

KOTHARI INTERNATIONAL SCHOOL, NOIDA
ANNUAL EXAMINATION, SESSION: 2025-26
GRADE: 11 SUBJECT: BUSINESS STUDIES (054)
SET B

DAY & DATE: FRIDAY FEBRUARY 06, 2026

MAXIMUM MARKS: 80

NAME: _____

TIME ALLOTTED: 3 HOURS

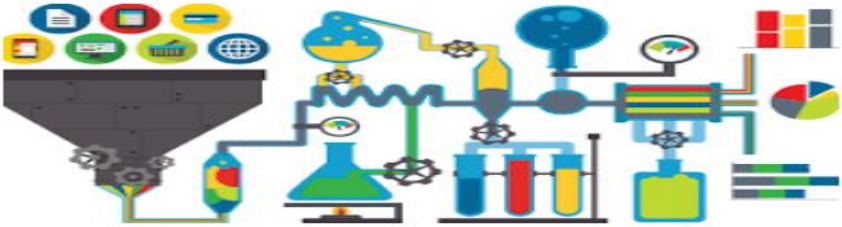
ROLL NO: _____

MARKING SCHEME

Q1.	<p>Match the various types of Industries given in column I with their respective example given in column II.</p> <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Column I</th> <th style="width: 50%;">Column II</th> </tr> </thead> <tbody> <tr> <td>A. Primary Industry</td> <td>(i) Manufacturing Industry</td> </tr> <tr> <td>B. Secondary Industry</td> <td>(ii) Transport Industry</td> </tr> <tr> <td>C. Tertiary Industry</td> <td>(iii) Extractive Industry</td> </tr> </tbody> </table> <p>A. (iii) (i) (ii) B. (ii) (i) (iii) C. (i) (ii) (iii) D. (iii) (ii) (i)</p>	Column I	Column II	A. Primary Industry	(i) Manufacturing Industry	B. Secondary Industry	(ii) Transport Industry	C. Tertiary Industry	(iii) Extractive Industry	(1)
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Q2.	<p>Vijay Plastic Pvt. Ltd. are makers of plastic toys for children; earning a huge profit. A research conducted by The Indian Council of Child Welfare on the toys shows that colours used in manufacturing toys are harmful for the children. The test was conducted on toys manufactured by the company and case was filed against Vijay Plastic Pvt. Ltd. for using sub-standard colours. However, managing director assured that the company will use standard colours only after certification from the research laboratory and the company will expand its production capacity by employing labour from unprivileged sections of the society. On the basis of the given information about Vijay Plastic Pvt. Ltd., specify the type of business activity performed by Vijay Plastic Pvt. Ltd.</p> <p>A. Trade B. Commerce C. Industry D. None of these</p>	(1)								
Q3.	<p>Avantika wanted to pitch in to reduce the financial crisis prevailing in her house and thought of working as a cook. She started working in three different households, one Punjabi, one Gujrati and one South Indian family. She soon realised that all the three households had different cuisine. It was indeed a challenge for her to learn the techniques of the cuisine. All the families greatly appreciated the time frame within which she had mastered the local cuisine. After working for them for a year, she decided to open a small eating joint of her own along with two of her friends by the name 'Eat point'. They decided to share profits and losses equally and that each of them will be liable for acts performed by the other two. Soon the eatery became a hot spot because of the fusion platter which was being offered. On the</p>	(1)								

	<p>basis of the given information, identify the kind of business organisation which was set up by Avantika and her friends.</p> <p>A. Partnership B. Cooperative society C. Sole proprietorship D. HUF</p>	
Q4.	<p>There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below</p> <p>A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is true, but Reason (R) is false D. Assertion (A) is false, but Reason (R) is true</p> <p>ASSERTION (A) Board of directors exercise direct control over the business. REASON (R) Board of directors are the owners of the company.</p>	(1)
	<p>Direction Read the following case study and answer questions 5 to 9 on the basis of the same. Bharat Heavy Electricals Limited (BHEL) owned and founded by the Government of India, is an engineering and manufacturing company based in New Delhi, India. It was established in 1964. BHEL is India's largest power generation equipment manufacturer. It is managed by the board of directors nominated by the government. As government is the majority shareholder, it exercises control over the affairs of the company.</p>	
Q5.	<p>How will you classify BHEL as a form of public sector enterprise?</p> <p>A. Departmental undertakings B. Government company C. Private sector enterprise D. Statutory corporation</p>	(1)
Q6.	<p>BHEL was formed according to which Act?</p> <p>A. Partnership Act B. Hindu Succession Act C. Companies Act D. Cooperative Societies Act</p>	(1)
Q7.	<p>“As government is the majority shareholder, it exercises control over the affairs of the company.” Which feature of government company highlighted in the given lines?</p> <p>A. Formation B. Ownership C. Separate legal entity D. Audit procedure</p>	(1)
Q8.	<p>Mr Kabir Khan desires to have two benefits from his bank account, first, to earn higher interest on balance and second, to face minimum risk of dishonouring a cheque. Which type of account should be opened by him in Indus Bank?</p>	(1)

