

Strictly Based on Latest Syllabus, Design of Question Paper and Blueprint
Issued by the Department of Pre-University Education, Karnataka



KARNATAKA PUE
PUC-I

FOR MARCH
2019
EXAMINATION

BUSINESS STUDIES

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LATEST SYLLABUS 2018-19

BUSINESS STUDIES

CLASS : PUC I

Month	Chapter	No. of Hours for chapter teaching	No. of Hours for Practical Oriented Questions (POQ)	Total Hours available	Marks allotted
June	Bridge Course	5		5	
	I - Nature & Purpose of business <ul style="list-style-type: none"> • Concept and characteristics of business. • Business, profession and employment – distinctive features. • Objectives of business – economic and social, role of profit in business. • Classification of business activities : Industry and Commerce. • Industry– types: primary, secondary, tertiary. 	10	2	5	7
July	I - Nature & Purpose of business Commerce: Trade and Auxiliaries. <ul style="list-style-type: none"> • Business risks – nature and causes. 			7	
	II - Forms of Business Organizations <ul style="list-style-type: none"> • Sole Proprietorship; Joint Hindu Family Business – meaning, features, merits and limitations. • Partnership – meaning, types, registration, merits, limitations, types of partners. • Cooperative Societies – types, merits and limitations. • Company: Private Ltd., Public Ltd – merits, limitations. • Choice of form of business organizations. • Starting a business – Basic factors. 	15	2	17	19
August	VII - Formation of a Company Stages in the formation of a company: <ul style="list-style-type: none"> • Promotion, • Incorporation, and • Commencement of business. 	6	2	8	7
First Test					
	III - Private, Public and Global Enterprises Private Sector and Public Sector. <ul style="list-style-type: none"> • Forms of Organizing public sector enterprises – Departmental Undertaking – Statutory Corporation – Government Company • Changing role of public sector. • Global Enterprises (Multinational Companies): meaning and features, • Joint ventures — meaning, benefits 	8	2	10	7

	IV - Business Services Nature and types of Business services – Banking, Insurance, Transportation, Warehousing, Communication. • Banking – types of Banks, Functions of Commercial banks, E-banking.	14	2	6	15
September	IV - Business Services Insurance : principles, types: life, fire and marine. • Postal and Telecom services. • Warehousing : types and functions.			10	
	V - Emerging Modes of Business • E-Business – Meaning, scope and benefits, Resources required for successful e-business implementation, On-line transactions, payment mechanism, security and safety of business transactions. • Outsourcing – concept, need and scope.	7	1	8	7
Mid Term Examination					
October	VI - Social Responsibility of Business and Business Ethics • Concept of social responsibility; • Case for social responsibility; • Responsibility towards different interest groups: owners, investors, employees, consumers, government, community and public in general; • Business and environmental protection; • Business ethics: concept and elements	7	1	8	7

November	VIII - Sources of Business Finance Nature and significance <ul style="list-style-type: none"> Financial requirements and sources : owners funds and borrowed funds Methods of raising Finance: <ul style="list-style-type: none"> Equity and Preference shares Debentures and Bonds Retained profits Public deposits Loan from Commercial Banks Loan from Financial Institution Trade Credit Discounting of Bills of Exchange Global Depository Receipt, American Depository Receipt 	16	2	18	19
	XI - Small Business Small Scale Industry; Tiny Sector; cottage and rural industry; <ul style="list-style-type: none"> Role of small business in rural India 	10	2	3	7
December	X - Small Business <ul style="list-style-type: none"> Problems of small business in India. Govt Assistance and Special Schemes for Industries in rural, backward and hilly areas 			9	
	X - Internal Trade Meaning and types of internal trade : wholesale and retail; <ul style="list-style-type: none"> Services of a wholesaler and a retailer. 	12	1	13	15
	<ul style="list-style-type: none"> Types of Retail Trade: <ul style="list-style-type: none"> Itinerant retailers and fixed shops. Departmental store, super market, malls, chain store, mail order business, consumer's cooperative store, Automatic Vending Machine 				
Second Test					
January	XI & XII - International Business Nature, Importance, scope and complexities involved in International Business; <ul style="list-style-type: none"> Basic information about ways of entering into International Business; Contract manufacturing; licensing; franchising; Joint ventures and Setting up Wholly Owned Subsidiaries; Export-Import procedures and Documentation; Foreign Trade Promotion: Organisational Support and Incentives; Nature and Importance of Export Processing Zone/ Special Economic Zones; International Trade Institutions and Agreement: WTO, UNCTAD, World Bank/IMF. 	15	3	18	14
February	Revision and Annual Exams				
	Total	120	20	140	124+15=139

