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SET A



**INDIAN SCHOOL MUSCAT
SECOND PRE - BOARD EXAMINATION
ENTREPRENEURSHIP (066)**

CLASS: XII

TERM 2

Max. Marks: 35

MARKING SCHEME			
SET	QN.NO	VALUE POINTS	MARKS SPLIT UP
	1.	<p>Economic Ordering Quantity $= \sqrt{2PD/C}$</p> <p>Annual demand (D) = 1000 toasters. Order cost (P) = Rs. 400</p> <p>Annual carrying cost of 1 unit = 10% X 50= Rs.5</p> <p>EOQ = $\sqrt{2 \times 1000 \times 400/5} = 400$ units</p>	2
	2.	<p>(i) Private Placement • This involves direct issue of securities by a company to the institutional investors and some selective individuals like Unit Trust of India, Life Insurance Corporation of India, etc. • It is quicker and the cheaper method of raising capital compare to a public issue.</p> <p>(ii) Right Issue • This is a method to raise additional funds by company by offering shares first to its existing shareholders. The shares are offered on pro rata basis i.e. in the proportion to shares already held by them. • The existing shareholders can also renounce their right in favour of another person, in case they are not willing to buy more shares. • It is comparatively a cheaper method as there is no involvement of intermediaries like brokers, underwriters, etc.</p>	2
	3.	<p>(i) The type of merger here is vertical merger. Vertical merger is the merger between two companies producing different goods or services for one specific finished product. It involves joining of hands by the entities operating at different levels within an industry.</p>	2

		<p>(ii) Due diligence is required before merger as it gives the buyer a better understanding of the target company’s binding agreements as well as overall legal related issues.</p> <p>(iii) The most dominant reason for merger is synergy benefits.</p> <p>Synergy benefits: This implies that combined value of the merging firm exceeds the individual value of the merged firms. The merger will help both the firm’s ABC Tyres and Latex Ltd. in earning operating synergy. Operating synergy refers to the savings in cost that arise through economies of scale or from increased turnover resulting in increased profits.</p>							
	4.	<p>Copyright: It gives the creator of original work exclusive rights to it, usually for a limited time. It means apply to a wide range of creative, intellectual or artistic forms or work. For example, musical composition, literary work such as poems, plays etc.</p> <p>Patents: It grants an inventor the right to exclude others from making, using, selling, offering to sell, and importing an invention for a limited period of time, in exchange for the public disclosure of the invention.</p>	2						
	5.	<table><tr><td>Internal Expansion</td><td>External Expansion</td></tr><tr><td>Internal expansion results from the gradual increase in the activities of the concern.</td><td>External expansion refers to business combination where two or more concerns combine and expand their business activities.</td></tr><tr><td>The concern may expand its present production capacity by adding more machines or by replacing old machines with the new machines with higher productive capacity.</td><td>In the process of combination, two or more units engage in similar business or related process or stages</td></tr></table>	Internal Expansion	External Expansion	Internal expansion results from the gradual increase in the activities of the concern.	External expansion refers to business combination where two or more concerns combine and expand their business activities.	The concern may expand its present production capacity by adding more machines or by replacing old machines with the new machines with higher productive capacity.	In the process of combination, two or more units engage in similar business or related process or stages	2
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		<p>The internal expansion can also be undertaken by taking up the production of more units or by entering new fields on the production and marketing sides. Internal expansion may be financed by the issue of more share capital, generating funds from old profits or by issuing long-term securities.</p>	<p>Sometimes stages of the same business join with a view to carry on their activities or shape, their policies on common basis some other or in coordination for mutual benefit or maximum profits.</p>	
		<p>The net result of internal expansion is the increase in business activities and broadening the present capital structure</p>	<p>The combination may be among competing units or units engaged in different processes. After combination, the constituted firm pursues some common objectives or goals.</p>	
	6.	<p>Various types of brands available are:</p> <p>1) Individual brand name Lifebuoy, Liril, Lux</p> <p>2) Family brand name POND'S, is a mother brand name used for shampoos, talcum powder, cold creams, soaps etc. MAGGI, is brand name for noodles, sauces, masalas etc. AMUL, has been used to market a large variety of dairy products viz. milk, ghee, butter, chocolates etc.</p> <p>3) Corporate names for example, Godrej, Tata, Bajaj, etc.</p> <p>4) Alpha-numeric names for example, SX4, Liv52, ANX Grindlay, i10, i20, etc.</p>		2
	7.	<p>Operating cycle or cash conversion cycle is the time required for a business to convert raw material into cash. It represents the time period between buying the raw material and receiving cash from the customer. In a trading concern, operating cycle will be time period between buying of goods and money realized from sales.</p>		3

