

ICSE Paper 2011 Commercial Studies

(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.

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 [].

Section-A (40 Marks)

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

Question 1:

Distinguish between:

- (a) Capital Receipts and Revenue Receipts. [2]
- (b) Direct Costs and Indirect Costs. [2]
- (c) Shareholders and Customers. [2]
- (d) Budgeting and Forecasting. [2]
- (e) A Trading Account and a Profit and Loss Account. [2]

Answer:

(a)

Capital Receipts	Revenue Receipts
1. Capital receipts refer to the receipts of a non-recurring nature such as additional capital from owners, loans raised by the firm and money obtained from a sale of fixed assets.	Revenue receipts are the receipts obtained during the normal course of business operation and are of a recurring nature. Sale proceeds of goods and services, interest received, dividend received, rent received are examples of revenue receipts.
2. Capital receipts are shown on the liabilities side of the Balance Sheet.	Revenue receipts are credited to the Trading or Profit and Loss Account.

(b)

Direct Costs	Indirect Costs
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1. Direct costs are those costs which can be easily, directly and wholly related to a particular cost unit or cost centre.	Indirect costs are those costs which cannot be identified easily, directly and wholly with a particular cost unit or cost centre.
2. These consist of direct material cost, direct labour cost and direct expenses.	These comprise indirect materials, indirect labour and indirect expenses. Indirect costs are also known as over heads.

(c)

Stakeholders	Customers
1. Share holders supply financial capital or human capital.	Customers do not supply any capital.
2. Stakeholders do not buy goods or services from the organisation.	Customers buy goods or services from the organisation.

(d) Refer **Ans. 1. (b), 2016.**

(e)

Trading Account	Profit & Loss Account
Trading account is prepared to calculate the gross profit (or loss). The result of the trading account in the form of gross profit or gross loss is transferred to profit & loss account.	Profit & Loss account is prepared to calculate the net profit made or net loss incurred by a business enterprise for a given accounting period. The result of transferred to capital account.

Question 2:

- (a) What is meant by formal communication? [2]
- (b) Name four important methods used for training. [2]
- (c) State any two methods of Marketing Research. [2]
- (d) What are Liquid Assets? [2]
- (e) Give two aims of The Consumer Protection Act 1986. [2]

Answer:

- (a) Refer **Ans. 2. (b), 2016.**
- (b) (i) Orientation Training, (ii) Job Training, (iii) Refresher Training (iv) Promotional Training

(c) Refer **Ans. 6. (b), 2016.**

(d) 'Liquid Asset' means those assets which will yield cash very shortly. All current asset except stock and prepaid expenses are included in liquid asset. Liquid asset thus include cash, debtors, bills receivable and short term securities.

(e) Refer **Ans. 4. (a), 2016.**

Question 3:

(a) What is meant by Non-Insurable Risk? Give one example. [2]

(b) State any two general utility functions of Commercial Banks. [2]

(c) State any two characteristics of a Service. [2]

(d) Give two points of difference between Public and Private Warehouses. [2]

(e) State any two expectations of the general public from a business organization. [2]

Answer:

(a) Risk whose probability cannot be calculated and which cannot be insured against is known as non-insurable risk.

Example: Loss due to fall in demand, changing technology, changing fashion etc.

(b) General utility functions are:

1. Safe custody of valuables: Banks offer safe deposit vaults (called lockers) where customers can keep their jewellery, shares, debentures, insurance policies and other valuables. In this way banks assume safe custody of valuables and important documents of customers. Banks charge rent for this service.
2. Issue letters of credit, travellers cheques, etc: Commercial banks issue letters of credit to importers. They also issue cheques to travellers to make money available to them at the place of requirement. Travellers cheques relieve the tourists from the problem of carrying cash during the tour. Banks also provide credit card and ATM facilities to the customers.
3. Underwriting of capital issues: Banks underwrite shares and debentures issued by public limited companies. In this way banks help them in raising capital from the market. Many commercial banks also offer merchant banking facilities to the corporate sector. (any two)

(c) **Two characteristics of service are:**

1. Services are intangible as they cannot be seen or touched. They have no physical shape.
2. Services cannot be stored for future use.

(d) Refer Ans. 1. (c), 2013.

(e) The two expectations of the general public from a business organisations are as follows:

1. To protect the-environment from all types of pollution.
2. To produce socially desirable product in accordance with national interest and priorities.

Question 4:

(a) State any two features of a Bearer Cheque. **[2]**

(b) What is meant by the term Capital Expenditure? **[2]**

(c) List two features of a Non-trading Organization. **[2]**

(d) State two methods or techniques of Sales Promotion. **[2]**

(e) State two advantages of a Campus Interview as a source of recruitment. **[2]**

Answer:

(a) Two features of a Bearer cheque:

1. It contains the words 'or bearer' along with the name of the payee.
2. The ownership of this cheque can be transferred by mere delivery.

