

ICSE Paper 2012
COMMERCIAL APPLICATIONS

(Two Hours)

Answers to this Paper must be written on the paper provided separately.

*You will **not** be allowed to write during the first **15** minutes.*

This time is to be spent in reading the Question Paper.

The time given at the head of this Paper is the time allowed for writing the answers.

***Section A is compulsory.** Attempt **any four** questions from **Section B**.*

The intended marks for questions or parts of questions are given in brackets [].

Section-A (40 Marks)

*(Attempt **all** questions from this Section)*

Question 1:

Give one difference between each of the following:

- (a) Multi-level marketing and Tele-shopping. [2]
- (b) Implicit costs and Explicit costs. [2]
- (c) Cash credit and Overdraft. [2]
- (d) Book Keeping and Accounting. ** [2]
- (e) Institutional and Informative advertising. [2]

Answer:

(a)

Multilevel Marketing	Tele-shopping
In multilevel marketing, a network of customer is used for promotion and sales of products.	In tele-shopping, technology and media like internet, television and newspaper advertisements are used for promotion and sales of products.

(b)

Implicit Cost	Explicit Cost
1. Implicit costs are the costs of self owned and self supplied factors of production.	1. Explicit costs are the contractual money payments actually made to owners of various factors of production.
2. Implicit costs are generally not recorded in the firm's books of account.	2. Explicit costs are recorded in the firm's books of account.

(c) Refer Ans. 1. (e), 2016.

(e)

Institutional Advertising	Informative Advertising
1. The aim of institutional advertising is to build a favourable image of the organisation.	1. The aim of informative advertising is to make consumer aware of the existence, features and uses of goods and services.
2. Institutional advertising is basically not intended to create demand for or to sell a specific product directly.	2. Informative advertising seeks to develop initial demand for a product when it is introduced in the market.

Question 2:

(a) Give two conditions under which parity pricing is desirable. [2]

(b) Briefly describe how advertising sustains the press. ** [2]

(c) List any two uses of a Balance Sheet. [2]

(d) State any two merits of external recruitment. [2]

(e) Mention any two characteristics of public relations. [2]

** Answer has not given due to out of the present syllabus.

Answer:

(a) Parity Pricing is desirable:

1. When it is very difficult to measure cost.
2. When price leadership is well established, charging according to what competitors are charging may be the only safe policy.

(c) The main uses of balance sheet are:

1. Balance sheet shows the assets owned by a non-trading organisation.
2. It reveals the liabilities of the organisation.
3. It depicts the capital fund of the organisation.
4. It shows the financial position of the organisation. (any two)

(d) Two merits of external recruitment are as follows:

1. **Wide choice:** External sources offer a wide choice in the selection of candidates because a large number of persons apply for jobs.
2. **Fresh Outlook:** Recruitment of personnel from outside brings in new ideas and fresh thinking. This helps the organisation to remain competitive.

(e) Following are the characteristics of public relations:

1. Public relations is a planned and sustained effort. It is a management function.
2. It is concerned with relationship between an organisation and the public.
3. It involves evaluation of public opinion and attitudes about the policies, procedures and actions of an organisation in so far as they relate to public.
4. It seeks to ensure that the policies, procedures and action of the organisation are in public interest and socially responsible.
5. It requires both action and communication programmes.
6. The basic purpose of public relations is to create and maintain harmonious relations between an organisation and the public. (any two)

Question 3:

(a) What is meant by premium offer as one of the Sales Promotion techniques? ** [2]

(b) Give two differences between the Production oriented stage and the Product oriented stage of Marketing. [2]

(c) What are the components of Price Mix? [2]

(d) Explain any two themes or value of a good advertisement. [2]

(e) List any two circumstances under which a bank can refuse payment of a cheque. [2]

Answer:

(b) Two differences between Production oriented stage and the product oriented stage are:

Features	Production Oriented Stage	Product Oriented Stage
1. Main focus	Production volume	Product improvement
2. Means	Product availability and affordability.	Product features.

(c) Components of Price Mix are price policy, discounts, allowances, credit and terms of payment.

