

ISC Paper 2016 Commerce

Maximum Marks: 80

Time allowed: Three hours

- Candidates are allowed additional 15 minutes for only reading the paper. They must NOT start writing during this time.
 - Answer Question 1 (Compulsory) from Part I and five questions from Part II, choosing two questions from Section A, two questions from Section B and one question from either Section A or Section B.
 - The intended marks for questions or parts of questions are given in brackets [].
 - Transactions should be recorded in the answer book.
 - All calculations should be shown clearly.
 - All working, including rough work, should be done on the same page as, and adjacent to the rest of the answer.
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Part-I (20 Marks) **Answer all questions.**

Question 1. [10 2]

Answer briefly each of the questions (i) to (x):

- (i) State two components of legal environment of a business concern.
- (ii) Why is working capital also known as circulating capital ?
- (iii) What is meant by participating preference shares ?
- (iv) Distinguish between advertising and personal selling.
- (v) Why is feedback an important element in the communication process ?
- (vi) Explain the principle of Esprit decors as advocated by Henry Fayol.
- (vii) What is meant by a product ?
- (viii) Explain the meaning of coordination, as a function of management.
- (ix) What are bonus shares ?
- (x) Explain the concept of management by exception

Answer:

(i) Two components of Legal Environment of a business concern are : (any two)

- Laws and administrative orders of the government.
- Judicial system of the country.
- Flexibility and adaptability of laws.

(ii) Working capital is the portion of capital invested in short-term assets of a business. It consists of cash receipts from sales which are used to cover the cost of current operations. It is also known as circulating capital as it keeps circulating or revolving in business. It is invested, recovered and reinvested repeatedly during the business cycle.

(iii) Participating Preference Shares : The preference shares which get share in the surplus profit of the company are known as participating preference shares. Preference shareholders get a fixed rate of dividend in case a surplus profit is left after paying fixed dividend to preference and equity shares. The participating preference shares get a share in that surplus profit.

(iv) Difference between Advertising and Personal Selling :

Basis	Advertising	Personal Selling
(i) Form	This is impersonal.	This is personal.
(ii) Message	The similar message is given to all the customers.	There is no uniformity in the message. It can be changed according to the behavior of customer.
(iii) Time	It takes a little time in conveying the message to the customers.	It takes more time in conveying the message to the customers.
(iv) Feedback	It does not receive the customers reactions.	It receives the customers reactions immediately.

(v) Feedback is a reversal of communication process in which receiver expresses his reaction to the sender of message. Feedback is important to ensure that receiver has received and understood the message.

(vi) Principle of Esprit De Corps Esprit De Corps means union is strength. Fayol emphasized on the team work. He suggested that every employee in the organisation must consider him as a part or member of a team and try to achieve the team goal because team contribution is always better and more than individual contribution. Management must develop a feeling of belongingness among the employees as they must feel themselves as members of organisation's team and contribute maximum to achieve team's goal.

(vii) A product is anything that can be offered to a market for attention, acquisition, use or consumption : it includes physical objects, services, personalities, place, organisations and ideas. A product has many other dimensions besides its physical

appearance. In fact, a product is like an onion with several layers and each of the layers contributes to the total product image.

(viii) Coordination is the process by which activities of different departments are synchronized to ensure unity of action. It is the essence of management because it is inherent in all managerial functions.

(ix) Bonus shares are the shares which a company issues to its existing shareholders free of charge. i. e., as a bonus, in order to distribute large undistributed profit among its shareholders.

(x) In a large-scale organisation, keeping a close watch over all the activities is bound to be tedious and time consuming. If control is to be effective and economical it must focus attention only on factors critical to performance. Only significant deviations from standard should be reported to top level management and other problems should be entertained by the subordinates. For example, if telephones charges increase by 10% the deviation is too significant and it will be brought to the notice of top-level management.

Part – II (60 Marks)

Answer any five questions.

Question 2.

- (a) Explain any three external elements of micro business environment. [3]
- (b) Briefly explain any two sources of short term finance. [4]
- (c) Explain the meaning of debentures. State any four disadvantages of debentures [5]

Answer

(a) Three external elements of micro business environment are :

Suppliers: Like the customers, the suppliers also influence business. If a business has only one supplier and he gets annoyed because of some reason, the supply of goods can be stopped and the very existence of the business can be threatened or endangered. Hence, efforts should be made to have various suppliers.

Competitors : The competing firms can influence business in a number of ways. They can do so by bringing new and cheap products in the market, by launching some sale promotion scheme or other similar methods.