	<p>A. Current account B. Saving account C. Multiple option account D. Recurring account</p>							
Q9.	<p>Match the following. Column I Column II</p> <table border="1"> <tr> <td>A. Subrogation</td> <td>(i) It is the duty of the insured to take reasonable steps to minimise the loss to the insured property.</td> </tr> <tr> <td>B. Contribution</td> <td>(ii) Insurer gets all the rights against the third party with respect to subject matter insured, after compensating the loss.</td> </tr> <tr> <td>C. Mitigation</td> <td>(iii) This principle ensures equitable distribution of losses between insurers.</td> </tr> </table> <p>A. (i) (ii) (iii) B. (iii) (ii) (i) C. (i) (iii) (ii) D. (ii) (iii) (i)</p>	A. Subrogation	(i) It is the duty of the insured to take reasonable steps to minimise the loss to the insured property.	B. Contribution	(ii) Insurer gets all the rights against the third party with respect to subject matter insured, after compensating the loss.	C. Mitigation	(iii) This principle ensures equitable distribution of losses between insurers.	(1)
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Q11.	<p>Skylack enterprises is dealing in mobile accessories. With the continuous increase in demand for mobiles, their business is expanding. However, the MD observed that the decision-making process in the enterprise is very slow and level of coordination is decreasing between the various departments. Tejas, an IT professional, suggested that the company should have its own internet to interact and deal between various departments and persons within the firm. MD liked the idea and implemented it immediately. Identify the branch of e-business suggested by Tejas.</p> <p>A. B2B transaction B. B2C transaction C. Intra-B transaction D. B2E transaction</p>	(1)						
Q12.	<p>Match the following. Column I Column II:</p> <table border="1"> <tr> <td>A. Responsibility towards the shareholders</td> <td>(i) To provide opportunities for personal growth and development</td> </tr> </table>	A. Responsibility towards the shareholders	(i) To provide opportunities for personal growth and development	(1)				
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Q14.	<p>Match the following sources of finance on the basis of their features:</p> <table border="1"> <tr> <td>i) Trade Credits</td> <td>a) facilitate purchase of goods and services without making immediate payments</td> </tr> <tr> <td>ii) Preference Shares</td> <td>b) refers to that part of profits which is kept and reserve for the use in future</td> </tr> <tr> <td></td> <td>c) it has characteristics of both equity and debentures</td> </tr> </table> <p>(i) a; (ii) c</p>	i) Trade Credits	a) facilitate purchase of goods and services without making immediate payments	ii) Preference Shares	b) refers to that part of profits which is kept and reserve for the use in future		c) it has characteristics of both equity and debentures	(1)
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Q15.	<p>Identify the capital which is required for day to day operations of the business?</p>  <p>Ans : Working Capital</p>	(1)						
Q16.	<p>As per notification issued by the ministry of commerce and industry, a start up means, with reference to period</p> <p>A. not older than 5 years B. not older than 10 years C. not older than 12 years D. not older than 13 years</p>	(1)						
Q17.	<p>“Necessity is the mother of all inventions”“.In business managing its intellectual property is critical in taking a business ahead. It is essential to respect others intellectual property rights</p>	(1)						