(d) The two themes commonly used in advertisements are:

1. **Prestige:** This theme is used to popularize luxurious items like motor cars, refrigerators and furniture! Their possession acts as a symbol of prestige to their holders.
2. **Comfort:** This theme is used to advertise products like fans, air conditioners, refrigerators etc., as such products help to make life comfortable.

(e) A Bank can refuse payment of a cheque in the following conditions:

1. When the funds to the credit of the drawer are not sufficient to make payment of the cheque.
2. When the cheque is post-dated and is presented for payment before the date it bears.

Question 4:

Justify either for or against by giving two reasons for each of the following:

- (a) Introduction stage in a Product Life Cycle is not very risky. [2]
- (b) Scope of Public Relations is narrow. [2]
- (c) Advertisements eliminate meddlers. [2]
- (d) It is marketing which has converted yesterday's luxuries into today's necessities. [2]
- (e) A crossed cheque is a safer mode of payment as compared to an open cheque. [2]

Answer:

(a) Against

1. Introduction stage in a product life cycle is very risky because a high percentage of new product fails during this period. Reasons for product failure are high cost, low sales volume, limited distribution and high prices.
2. Prices are usually high because of small scale of production and heavy promotional expenditure. Growth in sales volume is at a low rate due to lack

of knowledge on the part of consumers and limited distribution. Therefore, according to me introduction stage in a product life cycle is very risky.

(b) Against

1. Scope of Public relation is wide. It deals with diverse interests of the publics of a business organisation i.e., employees, stockholders, consumers, distributors, suppliers, Government, community and media.
2. Professional practice of public relations requires knowledge of communication, Art, psychology, social psychology, sociology, economics and the principles of management and ethics.

(c) For

1. Advertisement can establish direct contact with customers, thereby eliminating middlemen.
2. Elimination of middleman helps to reduce prices for consumers.

(d) For

1. Marketing focuses on improving the quality of living of people by providing a wide variety of quality products and services at reasonable prices.
2. It brings awareness about new products and their uses. It has converted yesterday's luxuries into today's necessities by raising the standard of living of consumers.

(e) For

1. Crossing provides a protection or safeguard against loss to the drawer by securing payment through a bank. While open cheques are liable to great risk as these can be stolen or lost and the holder or the thief can encash them at the bank counter.
2. It is easy to get information later in case of wrong payment, if the cheque is crossed.

Section – B (60 Marks)

*(Attempt **any four** questions from this section)*

Question 5:

(a) What do you mean by endorsement of a cheque?

Explain any three types of endorsements. [5]

(b) Explain the following with an example for each:

(i) marginal cost. **(ii)** opportunity cost. [5]

(c) Mention the various stages of 'Product Life Cycle'. How is Product Life Cycle advantageous? [5]

Answer:

(a) Endorsement of Cheque: When a cheque is transferred by payee to someone else, it has to be endorsed by the payee by putting a signature at the back of the cheque. This act of signing is known as endorsement.

1. **Full or Special Endorsement:** When the endorser specifies the name of the endorsee and signs the cheque, it is called full or special endorsement, e.g., 'Pay to A Sd/- X'. The effect of such an endorsement is that the endorsee must endorse it again if he wants to transfer the property in the cheque to somebody else. A blank endorsement can be converted into a special endorsement by simply adding the name of the payee.
2. **Partial Endorsement:** When the endorsement is made for a part of the amount of the cheque, it is called partial endorsement. For example, a cheque for Rs. 1,000 may be endorsed only for Rs. 500. Such an endorsement is not legally valid. But when Rs. 500 have already been paid to the endorsee, a cheque for Rs. 1,000 may be endorsed for the balance of Rs. 500.
3. **Facultative Endorsement:** When the endorser waives his right of receiving the notice of dishonour, the endorsement is called facultative endorsement. For example, 'Pay to Kishan Lai, notice of dishonour waived Sd/- Ram Lai'. In such an endorsement, the endorser remains liable even through the endorsee sens no notice of dishonour to him.

(b) (i) Marginal Cost: Marginal cost is the cost of producing one additional unit of a product. The concept of marginal cost is very useful in making managerial decisions concerning price fixation, make or buy decisions, etc.