Public : Public has different constituents like the local public, press or media etc. The attitude or behavior of these constituents can affect business units. For example, the local population can oppose some established firm whose business is excessively

noisy. Similarly, if the media gives some favorable report about a particular company the price of its share can register an increase on this count.

(b) Two sources of short-term finance are :

Public Deposits: Public deposits are the deposits raised by business organisations directly from the public. These deposits usually offer a higher rate of interest as compared to interest on bank deposits. This source fulfills the medium as well as short term finance requirements of the business. Any individual willing to deposit money in a business firm, can do so by fulfilling a prescribed form. In return a firm issues a deposit receipt as acknowledgement of the debt. Public deposits are considered to be an important source for raising funds because their cost to the company is less than that of borrowings from banks.

Trade Credit: It refers to the credit provided by one firm to another for the purchase of goods and services. It is a source of short-term financing and facilitates purchase of goods and services without immediate payment. The volume and period of credit extended by the business firms varies from one industry to another and from one firm to another. Also, it varies from customer to customer in a particular firm. The various factors affecting the volume and period of credit include reputation of the purchasing firm, volume of purchases, past record of payment etc.

(c) Debentures are common securities issued under borrowed fund capital. Debentures are instruments for raising long-term debt capital. Debentures are called creditor ship securities because debenture holders are called creditors of a company.

A debenture can be defined as 'a document or a certificate" issued by a company under its seal as an acknowledgement of its debt. Holder of debenture certificate is called debenture holder. Following are disadvantages of Debenture :

Fixed Obligation: Payment of interest is a fixed commitment of the organisation whether it is earning profit or not. Sometimes companies have to borrow fund for payment of interest to debenture holders.

Reduction in Credibility : Financial institutions and lenders hesitate to lend funds in the companies having more of debentures. The credit-worthiness of a company which has issued a large number of debentures is low.

Charge on Assets : Usually debentures are issued against securities of fixed assets. During the time of depression, if a company is unable to pay the regular amount of interest and finds it difficult to repay the amount, in this situation the debenture holders can have claim over the assets of the company.

No Voting Rights: The debenture holders are not allowed to vote in the management of the company. All the decisions regarding interest rate for debentures are taken by the equity shareholders only. Therefore, they remain at the mercy of equity shareholders.

Question 3.

(a) Write any four features of equity shares. [4]

(b) Explain any four factors that affect the capital structure of a company. [8]

Answer

(a) The features of equity shares are as follow :

Primary Risk Bearers : The equity- shareholders are the primary risk bearers of the company. In case the company suffers losses then equity- shareholders have to bear the loss. The due payment is given to creditors before paying the equity shareholders.

Claim over Residual Income : The equity shareholders have claim over the leftover income of the company only. They get share in the income left after satisfying the claims of all creditors, outsiders and preference shareholders.

Basis for Loans : Equity share capital is the basis on which loans can be raised. The amount of equity share capital adds to the credibility- of the company. The amount of equity share capital increases the confidence of the creditors.

Control : Equity shareholders have control over the activities of the company-. The equity shareholders have voting rights. The equity shareholders cast vote to select the Board of Directors who control and manage the affairs of the company.

(b) Following are the factors that affect the capital structure of a company :

Cost of Equity : Another factor which helps in deciding capital structure is cost of equity. Owners or equity shareholders expect a return on their investment i.e., earning per share. As far as debt is increasing earning per share (EPS), then we can include it in capital structure but when EPS starts decreasing with inclusion of debt then we must depend upon equity share capital only.

Floataion Costs: Floataion cost is the cost involved in the issue of shares or debentures. These costs include the cost of advertisement, underwriting statutory- fees etc. It is a major consideration for small companies but even large companies cannot ignore this factor because along with cost there are many legal formalities to be completed before entering into capital market. Issue of shares, debentures requires more formalities as well as more floatation cost. Whereas there is less cost involved in raising capital by loans or advances.

Risk Consideration : Financial risk refers to a position when a company is unable to meet its fixed financial charges such as interest, preference dividend, payment to creditors etc. Apart from financial risk business has some operating risk also. It depends upon operating cost, higher operating cost means higher business risk. The total risk depends upon both financial as well as business risk. If firm's business risk is low then it can raise more capital by issue of debt securities where as at the time of high business risk it should depend upon equity.

Flexibility: Excess of debt may restrict the firm's capacity to borrow further. To maintain flexibility it must maintain some borrowing power to take care of unforeseen circumstances.

Question 4.

- (a) Briefly explain any three demerits of public deposits. [3]
- (b) Differentiate between line organisation and line and staff organisation. [4]
- (c) Write five features of an informal business organisation. [5]

Answer:

(a) The demerits of Public deposits are :

Uncertainty : Public deposits is an uncertain and unreliable source of finance. During depression period the depositors may not respond. Also, deposits may be withdrawn whenever the financial position of the company is not stable.