	<p>not only on the ethical grounds but also legal. Match the type of intellectual property with its terminology:</p> <table border="1"> <thead> <tr> <th>Column A</th> <th>Column B</th> </tr> </thead> <tbody> <tr> <td>(i) Geographical indication</td> <td>(a) brand given legal protection</td> </tr> <tr> <td>(ii) Patent</td> <td>(b) conferred upon the creator of literary, artist. music</td> </tr> <tr> <td>(iii) Trademark</td> <td>(c) agricultural and natural products</td> </tr> <tr> <td>(iv) Copyright</td> <td>(d) protection of scientific inventions</td> </tr> </tbody> </table> <p>Ans- (i)-c,(ii)-d,(iii)-a,(iv)-b</p>	Column A	Column B	(i) Geographical indication	(a) brand given legal protection	(ii) Patent	(b) conferred upon the creator of literary, artist. music	(iii) Trademark	(c) agricultural and natural products	(iv) Copyright	(d) protection of scientific inventions	
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Q18.	<p>Which type of service is not offered by retailers to manufacturers and wholesalers</p> <p>A. New product information B. Personal selling C. Helps in promotion D. Helps in distribution of goods</p>	(1)										
Q19.	<p>ABC Traders is a wholesale merchant operating in Delhi. It purchases goods like rice, sugar, and pulses in bulk directly from manufacturers and farmers. The wholesaler stores these goods in large warehouses and sells them in smaller quantities to retailers located in different markets. ABC Traders provides services such as warehousing, transportation, grading, and sometimes extends credit facilities to retailers. By performing these activities, the wholesaler helps in smooth distribution of goods and reduces the burden on manufacturers.</p> <p>For each question, choose the correct option:</p> <p>A. Both Assertion and Reason are true and Reason is the correct explanation of Assertion. B. Both Assertion and Reason are true but Reason is not the correct explanation of Assertion. C. Assertion is true but Reason is false. D. Assertion is false but Reason is true.</p> <p>ASSERTION (A) Wholesale trade reduces the burden of storage for manufacturers. REASON (R) Wholesalers maintain large warehouses to store goods.</p>	(1)										
Q20.	<p>Which of the following is a document related to payment in connection with export transactions?</p> <p>A. Export Invoice B. Shipping Bill C. Cart Ticket D. Letter of Credit</p>	(1)										
Q21.	<p>Sharma brothers inherited some ancestral property. They decided to form a Hindu undivided family consisting of four male members. Mr. Raman Sharma was eldest brother so he became Karta', The business took a loan of ₹20 lakhs from Canara Bank, which was to be returned within 5 years. Due to poor financial position of the business, they were unable to repay the loan. Brothers sold the ancestral property for ₹10 lac and paid the amount to Canara Bank. The bank filed a case for recovery of balance amount. Mr. Raman Sharma pleaded the court that the loan was taken for the purpose of Business: so all members of business are liable to repay. The court said all members are responsible only to the extent of their share in business and business property is already sold, but you being Karta will have to repay whole amount even by selling your personal property.</p>	(3)										

	<p>i). In this case who has unlimited liability. ii). Was the decision of court to claim only from Raman is justified?</p> <p>Ans. i). Karta has unlimited liability. ii). Yes, because only karta has unlimited liability remaining members have limited liability.</p>	
<p>Q22.</p>	<p>Ms. Vineeta was suffering from a chronic disease and was spending a huge sum of money on her treatment. She approached a life insurance company and got insurance policy in her name for 50 lakhs without informing about her disease to the insurance company. Sometime later, she died. Her legal heir contacted the insurance company for the claim but the company refused to entertain the case.</p> <p>(a) Can the legal heir of Ms Vineeta bind the insurance company to make payment of the claim if it is referred to the court?</p> <p>(b) Explain the relevant insurance principle to justify your answer.</p> <p>Ans. (a) No, the legal heirs of Ms Vineeta cannot bind the insurance company to make payment by going to court as the fact on disease was not disclosed by the insured. (b) Principle of utmost good faith: (explain briefly)</p> <p style="text-align: center;">OR</p> <p>Nishant & Company (OPC) got its office building insured for 10 crore. Due to an electric fire, a part of the building was badly destroyed. The advisor from the insurance company estimated the loss and approved the claim for 6 crore. Mr Nishant, the owner of the company, argued with the advisor to approve the claim for the amount of ₹10 crore as he has paid the premium of this amount and not for ₹6 crore. Explain with reason who is justified in the above case.</p> <p>Ans. Insurance advisor is correct as according to principle of indemnity, insurance policy is subject to reimburse actual loss or the insured amount whichever is less. Principle of Indemnity ensures that the insured does not make profit out of insurance policy.</p>	<p>(3)</p>
<p>Q23.</p>	<p>Which type of e-business transaction is highlighted in the following cases?</p> <p>i). Complaint lodged by a customer at the company's call centre. ii). Withdrawal of money from ATM. iii). Employees send their daily report through e-mail. iv). Sale of used books through eBay.com v). Conducting surveys to determine customer's preference vi). Purchase of security lock system by Maruti Suzuki from Autocops.</p> <p>ANS: i). C2B Commerce. ii). B2C Commerce iii). Intra-B Commerce.</p>	<p>(3)</p>

