

ICSE Paper 2018 Commercial Studies

- 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.
 - Attempt all questions from Section A and any four questions from Section B.
 - The intended marks for questions or parts of questions are given in brackets [].
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Section – A (40 Marks)

(Attempt all questions from this Section)

Question 1.

Distinguish between :

- (a) Consumer goods and Industrial goods. [2]
- (b) Shut down costs and Sunk costs. [2]
- (c) Standardisation and Grading [2]
- (d) Savings Account and Current Account [2]
- (e) Downward Communication and Upward Communication [2]

Answer :

- (a) Difference between Consumer goods and Industrial goods.

Consumer Goods :

Consumer goods are those goods which are directly used by the ultimate consumers or households.

Industrial Goods :

Industrial goods are those goods which are purchased for use in manufacturing other goods.

- (b) Difference between Shut down costs and Sunk costs.

Shut Down Costs :

A business firm may have to suspend its operations for a period due to some temporary problems e.g., shortage of raw-material.

Sunk Costs :

Sunk costs are historical or past costs which cannot be changed by any future decisions e.g., Investment in plant and machinery.

(c) Difference between Standardisation and Grading.

Standardisation :

Standardisation refers to the process of setting up basic measures or standards to which the products must conform and taking steps to ensure that it actually adhere to standards.

Grading :

Grading is the process of sorting individual units of a product into well defined classes or grades of quality.

(d) Difference between Savings Account and Current Account.

Savings Account :

Interest is allowed at a rate lower than in fixed deposit account but higher than in current account.

Current Account :

No interest is allowed on this account as the costs of operations are high.

Question 2.

- (a) Why is brand loyalty considered an asset for the company ? [2]
- (b) How does 'Status barrier' affect Effective Communication? [2]
- (c) What do you mean by 'Indirect material'? Give two examples. [2]
- (d) 'Selection is a negative process.' Explain. [2]
- (e) Explain 'Contribution' as a principle of insurance. [2]

Answer:

(a) Brand loyalty is considered an asset for the company because :

1. it helps to reduce costs of marketing.
2. it enables the company to charge higher prices than competing brands.
3. it gets support and cooperation from distribution channels.

(b) Status means the position of a person in the hierarchy of an organisation. In this barrier, the superior may pass selected information to his subordinates in order to maintain status difference. This will cause distortion in effective communication.

(c) Indirect materials are those materials which cannot be directly assigned to the specific product but which can be apportioned. It is used in the factory, office or selling and distribution division. For example: oil lubricants, nails, stationary material, cotton waste etc.

(d) 'Selection is a negative process'. Selection is the process of choosing individuals who have the requisite qualifications to fill the jobs. Selection is a negative process because it is process of rejecting many unsuitable candidates to choose the few suitable applicants. The number of candidates rejected are much more than those actually selected.

(e) Contribution means the right of an insurer who has paid claim under an insurance policy to call upon other insurers to contribute to the payment. The principle of contribution is applicable when the following conditions are satisfied:

1. insured must be same person
2. covers the same risk
3. total amount of compensation under all policies must not exceed the amount of loss.

Question 3.

- (a) Mention any two utilities of a Budget. [2]
- (b) Name and explain the type of training designed to correct mistakes. [2]
- (c) What is meant by 'Capital Receipts'? [2]
- (d) State any two advantages of Travellers' cheques. [2]
- (e) Briefly describe the role of Marketing Research. [2]

Answer:

(a) Budgets are very useful in management. Two utilities of budgets are as follows :

1. Delegation and Authority : According to 'Koontz and O'Donnell', "Reduction of plans to definite numbers, forces a kind of orderliness that permits the managers to see clearly what capital will be spent by whom, and where and what expense, revenue or units of physical input or output his plans will involve."
2. Higher Efficiency : Budgets bring efficiency and economy to the working of a business firm. This will help management in obtaining the most profitable combination of different factors of production.

(b) Types of training :

1. Induction Training : It is process of introducing and familiarising new employees to the organisation so that they may adjust quickly and easily in their new environment.

2. Vestibule Training : In this method, a training centre called vestibule is set up. Expert trainers are employed to provide training. As the training is conducted away from the actual workplace, the trainees can fully concentrate on learning.

(c) Capital Receipts refers to the receipts of a non-recurring nature such as additional capital from owners, loans raised by the firm. Some examples of capital receipts are :

1. Amount received from the sale of furniture.
2. Government grants and endowments.
3. Capital raised by an issue of shares and debentures.