It can be shown as:

$$MC_n = TC_n - TC_{n-1}$$

For example: The marginal cost of 4th unit is the change in total cost when output is increased from 3 units to 4 units.

(ii) Opportunity Cost: Opportunity cost means the benefit sacrificed for selecting a particular course of action. It is the maximum advantage that could be obtained if the resource was put to an alternative use. The opportunity cost of producing one commodity A is the amount B that must be sacrificed in order to use resources to produce A rather than B. In other words, the opportunity cost of anything is the next best alternative that, could be produced instead by the same factors or by an equivalent group of factors costing the same amount of money. For example, a firm buys a machine for Rs. 25,000. This amount could be invested in shares or debentures. The loss of dividend or interest that could be earned is the opportunity cost. Opportunity cost is not recorded in books. It is useful in comparing alternatives and in making decisions.

(c) Various stages of product life cycle are:

1. **Introduction Stage:** During this stage the product is born. The firm informs the market about the existence and features of the product. Prices are high because of small scale of production and heavy promotional expenditure. Thus, the introduction stage is characterised by high costs, low sales volume, limited distribution and high prices.
2. **Growth Stage:** In this stage the demand and sales grow rapidly, distribution is widened, competition increases and prices fall.
3. **Maturity Stage:** During this stage, sales continue to grow but at a declining rate. Competition increases further and markets get stabilised. Prices are reduced due to competition but promotional expenditure remains high. As a result profits decline.
4. **Decline Stage:** Sales fall down sharply and promotional expenditure has to be reduced drastically to minimise loss.
5. **Death Stage:** Most firms shift their attention to other products gradually phasing out the declining product.

Advantages of Product Life Cycle:

1. When the product life cycle is known the firm can prepare an effective product plan.
2. Management can take advance steps before the decline of the product.
3. The maturity stage can be extended by finding new uses of the product.
4. Technological innovations can be adopted to improve the quality, features and design of the product.

Question 6:

(a) Marketing is a wider term than selling. Explain. [5]

(b) Distinguish between Receipts and Payments Account and Income and Expenditure Account. [5]

(c) What pricing strategy will be used to launch:

(i) a high end smart phone in the market.

(ii) shampoo in the market. [5]

Answer:

(a) Marketing is wider in scope than selling. Selling is a part of marketing. Marketing includes not only selling but also other activities such as Market research, product planning and development etc. Marketing starts before the product is produced while selling starts after the product has been produced. Selling ends with the sale of goods. Marketing continues even after sales, e.g., after sale services, study of future demand etc. Marketing focuses attention on product, promotion, pricing and physical distribution whereas selling just pays attention to the promotion. Selling aims at transfer of ownership of the product from the seller to the buyer whereas marketing aims at achieving customer satisfaction after the products has been transfer to customer. Therefore marketing is a wider term because it starts before selling and continues after the selling has been done.

(b) Differences between Receipt and Payment Account and Income and Expenditure Account are as follows:

Basis	Receipt and Payment Account	Income and Expenditure Account
1. Nature	It is a classified summary of the cash and bank transactions. It is an asset account.	It is like a profit and loss account of a trading concern. It is a nominal account.
2. Kinds of Items	It includes items relating to not only the current year but also to previous year and succeeding years.	It shows only the items and their amounts relating to only the current year.
3. Nature of Items	It records receipts and payments of both capital and revenue nature.	It records income and expenditure of revenue nature only.
4. Non-cash Items	It does not record non-cash items like depreciation etc.	It records non-cash items like depreciation etc.
5. Closing Balance	Its closing balance represents cash in hand and cash at bank or overdraft.	Its closing balance represents either surplus or deficit.

(c) (i) Skimming pricing strategy should be used to launch a high and smart phone in the market. In this strategy a very high price is set so that in the initial stages the cream of the demand may be skimmed and the investment made in the product is quickly realised. The aim is to 'Sell to Classes' who don't care how much they pay for a good product. This price may be reduced later on to tap other segments of the market. This strategy is appropriate in case of a highly distinctive product which is aggressively promoted in early stages.