(b) Capital expenditure means the expenditure the benefit of which is not exhausted within the current year but is enjoyed over a long time period. Such expenditure is of non-recurring nature and results in acquisition of permanent assets. Property acquired with the help of capital expenditure is utilised by the business for a long time and thereby it earns revenue. Thus, all expenditure incurred to acquire or increase the value of fixed assets which are used in the business for the purpose of earning revenue are called capital expenditure.

(c) Two features of a Non-trading organisation are:

1. Non trading organisations are established and operated only for the purpose of rendering services to the members and the society and not for earning profits.
2. Non trading organisation prepare:
 - (a) Receipt and Payment account.
 - (b) Income and Expenditure account.
 - (c) Balance Sheet.

(d) Two methods or techniques of Sales Promotion are:

1. Dealers sales promotion techniques, eg., free displays and trials, special gifts, display coupons etc.
2. Customers sales promotion techniques, e.g., free samples, coupons, premium, fair and exhibitions etc.

(e) The two advantages of a campus interview as a source of recruitment are as follows:

1. Campus recruitment is very convenient and inexpensive because employer gets help from the placement cell of the educational institute in recruitment and selection.
2. Well educated persons become available very quickly without any advertisement.

Section – B (40 Marks)

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

Question 5:

(a) State any five advantages of Road Transport over Water Transport. [5]

(b) Give any five expectations of employees from a business enterprise. [5]

Answer:

(a) Five advantage of road transport over water transport are as follows:

1. **Special Needs:** Road transport can reach rocky and hilly remote areas which are inaccessible to water ways.
2. **Less formalities:** For relatively short distances, road transport is quicker than water transport. Lesser time is wasted in booking the goods and in taking delivery. Therefore, road transport facilitates prompt delivery of goods.
3. **Multipurpose nature:** Roads can be used by several types of vehicles, e.g. motor cars, trucks, buses. Road transport is very convenient and controllable. It serves as a feeder to ocean transport. Road transport provides more personal and efficient services due to small and simple organisation.
4. **Door-to-Door service:** Road transport provides complete service by loading the goods at consignor's door and unloading them at the consignee's place. No elaborate loading arrangements are required and less time is involved in transportation. There is no need to wait for full load shipment.
5. **Economy:** For short distances and small loads, road transport is quicker and economical. Cost of packing and handling of goods are also comparatively low.

(b) Five expectations of employees from a business enterprise:

1. Security of job and continuity of service under congenial conditions.

2. A fair remunerations in the form of wages and salaries.
3. Safe and comfortable working environment.
4. Opportunity to participate in the profits and management of the organisations.
5. Protection of trade union rights.

Question 6:

- (a) Explain any two functions of the Central Bank of a country. [5]
 (b) Briefly explain any five principles of an Insurance Contract. [5]

Answer:

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

(b) Five principles of an Insurance contract are:

1. **Utmost good faith:** An insurance contract is based on utmost good faith on the part of both the parties. One who wants to get an insurance policy it is his duty to disclose all the material facts about the subject to be insured. The amount of premium is fixed on the basis of the information supplied by the proposer.
2. **Insurable Interest:** Insurable interest is an essential element in every insurance contract. In the absence of insurable interest, a contract of insurance becomes a wagering contract which is null and void and unenforceable at law. Insurable interest means that the insured must be in such a position that he will suffer a primary loss by the happening of the event insured against. A person is said to have an insurable interest in the subject matter insured, if he is benefited by its existence and suffers a loss by its destruction.
3. **Indemnity:** Indemnity means a promise to compensate in case of loss. The object of every insurance contract is to place the insured as nearly as possible in the same financial position after the loss as he was before the loss. The insured is entitled to recover from the insurer only the amount of loss actually suffered. The maximum amount of compensation will be upto the sum insured on the value of the policy. The insured will not be allowed to make any profit out of the happening of any loss covered by insurance contract.
4. **Doctrine of Subrogation:** It implies that after indemnifying the insured for his loss, the insurer becomes entitled to all the rights and remedies to the property insured[^]. The insurer shall step into the shoes of insured. Doctrine of subrogation is applicable to all contracts of indemnity and it is not applicable to life insurance.
5. **Mitigation of Loss:** According to this principle, it the duty of the insured to take all possible steps to minimise the loss or damage in case of a mishap. The insured should not be careless in the event of any accidental loss just because the

property is insured. He should behave like a prudent person and make reasonable effort to save the insured property.

Question 7:

(a) Explain any five qualities of a successful salesman. **[5]**

(b) Briefly explain the following:

(i) Role of Trade Unions in the welfare of workers.