(d) The advantages of Traveller's cheques are given below :

1. The set value of traveller's cheque helps to maintain a budget.
2. It is readily accepted in many locations and by many merchants.
3. There is no need to find a bank or money exchange location to convert or withdraw funds.
4. Lost or stolen traveller's cheques may be easier and faster to replace than a lost or stolen credit card.

(e) Marketing research provides information which is very helpful in taking right decisions about the various elements of marketing mix.

1. Marketing research is a tool for enhancing the marketing plans, policies and programmes.
2. It helps to measure market potential. It tells the management where the company stands in industry.
3. It is useful in making better choice of distribution channels and advertising media.

Question 4.

- (a) Why is Financing an essential function of Marketing? [2]
- (b) Explain any two advantages of Rail Transport. [2]
- (c) Explain the Right to Consumer Education under the Indian Consumer Protection Act. [2]
- (d) State any four sustainable uses of Water. [2]
- (e) "Both, conservation and restoration of natural resources or ecology cannot be possible without public awareness and community participation". Comment. [2]

Answer:

(a) Financing is an essential though auxiliary function of marketing. Finance is required to meet fixed and working capital requirement of the business. Business firms often sell goods on credit to merchants and customers to increase the volume of sales. So, funds are required to keep stock, to meet transport, storage and to grant credit.

(b) The advantages of Rail Transport are :

1. Railways are more reliable because they follow fixed routes, have regular time schedules and are available throughout the year.
2. It is very cheaper means for carrying bulky goods over long distance.
3. It can carry a much larger quantity of goods than motor vehicles.
4. The freight charges are fixed and do not change frequently.

(c) According to this right, the consumer must be made aware of his rights and the remedies available under the different laws. The consumer has the right to acquire knowledge and to be well informed throughout life. He should be informed of the negative impacts of consuming adulterated products. When they know about the rights and duties only then they will be prevented from exploitation.

(d) The various sustainable uses of water are :

1. Use drip irrigation and other water conservation measures in agriculture.
2. Protect water in water bodies from effluents and toxic materials.
3. Build small reservoirs in place of a few big projects.
4. Check over exploitation of surface and ground water.

(e) Conservation is the planned management of our surrounding to prevent its exploitation or destruction. Whereas restoration means recreation and enhancement of natural resources. People will conserve and restore natural resources only when they are sensitive to the environment and realise the importance of ecological balance. Well informed citizens and environmentalists have the duty to take the initiative in making the common man aware of the need for ecological restoration and conservation.

SECTION – B [40 MARKS]

(Attempt any four questions from this Section)

Question 5.

- (a) Explain any five expectations of Suppliers from a business organisation. [5]
(b) Explain any five merits of Written Communication to a business organisation. [5]

Answer :

(a) Various expectations of suppliers are :

1. Reasonable terms of delivery and payment.
2. Healthy and co-operative inter-business relationship.
3. Regular and timely payment according to credit terms.

4. Correct information about the company's financial position.
5. Fair prices for the supplies.

(b) The five merits of written communication to a business organisation are :

1. **Authoritative :** Written communication appears to be more authoritative and formal. It is more credible in the eyes of the receiver. There is fixed responsibility for mistake in communication.
2. **Permanent Record :** It provides a permanent record for future reference and as legal evidence. Contents can be easily verified.
3. **Uniformity :** Written communication ensures transmission of information in uniform manner. The receiver can read and re-read the message until he understands it. .
4. **Accuracy :** It tends to be more accurate and precise because written messages are prepared ' more carefully.
5. **Lengthy Messages :** It is suitable for conveying lengthy messages and when a well considered response is desired.

Question 6.

(a) Mention five differences between Advertising and Personal Selling (Salesmanship).

[5]

(b) Explain any five techniques used in Sales Promotion. [5]

Answer:

(a) Difference between Advertising and Personal Selling :

Basis	Advertising	Personal Selling
1. Aim	Its aim is to create customer.	Its aim is to make sales.
2. Flexible	It is less flexible.	It is more flexible.
3. Number of Persons Contacted	It involves contact with a large number of persons.	It involves contact with a limited number of persons.
4. Payment	Direct payment for each advertisement.	No direct payment for each contact.
5. Nature of communication	There is no face to face contact.	There is a face to face interaction with customers.