(ii) Penetrating pricing policy should be used to launch shampoo in the market. This strategy involves setting a low price in the initial stage so as to make brand quickly popular

and to maximise the market share. The ' manufacturer seeks to sell to the masses. Many firms use this strategy while launching fast moving consumer products.

Question 7:

Write short notes on:

- (a) Matching Principle of Accounting. [5]
- (b) Types of Business Assets. [5]
- (c) Drawbacks of Sales Promotion. [5]

Answer:

(a) **Refer Ans. 6. (a), 2014.**

(b) Assets are economic resources Of an individual or organisation that may be usefully expressed in terms of money for eg. land, building, debtors etc. Assets may be classified into following categories:

1. **Tangible Assets:** Tangible Assets are those assets which have physical existence. So they can be seen and touched eg. Furniture, Machinery etc.
2. **Intangible Assets:** Assets which do not have physical existence, so they can not be touched and seen eg., Goodwill.
3. **Fixed Assets:** Assets which are purchased in business with a view to produce good or to provide services and they are not meant for resale eg. land, building etc.
4. **Current Assets:** Assets which are likely to be converted into cash within one year, eg., Bills received, prepaid expenses etc.
5. **Liquid Assets:** Liquid assets are those assets which can be converted into cash in a very short period. These include all current assets except stock and prepaid expenses.
6. **Fictitious Assets:** These assets are neither tangible assets nor intangible assets. They are never realised in cash though future benefits can be taken from these assets, eg. Deferred Revenue Expenditure.
7. **Wasting Assets:** This term is used for natural resources which are valuable but they are consumed during the process of use. eg., coal mine etc.

(c) Sales promotion schemes suffer from the following drawbacks:

1. The incentives offered through sales promotion schemes are artificial and not real. The manufacturer is likely to recover the cost of these incentives by raising the price of products.
2. Sales promotion schemes are offered only during particular seasons. Therefore, they produce short-term results. As soon as the incentives are withdrawn, the demand also falls.
3. There is a feeling the sales promotion schemes are mainly intended to sell a sub-standard product.

Inspite of criticism, sale promotion schemes help to stimulate demand and increase sales during the slack season.

Question 8:

- (a) Mention any five ways as to how 'Good Public Relations' help business enterprises. [5]
(b) Human Resource Management is the management of people at work. With reference to the above statement, explain the role of Human Resource Management in an organization. [5]
(c) Explain the following elements of Public Relation:
(i) Dialogue (ii) Persuasion. [5]

Answer:

(a) Good Public Relations help the business enterprises in following ways:

1. It helps in building goodwill and positive image in the minds of consumers.
2. It helps the enterprises in attracting and retaining talented and skilled personnels.
3. Good public relations helps the enterprises to increase the volume of sales and its revenue.
4. It helps the enterprises in collecting funds from general public by way of issuance of shares, debentures or public deposit.
5. It helps the business in its plans of growth and diversification of products as the enterprise already enjoys goodwill due to good public relation.

(b) Refer Ans. 7. (b), 2015.

(c) (i) **Dialogue:** Dialogue means a conversation between two persons with a purpose. If a person goes on talking without allowing others to participate in the discussion or talk, then it becomes a monologue. In a dialogue each person presents facts and views and considers the facts and views presented by others. It is a reasonable exchange of ideas and opinions. Dialogue reveals the true personality of a person. It helps to reduce prejudice and builds up mutual confidence. Effective dialogue require impartial listening and understanding.

(ii) **Persuasion:** To persuade means to convince another person of some idea, product, service or institution, to induce a person or group to do something. A message becomes persuasive when people believe in the source of the message. Messages coming from credible sources are generally accepted without any question being asked. Reasonable messages presented in an attractive manner tend to be more persuasive.

Question 9:

Case Study

September 19, 2011, The Strategist.

Marking the largest selling instant noodle Maggi's 25th anniversary in the country, it invited diehards to write in about the brand meant to them. The entries indicated "for a mother Maggi meant an ally; for a student in a hostel it meant a midnight snack." Some of these stories were picked up and splashed on Maggi's packaging.

(a) Distinguish between brand loyalty and brand equity. [3]

(b) How does a brand become famous? Explain with the help of an example. [2]

(c) Examine the advantage of Branding. [5]

(d) "Brand name should be selected with utmost care."