	<p>iv). C2C Commerce. v). B2C Commerce vi). B2B Commerce</p>	
Q24.	<p>Ethos Ltd. is an authorised retailer selling several luxury watch brands. Every watch that Ethos sells comes with the brand warranty and also places its Ethos stamp. Well trained staff and great looking boutiques ensure that Ethos make shopping for watches an enjoyable and unforgettable experience. Now, Ethos Ltd with an outlet of watches exclusively for men at Lajpat Nagar, Delhi, is planning to open a branch in Rohini, sector 13 to meet the increasing demand. It operates with the policy of Cash and is very particular about the timings of the store.</p> <p>On the basis of the given information about Ethos Ltd., answer the following questions:</p> <p>i). Quoting the lines from the above paragraph, identify the type of fixed shop small retailing business of Ethos Ltd.</p> <p>ii). Which type of fixed shop large retailing business is Ethos Ltd. Planning to engage in? Also state any 2 features of the same business.</p> <p>ANSWER:</p> <p>i). specialises in the sale of a specific line of product: - Ethos Ltd. is an authorised retailer selling several luxury watch brands (1)</p> <p>ii). Chain Store (1)</p> <p>iii). Features – (1) Central Places (2) fixed price (1)</p> <p>iv).</p>	(3)
Q25.	<p>'Good Health Ltd. is a name to reckon with in the Organic food segment. The company enjoys a 30% market share in this segment over the past four years. It introduces new range of products on a regular basis keeping in mind the changing needs and preferences of people. Through the best use of available resources its work efficiency is high. Moreover, in order to keep the high morale of its managers various professional programmes are organized by the company from time to time.</p> <p>In context of the above case:</p> <p>(i) Identify the various objectives of business being discussed in the above paragraph. (ii) Also, state any two other objectives not mentioned above.</p> <p>Answer:</p> <p>(i) The various objectives of business being discussed in the above paragraph are as follows: (a) Market standing: Every business should strive to create and maintain a reputable market position with regard to its competitors. In order to achieve a stronger market standing a business needs to focus on enhancing customer's satisfaction. (b) Innovation: In order to obtain an edge over its competitors and boost its public image every business needs to constantly review and revise its products and process in terms of creating better technology and utility. (c) Productivity: The ratio of values of inputs to values of outputs reflects the higher level of productivity by increasing its efficiency. (d) Manager performance and development: Manager performance and development development is</p> <p>Therefore, various programmes need to be implemented for motivating an important objective</p>	(4)

	<p>as managers conduct and coordinate business activity. ating them and an enterprise must actively work for this purpose.</p> <p>(ii) The two objectives not mentioned in the above case are as follows:</p> <p>(a) Supply of desires quality of goods and services: A business must make available varied kinds of goods and services keeping in mind the needs and wants of prospective</p> <p>(b) Generating employment opportunities: A business must create new Employment opportunities. As it is essential for raising standard of living of people of people and fostering economic development of the country.</p>	
<p>Q26.</p>	<p>India's telecommunication network is the 2nd largest in the world by number of telephone users and has one of the lowest call tariffs in the world. Major sectors of the Indian telecommunication industry are telephone, internet and television broadcast. Indian telecom industry underwent a high pace of market, liberalization and growth since the 1990's and now has become the world's most competitive and one of the fastest growing telecom markets. Moreover, telecommunication has supported the socio-economic development of India and has played a significant role to narrow down the rural urban digital divide to some extent. it has also helped to increase the transparency of governance with the introduction of e-governance in India. The govt has pragmatically used modern telecommunication facilities to deliver mass education programs for the rural folk of India.</p> <p>In context of the above case:</p> <p>a) Why was telecommunication sector reserved for public sector at the time of independence?</p> <p>b) Why was telecommunication sector privatized later on?</p> <p>c) Do you think the consumers have been benefitted through privatization of communication sector?</p> <p>A5)</p> <p>a) The Telecommunication sector was reserved for public sector at the time of independence as the private sector was disinterested in investing in heavy industries or develop it any manner. Therefore, telecommunication being prerequisite of industrial development was operated through public sector enterprises as it required huge capital, well coordinated industrial construction, trained technicians and workforce.</p> <p>b) The telecommunication sector was privatized later on so as to make it more efficient and sustain growth on its own financial and economic strength.</p> <p>c) Yes, the consumers have been benefitted through privatization of telecommunication sector in terms of wider choices, better quality of products and services, lower price, value added services, etc.</p> <p style="text-align: center;">OR</p> <p>Life Insurance Corporation of India is the largest insurance company of India. It is headquartered in Mumbai. It was founded in the year 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance industry in India. Over 245 insurance companies and provident societies were merged the state owned Life Insurance Corporation.</p> <p>In context of the above:</p> <p>i). LIC of India is classified as which form of public sector enterprise?</p> <p>ii). Was it necessary for the Parliament of India to pass the Life Insurance of Act for its formation? What does the Act define?</p>	<p>(4)</p>