(b) There are various techniques of sales promotion which are as follows :

1. Bonus offers : It is the offer of an article free of cost or at nominal price on the purchase of a specified product. It is a practical persuasion to buy that helps to increase immediate sales and to clear accumulate stock.
2. Exchange offer: In this method, customers are offered the facility of exchanging old products with the new one. For example, LG Ltd. offered to customers of washing machine that they could exchange their old washing machine and thereby pay less upto f 5000 on the new one.
3. Coupons : Some organisations issue coupons to prospective buyers through newspapers, direct mail, dealers, package and door-to-door salesman. Coupons are used to introduce new products and to increase sales of established products.
4. Clearance sale : Sales at reduced prices may be organised at important festivals or other occasions. For example, Khadi Gramodyog Bhavan offers special discount on Khadi products.
5. Distribution of free samples : Free samples are distributed to selected people to gain consumer acceptance and to popularise the product. This is the effective technique for sale promotion as consumers can test the product before buying it.

Question 7.

(a) Briefly explain the importance of Marketing. [5]

(b) Explain: [5]

(i) Bank Draft

(ii) Indemnity as a principle of insurance.

Answer :

(a) Marketing is important for the following reasons:

1. Large scale production : Marketing makes selling possible and thereby facilitates large scale production. This will reduce the cost of production and helps to expand the business.
2. Income generation : Business can generate income to meet its expenses and earn more profits with the help of marketing. The survival and growth of a company depends upon the effectiveness and efficiency of marketing.
3. Higher standard of living : Marketing modernised the living standards of people through the supply of quality products at reasonable prices. It is very helpful in improving the standard of living of people by offering a wide variety of goods and services with freedom of choice.
4. Customer satisfaction : Marketing helps to identify and satisfy the needs and wants of consumers. Modern marketing begins and ends with the customers.
5. Economic development : It makes the economy strong by balancing production with consumption. It also gives a boost to banking, insurance, transportation etc. to keeps the economy moving ahead. t

(b) (i) Bank Draft: Bank draft is a type of cheque which is drawn by a bank either on its own branch or on another bank. In order to remit money through a bank draft, a person

first obtains the bank draft from the bank. The draft commission is paid in advance by the sender of the bank draft. The payment of an uncrossed bank draft can be collected at the counter of the bank on which it is drawn.

(ii) Indemnity : Indemnity means a promise to compensate in case of loss. The insured is entitled to recover from the insurer only the amount of loss actually suffered. The insured will not be allowed to make any profit out of the happening of any loss covered by insurance contract. For example, Aman has insured his house for ₹ 20,00,000. Due to a fire Aman's house is destroyed but Aman has been able to salvage household goods worth ₹ 1,00,000. Aman will be compensated up to ₹ 19,00,000.

Question 8.

- (a) Briefly explain any five types of Budgets [5]
(b) Describe the role of Trade Union in a business concern. [5]

Answer:

(a) Various types of budgets are as follows:

(i) Sales Budget : It is laid down the revenue goals of the enterprise. It is a forecast of sales to be achieved, during a specified period in future. It also shows the break-up of total sales product wise, territory wise and month wise. Some factors should be taken into consideration while preparing the sales budget:

- Salesman's estimates
- General trade prospects .
- Availability of materials
- Potential market

(ii) Materials Budget : Cost of production includes materials, labour and overheads. The material budget is generally prepared only for direct materials. The following are the steps for preparing material budget:

- Estimate the raw-material requirement.
- Schedule the purchases of raw materials in required quantities.
- Controlling the inventory of raw materials.

(iii) Cash Budget : It is the summary statement of the firms expected inflows and outflows of cash over a future time period. It is helpful in determining the future cash requirements as well as exercising control over cost and liquidity of the firm.

(iv) Production Budget : It contains the estimate of the total volume of production productwise and week or monthwise. It is prepared to plan and organise the production

programme for achieving the sales target. A well planned production programme is required to ensure sufficient stock for sales, to keep inventory within reasonable limits.

(v) Master Budget : It is the summary of all budgets. It is incorporating its component functional budgets, which is finally approved, adopted and employed. This budget requires the approval of the Budget Committee before it is put into operation.