Suitable for Short-term Finance : A company cannot depend upon public deposits for a long-term financing requirement as the maturity' period of public deposits is between six months to three years.

Hindrance to Growth of Capital Market : Public deposits hamper the growth of a healthy capital market in the country. Widespread use of public deposits creates a shortage of industrial securities.

(b)

Line Organization	Line and Staff Organization
(i) Line managers are generalists.	(i) These are experts known as staff to advise and assist the line officials.
(ii) There is strict discipline	(ii) There is loose discipline.
(iii) It is not based upon planned specialization.	(iii) It is based upon planned specialization
(iv) It is suitable for small scale operations.	(iv) It is suitable for medium scale operations.

(c) The basic features of informal organisation are as under :

- Informal relations are unplanned. They arise spontaneously.
- Formation of informal organisations is a natural process.
- Informal organisation reflects the pattern of human relationships.
- Informal organisations are based on common taste, problem, language, religion etc.
- The membership of the informal organisation is voluntary.
- Informal organisation is unstable in nature, its life is generally short.

Question 5.

(a) Why is management considered as a science ? [3]

(b) Differentiate between centralization of authority and decentralization of authority. [4]

(c) State and explain the principles of management as laid down by F. W. Taylor. [5]

Answer

(a) Management is called a science because it has a systematic body of knowledge including concepts, principles and theories. But it is not a perfect science as its principles are mostly situation based and do not produce the same results every time. In fact, management is a social science as it deals with humans whose behavior is not fully predictable.

(b) Difference between Centralization and Decentralization

Point of difference	Centralization	Decentralization
(i) Meaning	It refers to concentration of power or authority' at higher level only.	It refers to every distribution of powers and authority at every level of management.
(ii) Authority at different levels	Top management retains maximum authority. The authority with middle and lower management is very low.	The authority is systematically divided at every level.
(iii) Suitable	It is suitable for small scale and small size organisations.	It is suitable for large scale organisations.
(ii) Freedom of Actions	Managers have less freedom of actions	Managers have more freedom of actions.

(c) Principles of Management as laid down by F.W. Taylor are:

Division of Work : Division of work refers to dividing the work into compact jobs and allocating these compact jobs to different individuals.

Authority and Responsibility : According to this principle, there should be a proper balance between authority and responsibility.

- Authority is the right to give orders to subordinates and responsibility is the duty, which a subordinate is expected to perform by virtue of his position in organisation. Authority and responsibility go hand in hand.

Discipline : Discipline refers to obedience to rules and regulations of the organisation, which is necessary for systematic working of the organisation.

Unity of Command : According to this principle, each subordinate should receive orders and be accountable to one and only one superior.

Unity of Direction : Unity of Direction implies that there should be one head and one plan for group of activities having same objectives.

Subordination of Individual Interest to General Interest: According to this principle, interest of the organisation as a whole must prevail over the interest of the individuals or employees.

Remuneration of Employees : According to this principle, overall pay and compensation should be fair to both employees and organisation.

- The remuneration should be just and fair to everybody.
- It should provide satisfaction to both employees and organisation.

Centralization and Decentralization : According to this principle, there should be proper balance between centralization and decentralization in the organisation. Centralization refers to concentration of authority at the top level, whereas decentralization refers to evenly distribution of authority at all levels of management.

Scalar Chain: Scalar chain is the chain of superiors ranging from the highest authority to the lowest level in the organisation.

Order: According to this principle, there should be a place for everything and every one.

- If there is a fixed place for everything and it is present there, then there will be no obstruction in work.
- It will lead to increased productivity and efficiency.

Equity : According to this principle, there should not be any discrimination among the employees on the basis of religion, language, caste, sex, belief or nationality

Stability of Personnel: According to this principle, there should be proper efforts to achieve stability and continuity' of tenure of personnel.

Initiative : According to this principle, workers should be encouraged and given an opportunity to take some "initiative in making and executing the plans.

EspiritvDe Corps : According to this principle, management should take reasonable steps to develop a sense of belongingness and feeling of team spirit among employees.

Question 6.

(a) Explain any three objectives of management. [3]

(b) Explain the terms : [4]

(i) Labelling

(ii) Packaging

(c) Discuss the first five steps involved in the process of staffing. [5]

Answer

(a) The three objectives of management are :

Organisational objectives : Management is responsible for setting and achieving the objectives of an organisation. These objectives include :

- Optimum utilization of resources.
- Innovation and development of new product or a new method of production.
- Securing maximum results with minimum efforts.
- Integration of organisational and individual interest.

