) Due to the small size of the organisations, quick and timely decisions can be taken.
 - (viii) Small industries are best suited for customised production. i.e. designing the product as per the tastes/preferences/needs of individual customers.
 - (ix) Last but not the least, small industries have inherent strength of adaptability and a personal touch and therefore maintain good personal relations with both customers and employees.
(any five)
- 22 The merits of public deposits are: 5
- (i) The procedure of obtaining deposits is simple and does not contain restrictive conditions as are generally there in a loan agreement;
 - (ii) Cost of public deposits is generally lower than the cost of borrowings from banks and

- financial institutions;
- (iii) Public deposits do not usually create any charge on the assets of the company. The assets can be used as security for raising loans from other sources;
- (iv) As the depositors do not have voting rights, the control of the company is not diluted.

Limitations

The major limitation of public deposits are as follows:

- (i) New companies generally find it difficult to raise funds through public deposits;
- (ii) It is an unreliable source of finance as the public may not respond when the company needs money;
- (iii) Collection of public deposits may prove difficult, particularly when the size of deposits required is large. (any 3+2)

23 Business ethics”

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Business ethics refer to the socially determined moral principles which should govern business activities.

Elements:

(i) Top management commitment: Top management has a crucial role in guiding the entire organisation towards ethically upright behaviour. They must give continuous leadership for developing and upholding the values of the organisation.

(ii) Publication of a ‘Code’: Enterprises with effective ethics programmes do define the principles of conduct for the whole organisation in the form of written documents which is referred to as the “code”. This generally covers areas such as fundamental honesty and adherence to laws; product safety and quality; health and safety in the workplace etc.

(iii) Establishment of compliance mechanisms: In order to ensure that actual decisions and actions comply with the firm’s ethical standards, suitable mechanisms should be established.

(iv) Involving employees at all levels: It is the employees at different levels who implement ethics policies to make ethical business a reality. Therefore, their involvement in ethics programmes becomes a must.

(v) Measuring results: Although it is difficult to accurately measure the end results of ethics programmes, the firms can certainly audit to monitor compliance with ethical standards. The top management team and other employees should then discuss the results for further course of action.

24 Documents :

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(i) The Memorandum of Association duly stamped, signed and witnessed. In case of a public company, at least seven members must sign it.

(ii) The Articles of Association duly stamped and witnessed as in case of the Memorandum. However, as stated earlier, a public company may adopt Table A, which is a model set of Articles, given in the Companies Act.

(iii) Written consent of the proposed directors to act as directors and an undertaking to purchase qualification shares.

The agreement, if any, with the proposed Managing Director, Manager or whole-time director.

(iv) A copy of the Registrar's letter approving the name of the company with. This must be signed by an advocate of a High court or Supreme Court or a signatory to the Memorandum of Association or a Chartered Accountant or Company Secretary in whole time practice in India.

(v) A notice about the exact address of the registered office may also be submitted along with these documents. However, if the same is not submitted at the time of incorporation, it can be submitted. A statutory declaration affirming that all legal requirements for registration have been complied within 30 days of the receipt of the certificate of incorporation.

(vi) Documentary evidence of payment of registration fees.

25 Outsourcing

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Outsourcing refers to a long-term contracting out generally the non-core and of late even some of the core activities to captive or third party specialists with a view to benefitting from their experience, expertise, efficiency and, even investment.

Need for outsourcing

(i) Focusing of attention: Business firms are realising the usefulness of focusing on just a few areas where they have distinct capability or core competence, and contracting out the rest of the activities to their outsourcing partners.

(ii) Quest for excellence: In the quest for excellence, it is necessary not only to know what you would like to focus on, but also what you would like others to do for you to get the benefits of division of labor and specialization.

(iii) Cost reduction: Global competitiveness necessitates not only global quality, but also global competitive pricing. Due to competitive pressures, the only way to survival and profitability is cost reduction. Division of labour and specialization, besides improving quality, reduces cost too.

(iv) Growth through alliance: To the extent you can avail of the services of others, your investment requirements are reduced, others have invested in those activities for you. Even if you may like to have a stake in the business of your outsourcing partners, you profit from not only the low-cost and better quality services provided by them to you but also by virtue of a share in the profit from the overall business they do.

(v) Fillip to economic development: Outsourcing, more so offshore outsourcing, stimulates entrepreneurship, employment and exports in the host countries .

26 Incentives provided by the Government:

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a. Land: Every state offers developed plots for setting up of industries. The terms and conditions may vary. Some states don't charge rent in the initial years, while some allow payment in instalments.

b. Power: Power is supplied at a concessional rate of 50 per cent, while some states exempt such units from payment in the initial years.

c. Water: Water is supplied on a no-profit, no-loss basis or with 50 per cent concession or

exemption from water charges for a period of 5 years.

d. Sales Tax: In all union territories, industries are exempted from sales tax, while some states extend exemption for 5 years period.

e. Raw materials: Units located in backward areas get preferential treatment in the matter of allotment of scarce raw materials like cement, iron and steel etc.

f. Finance: Subsidy of 10-15 per cent is given for building capital assets. Loans are also offered at concessional rates. Industrial estates: Some states encourage setting up of industrial estates in backward areas.

27 Merits and demerits of retained earnings as a method of business finance.

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Merits

- (i) Retained earnings is a permanent source of funds available to an organisation;
- (ii) It does not involve any explicit cost in the form of interest, dividend or floatation cost;
- (iii) As the funds are generated internally, there is a greater degree of operational freedom and flexibility;
- (iv) It enhances the capacity of the business to absorb unexpected losses;
- (v) It may lead to increase in the market price of the equity shares of a company.

Limitations

- (i) Excessive ploughing back may cause dissatisfaction amongst the shareholders as they would get lower dividends;
- (ii) It is an uncertain source of funds as the profits of business are fluctuating;
- (iii) The opportunity cost associated with these funds is not recognised by many firms. This may lead to sub-optimal use of the funds. (any 3+2)