	<p>iii). State any 3 merits of promoting Life Insurance Corporation of India in a particular form of public sector enterprise as identified in part (a) of the question.</p> <p>ANS</p> <p>i). LIC of India is a Statutory Corporation</p> <p>ii). Yes, it was necessary for the Parliament of India to pass the Life Insurance of India Act for its formation. The Act defines its objectives, powers, privileges etc.</p> <p>iii). The three merits of promoting LIC of India as a statutory corporation are:</p> <p>a) They are free from undesirable government regulation and control of government and enjoy independence in their functioning and a high degree of operational flexibility</p> <p>b) The Government generally does not interfere in their financial matter, including their income and receipts as the funds of these organisations do not come from the central budget.</p> <p>c) Except for a few issues which require prior approval of a particular ministry as per the Act, these are autonomous organisations and frame their own policies and procedures within the powers assigned to them by the act.</p>	
<p>Q27.</p>	<p>aste Buds Ltd. is a well reputed chain of take away restaurants in Delhi. The company's earnings are high as it constantly reviews and revises its menu in the light of changing needs and preferences of the consumers. Considering the fact that in India, a child goes blind every four minutes, out of which ninety percent of the children can be easily treated so that they can lead normal lives the company has extended its financial support to many charitable eye hospitals in their endeavors to eradicate preventable childhood blindness from our country. In the context of this case:</p> <p>a) Briefly explain two kinds of social responsibilities being fulfilled by Taste Buds Ltd.</p> <p>b) Name any two values which are being pursued by Taste Buds Ltd.</p> <p>Answer:</p> <p>a) The two kinds of social responsibilities being fulfilled by Taste Buds Ltd. are as follows:</p> <p>i. Economic responsibility: It is the primary responsibility of a business enterprise and relates to production of goods and services that are as per the needs and wants of the society and selling them at a profit.</p> <p>ii. Discretionary responsibility: It refers to the various obligations that a business assumes purely on voluntary basis for common good.</p>	<p>(4)</p>
<p>Q28.</p>	<p>Distinguish between a Share and Debenture.</p>	<p>(4)</p>

Basis of Difference	Share	Debenture
Ownership	A share is a part of owner's funds of the company and therefore shareholder is called as the owner of the company.	A debenture is a part of borrowed funds of the company and therefore a debenture holder is a creditor in the company.
Return	Return on share is called dividend which is paid by the company if it earns profits and directors decide to declare dividend subject to the approval of the shareholders.	Returns on debenture are called interest which is paid by the company even if the company incurs losses.
Rate of dividend and Interest	Rate of dividend on preference share is fixed and on equity share it fluctuates depending on the availability of profits.	Rate of interest on debenture is always fixed.
Redemption	Preference Share capital is returned after a specified period of time.	Debentures are redeemable after a fixed period of time either in lump sum or by annual drawings.

Q29. Describe briefly the various services provided by the wholesalers to the retailers. **(4)**

Services to Retailers:
To the retailers, wholesaler provides the following services:

- i. Saves Time – Retailers save much of his time in placing orders with the wholesaler rather than the producer.
- ii. Better use of Limited Capital – Stock of different types of goods is held by wholesaler; as a result, retailers get the goods as and when required. He is saved from locking capital in storing the goods.
- iii. Quick Delivery – Prompt delivery of goods by the wholesaler to retailer facilitates smooth flow of goods.
- iv. Credit Facilities – Credit facilities are provided by the wholesalers to retailers to maintain uninterrupted supply of goods.
- v. Expert Knowledge – Wholesalers have a good knowledge and experience about the changing market conditions. They provide this information to retailers who can capitalise on it.

OR

Explain the services provided by a retailer in the distribution of goods and services.

Key Functions Performed by a Retailer

- A retailer performs the dual functions of buying and assembling of goods. The responsibility of a retailer is to identify the most economical source for obtaining the goods from the suppliers and passing on the advantages to the consumer.
- The retailers perform the functions of warehousing and storing. They store the goods in bulk and make them available as per the requirement of the consumer. Warehousing and store keeping helps in ensuring uninterrupted availability of the goods to the consumers.
- The primary function of a retailer is selling the products to the customers for which