		<p>In a manufacturing concern, it will be the time required to convert: • cash into raw materials, • raw materials into work-in-progress • work-in-progress into finished goods • finished goods into accounts receivable • finally, accounts receivable into cash.</p>	
	8.	<p>Return On Equity = Net Profit after Tax / Equity x 100</p> <p>Interest = 2,00,000 x 10/100 = Rs. 20,000</p> <p>Profit after interest = 1,40,000-20,000= 1,20,000</p> <p>ROE = 1,20,000/4,00,000 x 100 = 30%</p>	3
	9.	<p>A) Below-the-line</p> <p>B) Activities (any two)</p> <p>1. sponsorship 2. sales promotions 3. public relations 4. personal selling 5. direct marketing</p> <p>C) Above-the-line, through-the-line (suitable explanation desired)</p>	3
	10.	<p>1. Franchising help startups because already the product carries a name in the market already which is the most difficult part of business to establish.</p> <p>2. Startups take up training to understand the product and franchisors make franchises fully conversant with the product/services that they have to offer.</p> <p>3. The start-ups can grow fast without having to increase labour, operating costs and blocking running expenses because normally buyers straight walk up to them.</p> <p>4. Franchisors' efforts to boast their franchises are always sincere, so there is no-clash of interest.</p>	3

	11.	<p>Public relations help in building good relations with the stake holders by obtaining favorable publicity, building good corporate image and handling unfavorable rumors. We can generate positive word of mouth and referrals from satisfied customers.</p> <p>Main Public Relations Tools includes news creation and distribution, special events, speeches and presentation and annual reports, magazines, news letter</p>	3
	12.	<p>Angel Investor; Business angel or angel investor, is an affluent individual who provides capital for a business start-up and early stage companies having a high-risk, high-return matrix usually in exchange for a convertible debt or ownership equity.</p>	5
	13.	<p>Capital market may be defined as an organized mechanism meant for effective and smooth transfer of money capital or financial resources from the investors to the entrepreneurs.</p> <p>Draw backs of public issue</p> <ol style="list-style-type: none"> 1. Increasing accountability to public shareholders 2. Need to maintain dividend and profit growth trend 3. Become more vulnerable to an unwelcome take over 4. Strictly adhere to the rules and regulations of governing body 5. Increasing cost in complying with higher level of reporting requirements 6. Suffering a loss of privacy 7. Relinquishing some control of the company following the public offering 	5
	14.	<p>There are four types of acquisitions:</p> <ol style="list-style-type: none"> a. Friendly acquisition: Both the companies approve of the acquisition under friendly terms. There is no forceful acquisition and the entire process is cordial. b. Reverse acquisition: A private company takes over a public company. c. Back flip acquisition: A very rare case of acquisition in which the purchasing company becomes a subsidiary of the purchased company. d. Hostile acquisition: The entire process is done by force. The smaller company is either driven to such a condition that it has no option but to say yes to the acquisition to save its skin or the bigger company just buys off all its share, thereby establishing majority and hence initiating the acquisition. 	5

	15	<p>The two methods are - cost plus pricing and penetration pricing.</p> <p>Advantages of cost plus pricing 1. Biggest advantage of this is that company knows exactly the amount of expenditure that has incurred on making a product and therefore they can add profit margin accordingly which helps in achieving the desired revenue for a firm. 2. It is the simplest method to decide the price for a product because one has just to add up all the cost and then add profit which you want to earn which will give the price for a product. 3. Since company is using its own data for deciding cost which makes it easier for a company to evaluate the reasons for escalations in expenses and therefore it can take corrective action immediately. (Any two)</p> <p>The advantages of penetration pricing to the firm are: 1. It can result in fast diffusion and adoption. This can achieve high market rates quickly. This can take the competitors by surprise, not giving them time to react. 2. It can create goodwill among the early adopters' segment. This can create more trade through word of mouth. 3. It creates cost control and cost reduction pressures from the start, leading to greater efficiency. 4. It discourages the entry of competitors. Low prices act as a barrier to entry 5. It can create high stock turnover throughout the distribution channel 6. This can create critically important enthusiasm and support in the channel. (Any two)</p>	5