PUC I Business Studies Model Question Paper Blueprint

Chapter	Hrs of teaching	Marks Allotted	Knowledge				Understanding				Application				Skill				Total					
			V S A	L A A	E A A	V S A	V S A	L A A	E A A	V S A	V S A	L A A	E A A	P O Q	V S A	L A A	E A A	P O Q	Total					
1	10	07	1				1	1									1	1	1	-	1	4		
2	15	19	1					1		1								1	1	-	2	4		
3	08	07	1								1							1	1	1	-	3		
4	14	15	1					1		1								1	1	1	-	4		
5	07	07	1					1	1									1	1	1	-	3		
6	07	07			1			1						1			1	1	1	-	1	4		
7	06	07			1			1										1	1	1	-	3		
8	16	19	1	1					2				1					1	1	2	1	5		
9	10	07	1	1					1								1	1	1	-	1	4		
10	12	15			1					1	1							1	1	1	-	4		
11+12*	15	14			1										2			2	2	-	1	5		
	120+20 Hrs	124+15	7	5	1	-		1	6	6	3	3	1	3	3	1	-	12	12	10	6	3**	43	
		100%	15%				43%				30%				12%				12	24	40	48	15	139

*(In Chapter 11 & 12, questions should be asked in the pattern of 03+11=14 or 11+3=14. 1 and 2 marks questions for Part A and B must be asked compulsorily in each of the chapters. However, 8 marks question may be asked either in chapter 11 or 12 for Part D)

**For practical oriented questions, questions are to be selected from each of the 3 groups (Group 1: First 4 chapters, Group 2: Next four chapters and Group 3: Last four chapters).

Note: While selecting the Practical Oriented questions in Part E, care should be taken to avoid duplication of questions in Section A, B, C and D.

**SOLVED
PAPER**

**I PUC
Annual Examination
2018**

**Business
Studies
(N)**

Time : 3 Hrs. 15 Min.

Max. Marks : 100

Instructions :

1. Write the serial number of question properly as given in the question paper while answering.
2. Write the correct and complete answers.

SECTION-A

I. Answer any Ten of the following questions in a word or a sentence each. While answering multiple choice questions, write the serial number / alphabet of the correct choice and write the answer corresponding to it. Each question carries one mark :

10 × 1 = 10

1. Give an example for Extractive Industry.
2. Kartha in a joint Hindu family business has
(a) Limited liability (b) Unlimited (c) No liability of debts (d) Joint liability
3. Name the two sectors working in Indian Economy.
4. State any one type of Bank account.
5. What is e-Business ?
6. Carbon Monoxide emitted by automobiles directly contributes to
(a) Water pollution (b) Noise pollution (c) Land pollution (d) Air pollution
7. How many members have to sign Memorandum of Association in case of public company ?
8. ADRs are issued in
(a) Canada (b) China (c) India (d) USA
9. Expand : WTO.
10. Which of the following is not a fixed shop large retailer ?
(a) General Stores (b) Chain Stores (c) Mail order houses (d) Super Markets
11. Name any one mode of entering into international business.
12. Which of the following document is not required in export trade ?
(a) Certificate of Origin (b) Certificate of Inspection (c) Mate's receipt (d) Bill of Entry

SECTION-B

II. Answer any Ten of the following questions in two or three sentences each. Each question carries Two marks.

10 × 2 = 20

13. State any two types of Economic activities.
14. Who is a Nominal Partner ?
15. Mention any two merits of Statutory Corporations.
16. State any two examples of specialised banks.
17. State any two benefits of e-Business.

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18. What is business ethics ?
19. Name any two stages in the formation of a company.
20. Name any two internal sources of business finance.
21. Give the meaning of village industries.
22. What do you mean by Departmental stores ?
23. Write the meaning of "Licensing".
24. Give meaning of Bill of Lading.

SECTION-C

III. Answer any Seven questions from the following questions in 10-12 sentences each. Each question carry Four marks :

$7 \times 4 = 28$

25. Explain briefly any four characteristics of business.
26. Explain briefly any four features of Global Enterprises.
27. Briefly explain any four functions of Warehousing.
28. Bring out any four distinctions between Traditional Business and e-Business.
29. Explain briefly any four arguments for social responsibility.
30. Explain briefly any four clauses of Memorandum of Association.
31. Explain briefly any four merits of preference shares.
32. Write short notes on :
(a) Retained earnings (b) Trade credit.
33. Explain briefly any four problems faced by Small business.
34. Explain briefly any four services of wholesalers to Manufacturers.

SECTION-D

IV. Answer any Four questions from the following question in 20-25 sentences each. Each question carries Eight marks.

$4 \times 8 = 32$

35. Explain any four merits and four demerits of Partnership form of business.
36. Explain briefly the features of Joint Stock Company.
37. Explain the principles of insurance.
38. Explain four merits and four limitations of equity shares as a source of finance.
39. Explain the different types of fixed shop small retailers.
40. Explain the benefits of international business both to nations and firms.