	<p>various techniques or business practices are being adopted by the retailer to achieve the strategic goals.</p> <ul style="list-style-type: none"> ▪ The prime focus of a retailer is on maximizing customer satisfaction by delivering quality products and services both on cash as well as credit basis. As a result of which, retailer always runs the risk of accumulating bad debts on account of non-payment of the amount from the consumer. ▪ A retailer needs to have robust risk management capabilities. Various kinds of risks can be involved in a retail business which a retailer should be well prepared with like loss or damage of the products due to deterioration in quality, perishability or spoilage. A change in customer's buying preferences or tastes can also affect the retail business to a great extent, or even the products may be damaged due to the natural calamities or vagaries of nature. ▪ A retailer performs the crucial function of grading for all those goods which at times are either left ungraded by the wholesalers or manufacturers so that the customers readily accept the goods. The retailer is responsible for the packing of goods in small packages or small containers for the customer's convenience. ▪ The retailers are the direct point of contact or communication with the customers; hence they gather information regarding the changing tastes and preferences of the consumers, pass on the customer feedback to the manufacturers for continuous improvement in service delivery. ▪ Retailers act as a vital channel for the launch of new products in the market as they are the direct interface with the consumers and can communicate directly with the targets consumers about the new product features and advantages. ▪ The retailers are responsible for the product promotion and advertisement by planning the product displays and visual merchandising for attracting the customers. 	
<p>Q30.</p>	<p>India, known as the homo s spices. Boasts a long history of trading with the ancient civilization of Rome and China. Today, Indian spices are the most sought after globally, given their exquisite aroma, texture, taste and medicinal value. India is the world's largest producer, consumer and exporter of spices; the country produces about 75 of the 109 varieties and accounts for half of the global trading in spices.</p> <p>Top spices produced in the country include pepper, cardamom, chilli, ginger, turmeric, coriander, cumin, celery, fennel, dill seeds, garlic, tamarind, clove, mutmeg among others. Major importers of Indian Spices are USA, China, Vietnam, UAE, Indonesia, Maiaysia, UK, Sri lanka, Saudi Arabia, and Germany.</p> <p>On the basis of the aforesaid information about spices, answer the following questions:</p> <ol style="list-style-type: none"> i). Enumerate the two benefits available to the Indian Business firms who are engaged in spice export. ii). How the different nations engaged in trade of spice do stands to gain? <p>ANSWER:</p> <p>Benefits to Firms</p> <ol style="list-style-type: none"> (i) <u>Prospects for higher profits:</u> International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high. (ii) <u>Increased capacity utilisation:</u> Many firms setup production capacities for their products which are in excess of demand in the domestic market. By planning overseas 	<p>(4)</p>

expansion and procuring orders from foreign customers, they can think of making use of their surplus production capacities and also improving the profitability of their operations. Production on a larger scale often leads to economies of scale, which in turn lowers production cost and improves per unit profit margin.

(iii) **Prospects for growth:** Business firms find it quite frustrating when demand for their products starts getting saturated in the domestic market. Such firms can considerably improve prospects of their growth by plunging into overseas markets. This is precisely what has prompted many of the multinationals from the developed countries to enter into markets of developing countries. While demand in their home countries has got almost saturated, they realised their products were in demand in the developing countries and demand was picking up quite fast.

(iv) **Way out to intense competition in domestic market:** When competition in the domestic market is very intense, internationalisation seems to be the only way to achieve significant growth. Highly competitive domestic market drives many companies to go international in search of markets for their products. International business thus acts as a catalyst of growth for firms facing tough market conditions on the domestic turf. Improved business vision: The growth of international business of many companies is essentially a part of their business policies or strategic management. The vision to become international comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation.

(Any 2 points with explanation for 2 marks)

Benefits to Countries

(i) **Earning of foreign exchange:** International business helps a country to earn foreign exchange which it can later use for meeting its imports of capital goods, technology, petroleum products and fertilisers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.

(ii) **More efficient use of resources:** As stated earlier, international business operates on a simple principle — produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently. When countries trade on this principle, they end up producing much more than what they can when each of them attempts to produce all the goods and services on its own. If such an enhanced pool of goods and services is distributed equitably amongst nations, it benefits all the trading nations.

(iii) **Improving growth prospects and employment potentials:** Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, could not execute their plans to produce on a larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production. Later on a few countries such as Singapore, South Korea and China which saw markets for their products in the foreign countries embarked upon the strategy 'export and flourish', and soon became the star performers on the world map.

(iv) **Increased standard of living:** In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and enjoy a higher standard of living.

(Any 1 point1 with explanation for 1 mark1)

Q31.	Kiran is a sole proprietor. Over the past decade, her business has grown from operating a	(6)
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	<p>neighbourhood corner shop selling accessories such as artificial jewellery, bags, hair clips and nail art to a retail chain with three branches in the city. Although she looks after the varied functions in all the branches, she is wondering whether she should form a company to better manage the business. She also has plans to open branches countrywide.</p> <p>Questions:</p> <ol style="list-style-type: none"> i). Explain two benefits of remaining a sole proprietor ii). Explain two benefits of converting to a joint stock company. iii). What role will Kiran's decision to go nationwide play in her choice of form of the organisation? iv). What legal formalities will she have to undergo to form a company? <p>Hints:</p> <p>(a) Two benefits of remaining a sole proprietor are:</p> <ol style="list-style-type: none"> (i) Sole beneficiary of all the profits. (ii) Exclusive control over the business and independent decision-making <p>(b) Two benefits of converting sole proprietorship to a joint stock company are:</p> <ol style="list-style-type: none"> (i) Large amount of capital (ii) Limited liability. <p>(C) If Kiran decides to go nationwide, she should go in for joint stock company. This would allow her to operate on a large scale by raising more capital and employing professional managers.</p> <p>(d) For the formation of a joint stock company, Kiran would have to undergo the following formalities:</p> <ol style="list-style-type: none"> (i) Getting approval of name of the company from the Registrar of Companies (ROC). (ii) Preparing various documents such as Memorandum of Association, Articles of Association and Prospectus. (iii) Filing various documents and payment of required fees. (iv) Obtaining Certificate of Incorporation. 	
<p>Q32.</p>	<p>Arun Kumar has recently joined JBM Autocorp Ltd. An auto spare parts manufacturing company as a finance manager of the company. After understanding the financial status of the company he realised that the company has only issued equity shares and preference shares. This has resulted in payment of large amount of taxes to government as dividend on shares is not deducted from income of the company for the purpose of tax calculation. The returns to shares holders are comparatively lower than what other competitors are paying. So he advised in the meeting to procure money from such sources that can give tax benefit to the firms.</p> <p>On the basis of aforesaid information about JBM Autocorp Ltd., answer the following questions:</p> <ol style="list-style-type: none"> i). State and Explain the source of finance that can be used by the company to avail the benefit of tax saving. ii). State any two merits and two demerits of the source of finance identified in part (i). <p>ANSWER</p> <p>Meaning:</p> <p>If a company needs funds for extension and development purpose without increasing its share capital, it can borrow from the general public by issuing certificates for a fixed period of time</p>	<p>(6)</p>