List the essentials of a good brand name. [5]

Answer:

(a) Brand loyalty means that some consumers continue to prefer a brand due to faith in its superiority whereas the power and value which a brand add to the product is known as brand equity.

(b) Various methods that has been adopted by Manufacturers for brand promotion are:

1. **Advertisement:** Regular advertisement in newspapers, radio and TV and other media are given to make a particular brand well known among consumers.
2. **Quality Control:** Brands become popular if the quality is well maintained.
3. **Publicity:** Publicity means any commercially significant which has no sponsor for eg. Mass media such as newspapers and television gives news and views about an organisation and its products in such a ways that the image of the organisation gets enhanced.

Due to repeated advertisement, quality control and publicity, brands like Lux soap, Colgate toothpaste, Coca-cola etc. have become so famous.

(c) Advantages of Branding:

1. It saves time and efforts of consumers as they can identify and recognise the product to be purchased.
2. Branding is the basis of advertising and other techniques of mass selling.
3. Branding helps to minimise selling cost by reducing dependence on middlemen.
4. Branding insures uniform standards of quality and designs to consumers.
5. Branded products are invariably packed which prevents adulteration and helps to prevent adulteration and helps to preserve the quality of the product.

(d) Essential of a good brand name are:

1. The brand name should be brief and simple.
2. It should be easy to pronounce, spell and remember.
3. It should be attractive and appealing.

4. It should be distinctive and difficult to imitate.
5. It should remain constant for a reasonable period of time in order to gain popularity.
6. It should be capable of registration and legal protection.

Question 10:

Case Study

September, 19, 2011, Mint.

The government wants to start specialized courses that will provide training in skills needed in the automobile industry, part of a wider effort to ensure the economy can take advantage of the expected influx of young people into the workforce.

The Indian auto industry annual sales rose 20% to Rs. 3.27 trillion in 2010-11 from the year before, according to the Society of Indian Automobile Manufacturers (Siam) an industry lobby. This is expected to rise for fold by 2020, according to Siam.

The automotive service sector is facing a shortage of about 3,00,000 skilled workers, according to a recent survey. Gujarat, for instance, may see at least 1,00,000 new job opportunities in the sector.

The backbone of India's skill development system is the network of Industrial Training Institutes (ITIs) managed by the labour manpower shortage. This is part of the larger national mandate to train 500 million in a decade to help staff manufacturing units.

(a) Describe the need or importance of skilled labour in the Automobile Industry in India. [5]

(b) What is training? How is it different from education? [5]

(c) Enumerate any two types of training towards development of human resources for the Automobile Industry. [5]

Answer:

(a) The need or importance of skilled labour in the Automobile industry in India offers the following benefits:

1. It helps to improve efficiency and profitability by choosing a qualified person for every job.
2. It ensures the job satisfaction to employees by matching the candidates with the job.
3. It helps to reduce labour turnover and absenteeism.
4. It facilitates higher quality and quantity of performance.
5. It helps in increased motivation level of employees.

(b) **Training** means imparting the knowledge, skills and aptitudes necessary to undertake the required jobs efficiently with a view to developing the worker to his maximum potential. In the words of **Michael J. Jucius**, "Training is a process by which the attitudes,

skills and abilities of employees to perform specific jobs are increased.
Training is different from education in the following ways:

1. Training involves increasing knowledge and skills for a specific job whereas education involve improving general knowledge and intelligence.
2. Training is given on the job while education is generally imparted in schools and colleges.
3. Training is practical and job-oriented but education is theoretical.

(c) (i) Orientation Training: Orientation or Induction training refers to the training given to new employees. The training is imparted by a competent and experienced executive, who provides knowledge about the work, tools, equipments, techniques and situational problems or total infra-structure. The objective of this training is to make the employee aware and believe in the ideologies of the working. A systematic Orientation programme enables the new employees to adjust quickly to new surroundings.

(ii) Safety Training: Such training seeks to create safety, consciousness among employees and to familiarise them with the use of safety devices. The purpose of safety training is to minimise accidents at the work place.