Social objectives: Social objectives deal with the commitment of an organisation towards society-. These objectives include :

- Consumer satisfaction
- Providing financial support to community
- Preservation and protection of environment

Individual Objectives: It refers to ascertainment of the objectives in reference to the employees, while ascertaining personal objectives. It must be taken into consideration that in no way there is a clash between organisational and personal objectives.

These objectives include :

- Providing good working conditions

- Peer recognition
- Good human relations amongst the workers
- Integration of personnel objectives with corporate objectives.

(b) Labelling: Label is a slip which is found on the product itself or on the package providing all the information regarding the product and its producer. This can either be in the form of a cover or a seal. For example, the name of the medicine on its bottle along with the manufacturer's name, the formula used for making the medicine, date of manufacturing, expiry date, batch no., price etc., are printed on the slip thereby giving all the information regarding the medicine to the consumer. The slip carrying all these in details called Label and the process of preparing it as Labelling.

Packaging: Packaging aims at avoiding breakage, damage, destruction, etc., of the goods during transit and storage. Packaging facilitates handling, lifting, conveying of the goods. Many a time, customers demand goods in different quantities. It necessitates special packaging. Packing material includes bottles, canister, plastic bags, tin or wooden boxes, jute bags etc.

(c) Staffing process includes the following steps :

Estimating the Manpower Requirements: At first step of staffing the need for required number of employees is estimated. Under this, it is ensured that capable employees are available in the adequate number. At the time of determining the number of persons required. The possibilities regarding promotions, retirements, resignation, etc. should be taken into consideration.

Recruitment: Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. The main objective of recruitment is to create a pool of the prospective job candidates. Higher the number of people who apply for a job, higher will be the possibility of getting a suitable employee.

Selection : Under the process of selection, competent applicants are selected out of a large number of them. It is important to keep in mind that the ability of the applicant and the nature of work must match. The closest matching will bring the best results. To complete the selection process many tests are conducted. Finally, an applicant is selected if he/she is declared pass in the interview .

Placement and Orientation : Placement means putting the selected candidate at the right job after considering his ability and capability . Orientation means introduction of new employees with the existing employees and rules and regulations of the organisation.

Training and Development : Training is to impart training and development to employees to increase their efficiency and effectiveness. Training reduces the cost of production and helps in the maintenance of machines and tools and reduces the number of accidents.

Question 7.

- (a) Distinguish between method and procedure. [3]
- (b) What is marketing 9 State two features of the modern concept of marketing. [4]
- (c) Explain the need for consumer protection. [5]

Answer

- (a) Difference between Procedures and Methods

Procedures	Methods
(a) Procedures are sequences of steps to be followed for performing some important jobs.	(a) Methods are formalized way of doing a routine and repetitive jobs.
(b) Procedures are more rigid.	(b) Methods are less rigid or flexible.
(c) Procedures help in implementation of policy.	(c) Methods help for standardization and co-ordination of activity.
(d) Example : Procedure for giving admission in school or giving contracts to an outside agency.	(d) Example: Methods of valuation of stock or method of production.

(b) Traditionally marketing has been described in terms of its functions or activities. In this respect, marketing has been referred to as performance of business activities that direct the flow of goods and services from producers to consumers.

In modern times, emphasis is placed on describing marketing as a social process. It is a process whereby people exchange goods and services for money or for something of value to them.

The main features of marketing are as follow:

Needs and Wants:

The main objective of marketing process is to satisfy the needs and wants of the customers. All the marketing activities are carried out to fulfill this objective. A need can be defined as sum total of all those items which are basic to human beings. For example, food, shelter, clothing, water etc. Culturally defined objects that are potential satisfies of needs are known as Wants. For example, basic need for water can take many forms such as cold drink or lemon water or tea or coffee etc. These forms are

known as wants. An organisation must identify' the various needs of their customers and should develop products and services that satisfy the same.

Creating a Market Offering:

Market offering means giving an offer for goods and services by describing its features like shape, size, quality, uses etc. Suppose a computer is offered in a market: its various features like different sizes and prices at which it is available, technologies used, location of the shops at which it is available etc. are described. A good 'market offer' is one which aims at complete consumers' satisfaction.

(c) Following are points which highlight the need for consumer protection :

Consumer Ignorance : In many cases, consumers remain ignorant about their rights or do not have adequate measures to differentiate between genuine and spurious products. Therefore, they need suitable protection in the form of consumer protection.

Widespread Consumer Exploitation : In the present business environment, there is scope for widespread consumer exploitation through a variety of malpractices, some even unconceivable by consumers. This necessitates protection of consumers.