	<p>and at a fixed rate of interest. Such a loan certificate is called a debenture. Debentures are offered to the public for subscription in the same way as for issue of equity shares. Debenture is issued under the common seal of the company acknowledging the receipt of money.</p> <p><u>Advantage of Debentures:</u></p> <p>(a) Issue of debenture does not result in dilution of interest of equity shareholders as they do not have right either to vote or take part in the management of the company.</p> <p>(b) Interest on debenture is a tax deductible expenditure and thus it saves income tax.</p> <p>(c) Cost of debenture is relatively lower than preference shares and equity shares.</p> <p>(d) Issue of debentures is advantageous during times of inflation.</p> <p>(e) Interest on debenture is payable even if there is a loss, so debenture holders bear no risk.</p> <p><u>Disadvantages of Debentures:</u></p> <p>(a) Payment of interest on debenture is obligatory and hence it becomes burden if the company incurs loss.</p> <p>(b) Debentures are issued to trade on equity but too much dependence on debentures increases the financial risk of the company.</p> <p>(c) Redemption of debenture involves a larger amount of cash outflow.</p> <p>(d) During depression, the profit of the company goes on declining and it becomes difficult for the company to pay interest.</p>	
<p>Q33.</p>	<p>What measure has the government taken to solve the problem of finance and marketing in the small-scale sector?</p> <p>ANSWER</p> <p>PROBLEMS OF SMALL BUSINESS IN INDIA</p> <p>The scale of operation, availability of finance, ability to use modern technology, procurement of raw materials are some of the common problems. The benefits of large-scale enterprises are not available to small businesses due to small level of production. In case of ancillary units (It is a small industrial unit which supplies not less than 50% of its production to another industry, referred to as parent unit), the major problems include delayed payments, uncertainty of getting orders from the parent units and frequent changes in production processes. The problems of traditional small-scale units also include remote location with less developed infrastructural facilities, lack of managerial talents, poor quality, traditional technology and lack of finance. The problems relating to exporting orienting units lack adequate data on foreign markets, market intelligence, exchange rate fluctuations, quality standards and shipment finance, etc. The following are the common problems of small businesses:</p> <p>1. Finance. SSIs do not enjoy creditworthiness in the market to raise the funds from the general public or from the banks/financial institutions. These enterprises also do not have the sufficient fixed assets or collateral security to raise loans. So, these enterprises become the victims of the private moneylenders. Their funds are blocked with the customers due to credit sales for a longer period of time.</p> <p>2. Raw Materials. Due to lack of funds, creditworthiness, procurement of raw material becomes difficult. Their bargaining power is low, so, they have to buy the material at the higher price on a low credit period or compromise on the low quality. If the raw material is available, the problem of storage arises. Due to scarcity of metals, chemicals, and natural resources from the earth or otherwise, the SSIs suffer the most.</p> <p>3. Managerial Skills. Generally the SSIs are run by the single small business entrepreneurs</p>	<p>(6)</p>

who may not have professional talents to run the business organisations. Many of the small business entrepreneurs possess sound technical knowledge but are less successful in marketing for the output.

4. Labour. Qualified employees and skilled workforce cannot be hired due to inadequacy of funds. Thus, productivity per employee is relatively low and employee turnover is generally high. Unskilled workforce is hired by these organisations due to low pay but training them is really a very hectic and time consuming process.