SECTION-E (Practical Oriented Questions)

V. Answer any Two of the following questions. Each carry Five marks.

$2 \times 5 = 10$

41. You are planning to start a new business. Make a list of any five factors you would consider while selecting a suitable form of business organisation.
42. Suggest any five important sources of finance available for a business organisation.
43. Give a list of any five institutions which support small business in India.

□□□

SOLUTIONS

As Per Scheme of Valuation

(Issued by Department of PUE, Karnataka)

SECTION-A

- I.
1. Mining. (or Any other) 1
 2. (b) Unlimited liability. 1
 3. (a) Private sector (b) Public sector. $\frac{1}{2} + \frac{1}{2}$
 4. Savings bank account. (or Any other) 1
 5. e-business is the conduct of industry, trade and commerce using the computer networks. 1
 6. (d) Air pollution. 1
 7. Seven members. 1
 8. USA. 1
 9. World Trade Organisation. 1
 10. (a) General stores. 1
 11. Exporting and Importing. (or Any other) 1
 12. (d) Bill of Entry. 1

SECTION-B

- II.
13. (a) Business (b) Profession (c) Employment. (Any two) 1
 14. A nominal partner is one who allows the use of his / her name by a firm, but does not contribute to its capital. He/ She does not take active part in managing and does not share its profits or losses, but his liability is unlimited like other partners. 2
 15. (a) Statutory corporations enjoy independence in their functioning and a high degree of operational flexibility.
(b) Since they are autonomous organisations, they frame their own policies and procedures. (or any other) 1 + 1
 16. (a) Foreign Exchange Banks, (b) Export - Import Bank. (or Any other) 2
 17. (a) Ease of formation and lower investment requirement.
(b) Movement towards a paperless society. (or Any other) 2
 18. Business ethics refer to the socially determined set of moral principles which should govern business activities. 2
 19. (a) Promotion (b) Incorporation (c) Subscription of capital (d) Commencement of Business (Any two) 1 + 1
 20. (a) Equity share capital (b) Retained earnings. 1 + 1
 21. Village industries are industries which are located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head or artisan or workers is specified by the Central Government from time and time. 2
 22. A Departmental Store is a fixed shop large retailer establishment offering a wide variety of products, classified into well defined departments, aimed at satisfying practically every customers, need under one roof. 2
 23. Licensing is a contractual arrangement in which one firm grants access to its patents, trade senates or technology to an other firm in a foreign country for a faecaloid regality. 2
 24. A Bill of Lading is an official receipt or document issued by the shipping company as an evidence that the company has accepted the goods for carrying to the designated destination. It is issued by the shipping company it the exporter or his agent. 2

SECTION-C

III.

25. (a) **An economic activity** : Business is done to earn profits by producing and exchanging goods and services.
 (b) **Production or procurement of goods and services** : Business involves production or procurement of goods and services having utility for consumers.
 (c) **Sale or exchange of goods and services** : Exchange of goods and services on regular basis for price.
 (d) **Profit earning** : Business is done with an objective to maximise profits by producing and exchanging the goods and services for price. (or Any other) 2 + 2

26. (a) Huge capital resources.
 (b) Foreign collaboration.
 (c) Advanced technology.
 (d) Product innovation.

(or Any other)(with brief explanation) 2 + 2

[Scheme of Valuation, 2018]

Detailed Answer :

- (a) **Huge capital resources** : These enterprises are characterised by possessing huge financial resources and the ability to raise funds from different sources. They may issue equity shares, debentures or bonds to the public. They are also in a position to borrow from financial institutions and international banks.
- (b) **Foreign collaboration** : MNCs usually enter into agreement with companies of host countries on the terms of sale of technology, use of brands names, etc. helping them to expand and diversify their business.
- (c) **Advanced technology** : These enterprises possess technological superiorities in their methods of production. They are able to conform to international standards and quality specifications. This leads to industrial progress of the country in which such corporations operate since they are able to optimally exploit local resources and raw materials. Computerisation and other inventions have come due to the technological advancements provided by MNCs.
- (d) **Product innovation** : These enterprises are characterised by having highly sophisticated research and development departments engaged in the task of developing new products and superior designs of existing products.

27. (a) Consolidation.
 (b) Stock piling.
 (c) Value-added services.
 (d) Price stabilisation.