(ii) Outdoor Advertising. **[5]**

Answer:

(a) Five qualities of a successful salesman are:

1. **Knowledgeable:** A good salesman should possess knowledge about his organization, product, market, customer and competitor. He should have knowledge about his product so that if any query is put to him by customer he can handle it easily and confidently. He should have knowledge about the customer related to his habits, tastes, preferences and time of buying so that the repeated sales can be made.
2. **Physically and mentally fit:** A good salesperson is one who is physically and mentally fit. Selling often requires extensive travelling and even visits to the prospects at odd hours; thereby putting the strain on salesman. Therefore, the salesman should be physically fit to overcome such strain. He should be mentally fit to understand what prospect says on one hand and on the other to make prospect understand what he says.
3. **Cheerful:** Any person having cheerful disposition and pleasing manners gets acceptance very easily. Same is the case in selling. A salesman who has a smiling face and is social, will get the acceptance from the prospect easily. To be a successful salesman, he should possess pleasing manners, politeness, sincerity and should be alert and attentive to the needs of customers.
4. **Communication:** Communication skill is an asset for the salesman. He should be able to speak freely, clearly and in a well-pitched voice. He must be a person who has a natural ability for conversation.
5. **Determination:** The salesman must have a sense of determination to secure the customer. He should not lose confidence and give up the customer so easily.

(b)

1. **Role of trade unions:** Trade unions perform the following main functions:

- **Protection:** Trade unions safeguard workers against all sorts of exploitation by the employer and political parties. A union provides protection from unfair labour practices and atrocities of management. It also tries to revise the status of workers in industry and society.
 - **Proper standard of living:** Unions attempt to secure for workers fair wages, proper working conditions and welfare facilities like health, housing, recreation and social security so as to ensure desirable living standard for them.
 - **Economic security:** Unions protect their members from various economic hazards such as illness, accidental injuries, un employment. They secure compensation from employers. Unions also provide financial assistance to workers dining distress.
 - **Collective bargaining:** A trade union negotiates and bargains with the management to settle terms and conditions of employment.
 - **Participation:** Trade unions work for achieving a better say of workers in the management of matters which directly influence the interests of workers. In this way unions attempt to establish democracy in industry.
 - **Protests:** Unions organise demonstrations, strikes and other forms of protest to press the demands of workers. During a strike the union may provide financial and other help to members when the employer stops wages.
 - **Education:** Many trade unions make arrangements for the education of workers and their family members. Unions make workers conscious of their rights and duties and aware of the need for techno-logical changes.
 - **Welfare and recreation:** Some unions provide recreation, sports, and other welfare facilities for their members.
2. **Outdoor advertising** takes place in the form of posters, bill-boards, electrical displays, wall writing etc. It is employed by business concerns to attract the attention of the people quickly. It is a relatively cheap medium of advertisement. Outdoor media of advertising refers to the media used to reach people when they are out of the doors. Therefore, outdoor advertising means exhibition of advertisements at street comers, railway stations, bus stations, on moving vehicles, etc., through posters, hoardings, electric or neon signs, sky writing, loud speakers, travelling announcers etc. It has a wide appeal and long life. Outdoor advertising is highly flexible and economical. Timeliness and repetition is another

advantage of outdoor advertising. But outdoor advertising fails to tell the complete message and has a low retention value. It has a temporary appeal.

Question 8:

(a) Explain the elements in the process of communication. **[5]**

(b) Marketing is essential for the success of a business organisation.

Give four reasons to support your answer. **[5]**

Answer:

(a) The elements in the process of communication:

1. **Sender:** The sender is a person, group or organisation which initiates the communication process. Sender may be a speaker, a writer or an actor.
2. **Message:** Message is the physical form in which an idea is expressed. It consists of facts, opinions, feeling, decision, etc. Message may take the form of oral or written words.
3. **Encoding:** Encoding is the process by which the message is translated into symbols which can be transmitted. The symbol may be language, numbers, codes, signs, sounds, pictures etc.
4. **Channel:** Channel means the medium which carries the message to the receiver. It serves as a link between the sender and the receiver. Face to face conversation, telephone calls, letters, telegrams, fax, E-mail etc., are examples of channel.
5. **Receiver:** Receiver is the person, group or organisation to whom the message is directed. Receiver may be a listener, a reader or a viewer.
6. **Decoding:** Decoding is the process by which the receiver translates the message into meaning from the symbols encoded by the sender.
7. **Feedback:** Once, the message is understood the receiver sends his reaction or response. This response is known as feedback. It verifies the message.