Note: *Employees Turnover means employees separating from the organisation due to dismissal or resignation. If an employer is said to have high employee turnover relative to its competitors, it means employees of that company have a shorter average tenure than those of other companies in the same industry.*

5. Marketing. Marketing is a major problem for small business enterprises. They do not generally find the market to sell the product. If they find the market, their products are bought at a very low price and get exploited by the channels of distribution. Further, direct marketing may not be feasible for small business firms as they lack the necessary infrastructure.

6. Quality. The small-scale industries do not adhere to desired standards of quality. Instead, they concentrate on cutting down the cost and keeping the prices low. They lack the finance to spend on the research and innovation and cannot maintain the quality standards. Maintaining the quality is the weakest point and their products cannot compete with the products of global enterprises.

7. Capacity Utilisation. Due to lack of sufficient demand of products in the market, the plant and machinery operate at low capacity which increases the operating cost and cost per unit. High operating cost for a longer period of time lead to closure of such units.

8. Technology. Most of the SSIs use outdated technology and cannot compete with the products of large-scale enterprises and MNCs. Their products generally lack quality standards, industrial norms and specifications. This leads to dissatisfaction among the customers who behave indifferently towards such products. Such industries cannot survive in competition with the large-scale industries.

9. Industrial Sickness. Industrial sickness means losses being borne by an enterprise. Causes of sickness are internal as well as external. Internal problems include lack of skilled trained labour, managerial and marketing skills. Some of the external problems include delayed payment, shortage of working capital, inadequate loans and lack of demand for their products.

10. Global Competition. The Economic Policy 1991 has also not left the small businesses without fears. They have been receiving the threat from the large and multinational companies. Limited production, high operating cost, low price, and lack of uniformity among the products /technological skills/managerial and marketing capabilities and limited access to developed countries due to

OR

Describe the role of small business in rural India.

ANSWER

ROLE OF SMALL BUSINESS IN RURAL INDIA

1. Contribution. As per available statistics (4th Census of MSME Sector), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises which accounts for approximate 95% of the industrial units in the country. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export (direct and indirect exports) of the country.

	<p>2. Highest Employer. Small-scale industries are the second largest employers of human resources after agriculture. They generate more number of employment opportunities per unit of capital invested compared to large industries. Therefore, they are considered to be more labour intensive and less capital intensive.</p> <p>3. Abundance of Products. SSIs provide enormous variety of products:</p> <p>(a) Mass Consumption goods. Readymade garments, hosiery goods, stationery items, soaps, detergents, domestic utensils, leather products, plastic and rubber goods, processed foods and vegetables, wood and steel furniture, paints, varnishes, safety matches, etc.</p> <p>(b) Sophisticated Goods. Electric and electronic goods like televisions, calculators, electrical medical equipments, electric teaching aids like projectors, air conditioning units, drugs and pharmaceuticals, agricultural tools and equipment and several other engineering products.</p> <p>4. Balanced Regional Development/Removing Regional Disparity. Large-scale industries cannot be set up in every nook and corner. Small-scale industries help in maintaining balanced regional development by producing simple products, using simple technologies and depend on locally available material and labour. These industries can be set up anywhere in the country, help the large industries and generate employment opportunities on a large scale.</p> <p>5. Ample Opportunities for Entrepreneurship. The latent skills and talents of people can be channeled into business ideas which can be converted into reality with little capital investment and almost no formalities to start the business.</p> <p>6. Low Cost of Production. Small-scale industries get the benefits of locally available resources which are easily available at the low cost. Establishment and running costs of small-scale industries are on the lower side because of low overhead expenses. The low cost of production helps these industries survive in the long run.</p> <p>7. Quick and Timely Decisions. In small-scale industries, the decisions can be taken in time and business opportunities can be availed as the control and management of such industries rest in the hands of a single or limited number of persons.</p> <p>8. Suitable for Customised Products. Small business enterprises generally produce and design the products as per the needs/tastes/preferences of the customers like tailor made shirts-trousers, assembled or branded laptops or computers are made as per the requirements of the users, etc.</p> <p>9. Adaptability and Personalised Touch. Small business organisations have limited number of customers and employees. Maintaining relations is not a tedious job. Government generally does not have any interference in their functioning. Business decisions can be taken with ease without consulting others, at the right time to avail the business opportunities thereby creating healthy competitive atmosphere in the business environment.</p>	
<p>Q34.</p>	<p>Excel Ltd. has received an order to export 2000 sewing machines to Swift Import Ltd. of Spain. Explain in brief first six steps which Excel Ltd. would need to go through for executing the export order.</p> <p>The first six steps of Export procedure are:</p> <ol style="list-style-type: none"> 1. Receipt of enquiry and sending quotation 2. Receipt of order or indent 3. Assessing importer's creditworthiness and securing guarantee for payments 4. Obtaining export licence 5. Obtaining pre shipment finance 6. Production or procurement of goods. 	<p>(6)</p>