(or Any other)(with brief explanation) 2 + 2

[Scheme of Valuation, 2018]

Detailed Answer :

- (a) **Consolidation** : Warehouse receives and consolidates material, goods from different production plants and dispatches the same to a particular customer on a single transportation shipment.
- (b) **Stock piling** : The next function of warehousing is the seasonal storage of goods to select businesses. They are made available to business depending on customers' demand.
- (c) **Value-added services** : Certain value-added services are also provided by the warehouses such as in transit mixing, packaging and labelling. Grading of goods according to quantity and dividing goods in smaller lots is also done.
- (d) **Price stabilisation** : By adjusting the supply of goods with the demand situation, warehousing performs the function of stabilising prices.

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28. Distinctions between Traditional business and e-business :

Basis of Distinction	Traditional business	e-business
(a) Ease of formation	Difficult	Simple
(b) Physical presence	Required.	Not required
(c) Location as requirements	Proximity to the source of raw materials or the market for the products.	None
(d) Cost of setting up	High	Low as no requirement of physical facilities.

(or Any other) 4

29. (a) Justification for existence and growth.
 (b) Long-term interest of the firm.
 (c) Avoidance of government regulations.
 (d) Availability of resources with business.

(or Any other) 2 + 2**[Scheme of Valuation, 2018]****Detailed Answer :****Argument for social Responsibility :**

- (a) **Justification for existence and growth** : Business exists for providing goods and services to satisfy human needs. Though profit motive is an important justification for undertaking business activity, it should be looked upon as an outcome of service to the people.
- (b) **Long-term interest of the firm** : A firm and its image stands to gain maximum profits in the long run when it has its highest goals as 'service to society'.
- (c) **Avoidance of government regulation** : It is believed that businessman can avoid the problem of government regulations by voluntarily assuming social responsibilities, which helps to reduce the need for new laws.
- (d) **Maintenance of society** : The argument here is that laws cannot be passed for all possible circumstances. People who feel that they are not getting their due from the business may resort to anti-social activities, not necessarily governed by law. This may harm the interest of business itself.
- (v) **Availability of resources with business** : This argument holds that business institutions have valuable financial and human resources which can be effectively used for solving problems.

30. (a) Name Clause.
 (b) Registered office clause.
 (c) Objects clause.
 (d) Liability clause.
 (e) Capital clause.
 (f) Association clause.

(Any four) (with brief explanation) 2 + 2**[Scheme of Valuation, 2018]****Detailed Answer :**

- (a) **The name clause** : This clause contains the name of the company with which the company will be known, which has already been approved by the Registrar of Companies.
- (b) **Registered office clause** : This clause contains the name of the state, in which the registered office of the company is proposed to be situated. The exact address of the registered office is not required at this stage but the same must be notified to the Registrar within thirty days of the incorporation of the company.
- (c) **Objects clause** : This is probably the most important clause of the memorandum. It defines the purpose for which the company is formed. A company is not legally entitled to undertake an activity, which is beyond the objects stated in this clause.
- (d) **Liability clause** : This clause limits the liability of the members to the amount unpaid on the shares owned by them. For example, if a shareholder has purchased 1000 shares of Rs.10 each and has already paid Rs.6 per share, his/her liability is limited to Rs. 4 per share. Thus, even in the worst case, he/she may be called upon to pay Rs. 4,000 only.

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- (e) **Capital clause** : This clause specifies the maximum capital which the company will be authorised to raise through the issue of shares. The authorised share capital of the proposed company along with its division into the number of shares having a fixed face value is specified in this clause. For example, the authorised share capital of the company may be Rs. 25 with divided into 2.5 lakh shares of Rs.10 each. The said company cannot issue share capital in excess of the amount mentioned in this clause.
- (f) **Association clause** : In this clause, the signatories to the Memorandum of Association state their intention to be associated with the company and also give their consent to purchase qualification shares. The Memorandum of Association must be signed by at least seven persons in case of a public company and by two persons in case of a private company.

31. (a) Provide steady income to shareholders.
 (b) Fixed rate of return.
 (c) Preferential right over other shareholders.
 (d) No any sort of charge against the assets of the company. (or Any other)(with brief explanation) 2 + 2
 [Scheme of Valuation, 2018]

Detailed Answer :

Merits of Preference shares :

- (a) They don't create any charge on the assets of the company. 1
- (b) They have the preferential right to repayment of capital over equity shareholders at the time of winding up of the company. 1
- (c) Since the dividend payable to preference shareholders is fixed, therefore a company is in a position to declare high rates of dividend for equity shareholders during good times. 1
- (d) They get steady income in the form of fixed rate of return and safety of investment from profitable business. 1
32. (a) **Retained earnings** : A company generally does not distribute all its earnings amongst the shareholders as dividends. A portion of the net profit may be retained in the business for use in the future. This is known as retained earnings. It is a source of internal financing or self financing or ploughing back of profit. The profit available for ploughing back of profit in an organisation depends on many factors like profit, dividend policy and age of the organisation.
- (b) **Trade Credit** : Trade Credit is the credit extended by one trader to another trader for the purchase of goods and services. Trade credit facilitates to purchase of goods and services without immediate payment. It is granted to those customers who have reasonably good financial standing and goodwill.