Unorganized Consumers : Consumers are not organised like trade unions or trade associations which protect the interests of their members. They are unorganised and have no voice to convey their exploitation except through consumer protection measures.

Long-term Interest of Business : Consumer protection is quite relevant for long-term interest of business. The main focus of a business is on its consumers (the ultimate customers). Thus, serving the consumers by protecting their interests becomes the interest of business. Any unethical practice erases all positive effects of ethical practices.

Use of Social Resources : A business uses social resources of various types. Therefore, it is bound to serve the society by using its resources through adoption of fair trade practices which ensure consumer protection.

Social Responsibility : Social responsibility is a business objective along with other objectives. Since consumers are a part of society, consumer protection becomes an objective of a business. The business is required to balance various objectives.

Question 8.

(a) State three objectives of sales promotion. [3]

(b) Explain the meaning of e-banking. State any three features of e-banking. [4]

(c) Explain five factors that affect the pricing decision of a product. [5]

Answer

(a) Objectives of Sales Promotion:

- To create, demand through the issue of free samples, premiums and other methods.
- To educate the customers about the new products and about their uses.
- To maintain and extend the market for an established product.
- To remove or overcome competition.

(b) e-Banking: e-Banking or electronic banking is the latest wave in information technology. It can be defined as the services provided by the banks on internet. It involves low transaction cost, adds value to the banking relationship and empowers customers. Electronic services offered by the bank are Electronic Funds Transfer (EFT), Automated Tekker Machines (ATM), Electronic Data Interchange (EDI), Credit cards, Debit cards etc. These services help the customers to conduct banking transactions such as managing savings, applying for loans, checking accounts, paying bills etc. over the internet a personal computer, mobile telephone etc.

Features of E-Banking are :

- It facilitates 24 hours banking services to the consumers.
- It involves electronic services offered by the bank i.e.. Electronic Funds Transfer (EFT), Automated Teller Machines (ATM). Electronic Data Interchange (EDI) etc.
- It provides greater security to the customers as they can avoid travelling with cash.
- It also offers unlimited access to the bank.
- It keeps a record of each and even transaction.

(c) The following factors to be kept in mind before pricing :

Cost of Production : The most important factor affecting price of a product or service is its cost. While fixing the price of a product or service all total costs (Fixed costs, semi variable costs or variable costs) and desired profit is added. No business firm likes to sell its product below the marginal cost of product. Moreover, profits are also must for the survival of business.

The Utility and Demand : Utility means the satisfaction which a customer receives from a consumption of a product. The buyer is ready to pay up to the point where the utility from the product is at least equal to the sacrifice made in terms of price paid. Demand also plays an important role in determining the price of the product. If there is less demand for the product, it would not be sold at a very' high price and vice-versa. Thus demand should be predicted correctly before setting the price.

Extent of Competition in the market: If there is higher degree of competition, the price will be fixed at the lowest level and if there is lesser degree of competition, the price will

be fixed at the upper limits. In addition, while fixing prices, the quality, price and features of competing products must be considered.

Government and Legal Regulations : Government and legal regulations also play an important role in fixation of prices. Sometimes the prices are fixed by the government for essential commodities. For example, government fixes the low price for life saving medicines for the diseases like cancer, AIDS etc. No business enterprise can charge more price as fixed by the government.

Pricing Objectives : Pricing objectives are another important factor affecting the fixation of price. These objectives include :

- If a firm wants to capture a share of the market. It will fix the low prices so that greater number of people can be attracted.
- In case of keen competition the firm can use the sales promotion techniques like discount, rebate etc.
- Sometimes high prices are charged to cover high quality and high cost of research and development.

Question 9.

Write short notes on :

- (a) SWOT analysis. [4]
- (b) Marketing research. [4]
- (c) Bank overdraft. [4]

Answer:

(a) SWOT Analysis is an acronym for strengths, weaknesses, opportunities and threats. A SWOT Analysis can be carried out for a company, product, place, industry or person. It specifies the objective of the business venture and identifying the internal and external factors that are beneficial and non-beneficial to achieve that objective.

(b) Marketing research refers to a process which involves application of research process in solving various marketing problems. First of all market information is gathered and analysed. This is necessary to understand the needs of customers and for taking marketing decision.

(c) Bank Overdraft is a temporary arrangement in the form of a sanctioned limit granted to the customers to overdraw from their current accounts. Interest is charged on the overdrawn amount. The overdrawn limit is determined by the bank depending upon various issues like, credit worthiness of the customer, need and time interval for which the overdrawn is required.