(b) Trade Union play role in business firms by following ways :

1. Protection : Trade union resist retrenchment of their members and help to ensure steady employment for workers. It safeguard workers against all sorts of exploitation by the employer and political parties. Union serve as a check on arbitrary action by employers.
2. Representation : Trade union represent working class in various national and international forums such as Indian Labour Conference and International Labour Organisation.
3. Sense of Belongingness : Trade unions generate a spirit of self respect and self-reliance among workers. A ordinary worker has little sense of belongingness in modern industry. He can gain social respect by joining a union.
4. Participation : Trade unions work for achieving a better say of workers in the management of matters which directly influence the interests of workers.
5. Education : Unions make workers conscious of their rights and duties and aware of the need for technological changes. Trade unions make arrangements for the education of workers and their family members.

Question 9.

(a) Explain any five advantages of air transport over water transport.

(b) What do you mean by Group Life Insurance ?

Explain three main features of Group Life Insurance.

Answer:

(a) The following are advantages of air transport over water transport :

1. Natural gift : The sky is a gift of nature and an aeroplane can fly through space without any hindrance. Air transport does not require large investment for construction of tracks.
2. Highest speed : Air transport is best suited for perishable and other goods requiring immediate or prompt delivery. It is by far the fastest mode of transport. People can easily move from one place to other place which saves the valuable time for busy businessmen.
3. Suitable : Air transport is suitable for light goods of high value. During natural calamities such as earthquakes, floods, it is the only mode of transport which can

provide relief assistance to the victims.

4. Efficient Service : Air transport provides regular and efficient service. During emergencies, deviation from normal route can be made.
5. Shortest Route : An Air transport adopts shortest route and can reach places inaccessible by other means of transport. It can fly over deserts, high seas, forests and mountains.

(b) Group Life Insurance is a scheme which provides insurance cover on the lives of several persons under one insurance policy. It is provided to all employees without any evidence of insurability.

For the insurance company, cost of administration is low as only one policy is issued for several persons. In case of injury or death to an employee, the claim received by the employer is paid to the employee. The main features of Group Life Insurance are :

1. Group Life Insurance is basically a contract between the insurance company and employer. The policy issued to the employer is called master contract.
2. The amount of premium is payable at a flat rate without any regard of the age and salary of the employees.
3. It provides risk coverage to the employees as long as they remain in the service of the employer.

Question 10.

The Trial Balance given below was prepared by Pratim Pal on 31st December 2000. Prepare a Trading Account and a Profit and Loss Account for the year ending 31st December 2000 and Balance Sheet as on 31st December 2000.

Trial Balance

	Dr. ₹		Cr. ₹
Drawings	1,000.00	Capital Account	14,400.00
Premises	7,500.00	Sales	23,120.00
Fixtures & Fittings	1,560.00	Discount received	330.00
Opening Stock (1.1.2000)	2,730.00	Purchase Returns	730.00
Purchases	15,410.00	Sundry Creditors	1,700.00
Discount Allowed	580.00		
Sales return	1,020.00		
Rates	750.00		
Insurance	210.00		
Wages	1,250.00		
Trade expenses	960.00		
Sundry Debtors	2,310.00		
Cash in Hand	650.00		
Cash at Bank	2,350.00		
Salaries	2,000.00		
	40,280.00		40,280.00

Closing stock was valued at ₹ 3140/- on 31st December 2000.

Answer :

Trading and Profit and Loss Account for the year ending 31st Dec. 2000

Particulars	₹	Particulars	₹
To Opening Stock	2,730	By Sales	23,120
To Purchases 15,410		Less : Sales Return <u>1,020</u>	22,100
Less : Purchases Return <u>730</u>	14,680	By Closing stock	3,140
To Wages	1,250		
To Gross Profit c/d	6,580		
	<u>25,240</u>		<u>25,240</u>
To Salaries	2,000	By Gross Profit b/d	6,580
To Discount Allowed	580	By Discount received	330
To Rates	750		
To Insurance	210		
To Trade expenses	960		
To Net Profit c/d	2,410		
	6,910		6,910

Balance Sheet as on 31st Dec. 2000

Liabilities		₹	Assets		₹
Sundry Creditors		1,700	Premises		7,500
Capital	14,400		Fixtures and Fittings		1,560
Less : Drawings	<u>1,000</u>		Sundry Debtors		2,310
	13,400		Cash in Hand		650
Add : Net Profit	<u>2,410</u>	15,810	Cash at Bank		2,350
			Closing stock		3,140
		17,510			17,510