33. (a) Finance problem.
 (b) Raw material problem.
 (c) Managerial skill problem.
 (d) Labour problem. (or Any other) (with brief explanation) 2 + 2
 [Scheme of Valuation, 2018]

Detailed Answer :

Problems faced by small scale business are as follows :

- (a) **Quality** : The weakest Point of small scale units is maintaining the quality. These business firms have neither adequate resources to invest in quality research nor the expertise to upgrade technology for improving the quality of their products.
- (b) **Technology** : The technology used by these firms is usually outdated. As a result, the production is uneconomical and low.
- (c) **Capacity utilization** : Many small business firms have to operate below full capacity due to lack of marketing skills or lack of demand. This increases their operating cost and may result in even closure of the business.
- (d) **Managerial skills** : Small business is established and managed by a single individual. Hence he/she may not possess all the managerial skills needed to run the business. Due to shortage of funds they can not afford to employ professional managers.

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34. (a) Facilitating large scale operation.
 (b) Bearing risk
 (c) Financial assistance.
 (d) Expert advice.

(or Any other) (with brief explanation) 2 + 2
 [Scheme of Valuation, 2018]

Detailed Answer :

Services provided by wholesaler to manufacturers are as follows :

- (a) **Facilitating large scale production** : A wholesaler purchases the goods from the manufacturer in large quantities. This enables the manufacture to produce on a large scale and obtain the benefits of economies of scale.
- (b) **Financial assistance** : The wholesalers make cash payments for the goods purchased by them. Sometimes they even pay money in advance for the bulk orders placed by them. So, the manufacturer's capital is not blocked in the stocks.
- (c) **Bearing risk** : A wholesaler takes title of goods, i.e., they purchase and sell goods in their own name. They purchase the goods in large quantities and store them in their warehouses. They bear the risk of fall in prices, theft, spoilage, fire etc. and relieve the manufacturer from bearing these risks.
- (d) **Expert advice** : A wholesaler provides very useful information regarding the tastes and preferences of the consumer, market conditions, competitive activities, etc. to the manufacture.
- (e) **Storage** : Wholesalers purchase the goods in bulk quantities from the manufacturers and store them in their warehouses.

SECTION-D

IV.

35. Merits :

- (a) **Ease of formation and closure** : There is no compulsion for registration of the firm.
- (b) **Balanced decision making** : Partners can oversee different areas according to their area of expertise.
- (c) **More funds** : As the capital is contributed by a number of partners.
- (d) **Sharing of risks** : Risks of losses is shared by all the partners, reducing the burden on individual partner.

Demerits :

- (a) **Unlimited liability** : Partners' personal resources can be used to repay business debt.
- (b) **Limited resources** : As there is restriction on numbers of partners so less capital contribution.
- (c) **Possibility of conflicts** : Difference in opinion of partners on same issues may lead to disputes between them.
- (d) **Lack of continuity of business** : Death, lunacy, insolvency of any partner may bring an end to the business.

2 + 2

36. (a) Artificial person
 (b) Separate legal entity
 (c) Difficult formation
 (d) Perpetual succession
 (e) Common seal
 (f) Risk bearing
 (g) limited liability
 (h) Transfer of interest

[Scheme of Valuation, 2018] 4 + 4

Detailed Answer :

- (a) **Artificial person** : A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, borrow money, sue and be sued but unlike them, it cannot breathe, eat, talk and so on.
- (b) **Separate legal entity** : From the day of its incorporation, a company acquires an identity, distinct from its member.
- (c) **Difficult formation** : The formation of a company and registration involves preparation of several documents and compliance with several legal requirements. Registration of the company is compulsory.

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- (d) **Perpetual succession** : Members may come and members may go, but the company continues to exist. It can be brought to an end only by law.
- (e) **Common seal** : The company being a artificial person acts through its Board of Directors. Board of Directors enters into an agreement with others by indicating the company approval through a common seal.
- (f) **Risk bearing** : In the face of financial difficulties, all shareholders in a company have to contribute to the debts to the extent of their shares in the company's capital.
- (g) **Limited liability** : The liability of the shareholders is limited to the extent of their capital contributed in the company.
- (h) **Transfer of interest** : The shareholders enjoy a right to transfer their shares to other persons in the open market or at the stock exchange.