(b)

1. **Foundation of business:** Marketing is the focal point of all business activities. The end of all production is consumption and the success of a business enterprise depends on efficient marketing. Manufacturing, finance, personnel and other activities of business revolve around marketing. Marketing has become vital for the survival and growth of business due to large scale production, changing technology, and sophisticated tastes and preferences of customers.
2. **Source of revenue:** Marketing is the only source of generating revenue for business. Other activities of business such as manufacturing, finance, research and development and personnel incur expenditure. Marketing provides funds for all other departments by generating revenue. Efficient marketing creates demand and enlarges the market so that more revenue is earned for meeting costs.

Marketing helps to reduce costs through optimum utilisation of resources.

3. **Satisfaction of customers' Needs:** Marketing satisfies human needs and determines the pattern of consumption. It helps in assessing customer wants and facilitates transfer of ownership of goods. Marketing creates time, place and possession utilities.
4. **Higher standard of living:** Marketing helps in improving the standard of living by providing new and better varieties of goods to people. It brings to their knowledge new products and their uses. It brings about improvements in the quality of life of the common man.

Question 9:

(a) State the various stages of the Selection Process of workers in an organisation. [5]

(b) Suggest any five ways Society benefits from Advertising. [5]

Answer:

(a) Refer **Ans. 8. (b), 2016.**

(b) Five ways Society benefits from Advertising are:

1. **Generates employment:** Advertising provides direct employment to a large number of people engaged in designing, writing, and issuing advertisements. Indirectly, advertising increases employment opportunities by increasing the volume of production and distribution.
2. **Standard of living:** Advertising improves the standard of living of the people by promoting variety and quality in consumption. It educates people about new uses of products and provides information for developing better ways of life. To quote Franklin D. Roosevelt, the late President of America, "advertising brings to the greatest number of people actual knowledge concerning useful things, it is essentially a form of education and the progress of civilization depends on education."
3. **Sustains the press:** Advertising provides an important source of revenue to newspapers, magazines, radio and television. As a result public gets news at lower rates and the circulation of newspapers and magazines increases. Press is the guardian of public opinion and by helping it to remain independent, advertising promotes liberty and democracy in the country.
4. **Stimulates research and development:** Advertising can be successful only when it is backed by new and better products. To derive maximum benefit from advertising in the competitive market, every producer tries to differentiate his

products from the competitive products. Big business firms have research and development departments to develop new products and new uses.

5. **Incentive to progress:** Advertising motivates people to work hard and earn more to buy new and better products. According to Sir Winston Churchill, "Advertising nourishes the consuming power of man. It creates a desire for better standard of living. It spurs individual exertion and greater production."

Question 10:

Prepare a Trading, Profit and Loss A/c and Balance Sheet of M/s Sultan Enterprises for the year ended 31st March, 2010 from the following Trial Balance. [10]

Trial Balance as on 31.03.2010

Head of Accounts	Dr. ₹	Cr. ₹
Opening Stock	15,000	—
Salary	2,400	—
Purchase and Sales	80,000	1,20,000
Machinery	40,000	—
Returns	4,000	5,000
Commission Received	—	6,000
Investments	10,000	—
Interest on Investment	—	1,200
Carriage on Purchase	3,000	—
Rent and Rates	4,000	—
Debtors and Creditors	22,800	15,700
Bills Receivable and Bills Payable	3,400	4,100
Cash-in-hand	6,400	—
Wages	18,600	—
Discount Allowed	5,200	—
Royalty Paid	12,000	—
Discount Received	—	6,000
Drawings and Capital	1,200	70,000
	<u>2,28,000</u>	<u>2,28,000</u>

Closing Stock was ₹ 15,250

Answer:

Dr.

Trading and Profit & Loss A/c
for the year ending 31st March, 2010

Cr.

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening Stock	15,000	By Sales	1,20,000
To Purchase 80,000		Less : Return	4,000
Less : Return 5,000	75,000	By Closing Stock	15,250
To Carriage on Purchase	3,000		
To Wages	18,600		
To Royalty Paid	12,000		
To Gross Profit	7,650		
	1,31,250		1,31,250
To Salary	2,400	By Gross Profit	7,650
To Rent and Rates	4,000	By Commission Received	6,000
To Discount Allowed	5,200	By Interest on Investment	1,200
To Net Profit	9,250	By Discount Received	6,000
	20,850		20,850

Balance Sheet
(as on 31st March, 2010)

Liabilities	Amount	Assets	Amount
	₹		₹
Creditors	15,700	Cash in Hand	6,400
Bills Payable	4,100	Closing Stock	15,250
Capital 70,000		Bills Receivable	3,400
Less : Drawing 1,200		Debtors	22,800
	68,800	Investments	10,000
Add : Net Profit 9,250	78,050	Machinery	40,000
	97,850		97,850