- | | |
|---------------------------|------------------------|
| 37. (a) Utmost good faith | (b) Insurable interest |
| (c) Indemnity | (d) Proximate cause |
| (e) Subrogation | (f) Contribution |
| (g) Mitigation of loss | |

[Scheme of Valuation, 2018] 3 + 5

Detailed Answer :

- (a) **Utmost good faith** : It is the duty of the applicant to disclose all the material facts relating to risk to be covered. A material fact refers to the fact which would influence the mind of a prudent underwriter in deciding whether to accept a risk for insurance and on what terms.
- (b) **Insurable interest** : The person getting an insurance policy must have an insurable interest in the property or life insured. A person is said to have an insurable interest in the property, if he is benefited by its existence and prejudiced by its destruction. Without insurable interest, the insurance contract is void.
- (c) **Indemnity** : The purpose of insurance is to restore the insured person to approximately the same financial position that existed prior to the loss. The losses paid here would be approximately the same and the reason for this is to prevent the insured from profiting from insurance to reduce moral hazards. Indemnity can be defined as the compensation of loss or injury sustained.
- (d) **Proximate cause** : An insurer will only be liable to pay a claim under an insurance contract, if the loss which gives rise to the claim was proximately caused by an insured peril. This means that the loss must be directly attributed to an insured peril without any break in the chain of causation.
- (e) **Subrogation** : Subrogation refers to transfer of rights and remedies for the insured to the insurer who has indemnified the insured in respect of the loss.
- (f) **Contribution** : The principle of contribution allows the insurer the right to call on other insurers liable for the cost to share the claim payment.
- (g) **Mitigation of loss** : It is the duty of the insured to take reasonable steps to minimize the loss or damage to the insured property. If reasonable care is not taken like any prudent person then the claim from the insurance company may be lost.

38. Merits :

- (a) Higher returns to shareholders.
- (b) No compulsory payment of dividends to shareholders.
- (c) Permanent capital source.
- (d) Raised without any charge.

(or Any other) (with brief explanation)

Demerits :

- (a) No guarantee of steady income to shareholders.
- (b) Raising of funds through equity shares costs more.
- (c) Issue of additional equity shares dilutes voting power.
- (d) More formalities and procedure for issue.

(or Any other) (with brief explanation) 4 + 4

[Scheme of Valuation, 2018]

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Detailed Answer :**Merits of equity shares :**

- (a) Equity share capital doesn't create any charge on the assets of the company.
- (b) Voting rights of equity shareholders assure democratic control over management of the company.
- (c) Equity share capital is to be repaid only at the time of winding up of a company and hence it is permanent capital of the business.
- (d) There is no burden on the company in respect of dividend payable to equity shareholders because it is not compulsory to pay dividend.

Demerits of Equity shares :

- (a) The voting power and earnings of existing equity shareholders is affected by issue of additional equity shares.
- (b) Raising funds through issue of equity shares involves a lot of formalities and a lengthy procedure.
- (c) Since the dividend payable to equity shareholders keeps on fluctuating, investors who want steady income do not prefer them.
- (d) The cost of raising funds through equity shares is generally more as compared to other sources.

39. (a) General stores.
 (b) Speciality shops.
 (c) Street Stall holders.
 (d) Second hand goods shops.

(with brief explanation) 4 + 4**[Scheme of Valuation, 2018]****Detailed Answer :****Different types of small fixed shop retailers are as follows :**

- (a) **General Stores :** These stores deal in large variety of products required to satisfy day-to-day requirements of the customers. These are found in a local markets and residential areas. These stores remain open for long hours and provide convenience to the consumers to buy goods of daily use such as stationery items, grocery items, toiletries, biscuits, etc. They also provide credit facility to their regular customers.
- (b) **Speciality shops :** These shops deal in specific line of products like shoes, toys, gifts, children's garments, electronic goods, etc. Such shops are becoming very common particularly in urban areas. In order to attract large number of customers, these shops are centrally located.
- (c) **Street stall holders :** These are small retailers generally found at places having heavy flow of population such as street crossings, main roads, etc. They deal in low quality goods like toys, hosiery products, etc. Very limited area is covered by their shops so that they carry business operations on a very limited space.
- (d) **Second-hand goods shop :** These retail shops deal in second-hand or used goods like automobiles, furniture, books, etc. They cater to the needs of people having limited means. The price of the goods sold by them is generally low. Sometimes, these shops deal in antiques items or goods having historical value. In such a case, they charge high price from customers having special interest in such goods.
- (e) **Single line stores :** These stores deal in single product line such as watches, shoes, tyres, ready-made garments, books, etc. These stores are centrally located and keep wide variety of items of the same line.

(Any four)**40. Benefits to Nations :**

- (a) Earning of foreign exchange.
- (d) More efficient use of resources.
- (c) Improving growth prospects and employment potentials.
- (d) Increased standard of living.

Benefits to firms :

- (a) Prospects for higher profits.
- (b) Increased capacity utilisation.
- (c) Prospects for growth.
- (d) Improved business vision.
- (e) Wayout to intense competition in domestic market.

(with brief explanation) 3 + 5**[Scheme of Valuation, 2018]**

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Detailed Answer :**Benefits to Nations :**

- (a) **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 fertilizers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.
- (b) **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 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 equally amongst nations, it benefits all the trading nations.
- (c) **Improving growth prospects and employment potentials :** Producing solely for the purpose of domestic consumption severely restricts a country's prospects for growth and employment. Many developing countries could not execute their plans to produce on a large scale, and thus, create employment of people because their limited domestic market to absorb all the extra production. The strategy 'export and flourish' will help them not only in improving their growth prospects, but also to create opportunities for employment of people living in these countries.
- (d) **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.

Benefits to Firms :

- (a) **Increased capacity utilization :** Generally, the firms whose products have good demand in the domestic market set up high production capacities for their products by planning for overseas expansion too. With the help of orders from foreign customers, they can utilize their surplus production capacities and hence earn higher profits.
- (b) **Prospects for higher profits :** As compared to domestic business, international business can be more profitable. Business firms can earn higher profits by selling their products in countries where prices are high, particularly when the domestic prices are not satisfactory.
- (c) **Prospects for growth :** Business firms with saturated demand for their products in the domestic market can improve their prospects of growth by entering into foreign markets. This is the prime reason which has prompted many of the multinational companies from the developed countries to tap markets of developing countries.
- (d) **Improved business vision :** Business policies and strategic management have resulted in the growth of international business of many companies. The need to grow, become competitive, diversify and gain strategic advantages has created an international vision.
- (e) **Way out to intense competition in domestic market :** The only way to achieve significant growth in intense competition in domestic market is internationalization. Hence, international business acts as a catalyst of growth for business firms facing tough competition in the domestic market.

SECTION-E (Practical Oriented)**V.**

- | | |
|---|---|
| <p>41. (a) Cost and ease in setting up the organisation.</p> <p>(c) Continuity of business.</p> <p>(e) Degree of control.</p> <p>(g) Capital Consideration.</p> | <p>(b) Liability of the owner.</p> <p>(d) Nature of business.</p> <p>(f) Management ability.</p> |
| <p>42. (a) Shares.</p> <p>(c) Retained earnings.</p> <p>(e) Commercial banks.</p> <p>(g) Financial institutions.</p> <p>(j) International financing.</p> | <p>(b) Debentures.</p> <p>(d) Trade credit.</p> <p>(f) Commercial papers.</p> <p>(i) Factoring.</p> |

(Any five) 5

(Any five) 5

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43. (a) **NABARD** : (National Bank for Agriculture and Rural Development).
(b) **RSBDC** : (The Rural Small Business Development Centre)
(c) **NSIC** : (National Small Industries Corporation).
(d) **SIDBI** : (Small Industries Development Bank of India).
(e) **NCEUS** : (The National Commission for Enterprise in the Unorganised Sector).
(f) **RWED** : (Rural and Women Entrepreneurship Development)
(g) **WASME** : (World Association for Small and Medium Enterprises).
(h) **SFURTI** : (Scheme of Fund for Regeneration of Traditional Industries).
(i) **DICs** : (The District Industries Centres).

(Any five) 5

□□□

**SOLVED
PAPER**

**I PUC
Annual Examination
2018**

**Business
Studies
(S)**

Time : 3 Hrs. 15 Min.

Max. Marks : 100

Instructions :

1. Write the serial number of question properly as given in the question paper while answering.
2. Write the correct and complete answers.

SECTION-A

I. Answer any TEN of the following questions in a word or a sentence each. While answering multiple choice questions, write the serial number / alphabet of the correct choice and write the answer corresponding to it. Each question carries one mark : $10 \times 1 = 10$

1. Mention any one type of economic activity.
2. Who is Karta?
3. A government company is any company in which the paid up capital held by the government is not less than :
(a) 49% (b) 51% (c) 50% (d) 25%
4. Expand RTGS.
5. The payment mechanism most typical to e-business is :
(a) Cash on delivery (b) cheques (c) credit and debit card (d) e-cash
6. Carbon monoxide emitted by automobiles directly contributes to :
(a) Water pollution (b) Noise pollution (c) Sound pollution (d) Air Pollution
7. Who are promoters ?
8. A.D.R. are issued in :
(a) Canada (b) China (c) India (d) USA
9. What is TAX holiday ?
10. What is retail trade ?
11. What is import trade ?
12. Name any one document of export business.

SECTION-B

II. Answer any Ten of the following questions in two or three sentences each. Each question carries 2 marks.

$10 \times 2 = 20$

13. State any two auxiliaries to trade.
14. Define Partnership.
15. State any two merits of Departmental undertakings.
16. What is e-banking?
17. State any two benefits of e-business.
18. What is business ethics ?

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19. Give the meaning of minimum subscription.
20. Give the meaning of shares.
21. Give the meaning of village industries.
22. Give the meaning of super market.
23. What is Franchising ?
24. What is mate's receipts ?

SECTION-C

III. Answer any Seven of the following questions in 10-12 sentences. Each question carries 4 marks. $7 \times 4 = 28$

25. Explain briefly any four objectives of business.
26. Briefly explain any four features of Global Enterprises.
27. Explain briefly the functions of Commercial Banks.
28. Bring out any four distinctions between Traditional Business and e-business.
29. Explain the social responsibility of business towards.
(a) Shareholders (b) consumers
30. Explain briefly any four clauses of memorandum of Association.
31. Explain briefly the financial needs of a business.
32. What are public deposits ? Explain four merits of public deposit as a sources of business finance.
33. Briefly explain any four common incentives to attract small scale industries in rural area by the government.
34. Explain briefly four merits of depart mental stores.

SECTION-D

IV. Answer any Four of the following questions in 20-25 sentences each. Each question carries 8 marks. $4 \times 8 = 32$

35. Explain the merits and demerits of sole proprietorship form of business organisations.
36. Explain the features of joint stock company.
37. Explain the principles of insurance.
38. Explain any eight factors that affect the choice of appropriate source of Business Finance.
39. Explain four merits and four demerits of Mail Order Houses.
40. What is Joint Venture ? Explain its advantages and limitation.

SECTION-E (Practical Oriented)

V. Answer any Two of the following questions. Each questions carries Five marks.

$2 \times 5 = 10$

41. As the owner of a business unit, what risks are faced by you in running it ?
42. Give a list of any five institution which support small business in India.
43. Mention any five foreign trade promotion measures and schemes undertaken by the Government of India.

□□□

SOLUTIONS

As Per Scheme of Valuation

(Issued by Department of PUE, Karnataka)

SECTION-A

I.

1. Any activity undertaken with the objective of earning income or livelihood is called Economic activity.

[Scheme of Valuation, 2018] 1

Detailed Answer :

Business / Employment or Profession.

(Any one)

2. Karta is the eldest member of the H.U.F. 1
3. (b) 51%. 1
4. Real Time Gross Settlement. 1
5. (c) Credit and debit card 1
6. (d) Air pollution. 1
7. When any person or a group of persons or when a company who have discovered an opportunity, proceeds to form a company, he is known as promoter. 1
8. (d) U.S.A. 1
9. Exemption from paying taxes for 5 or 10 years given to industries established in backward, hilly and tribal areas. 1
10. A retailer is a business enterprise that is engaged in the sale of goods and services directly to the ultimate consumers. 1
11. Importing is purchasing of foreign products and bringing them into one's home country. 1
12. Export Invoice. (or Any other) 1

SECTION-B

II.

13. Transport, Banking, Insurance. (Any two) (or any other) 1 + 1
14. The Indian partnership Act, 1932 defines partnership as "the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all. 2
15. (a) They are subject to accounting and audit control.
- (b) The revenue earned by Departmental undertakings are paid into the govt. treasury. (or Any other) 1 + 1
16. e-banking is a service provided by many banks that allows a customer to conduct banking transactions such as managing, savings, checking accounts and paying with the Internet using personal computers. 2
17. (a) Ease of formation.
- (b) Lower Investment.
- (c) Business firm can enter in new and remote markets. (Any two)(or Any other) 1 + 1
18. Business ethics are the moral principles and rules of conduct which should govern the activities of a business. 2
19. It refers to the minimum number of shares to be subscribed by the public before the companies going ahead with the allotment of shares as per SEBI guidelines. 2
20. The share in the share capital of the company. 2

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21. Any industry located in a rural area produces any goods, renders any service with or without the use of power and in which the fixed capital investment per head or worker is specified by the Central Government from time to time. 2
22. A super market is a large retailing business unit, selling wide variety of consumer goods. 2

[Scheme of Valuation, 2018]

Detailed Answer :

A super market is a large retailing business unit selling wide variety of consumer goods on the basis of low margin appeal, wide variety and assortment, self-service and heavy emphasis on merchandising appeal.

23. Grant of rights by one party to another for use of technology, trade mark and patents relating to services in return of the agreed payment for a certain period of time. 2
24. A mate's receipt is receipt issued by the commanding officer of the ship when the cargo is loaded on board. 2

SECTION-C**III.**

25. (a) Market standing.
(b) Innovation.
(c) Productivity.
(d) Earning profits.

(or Any other) 2 + 2

[Scheme of Valuation, 2018]

Detailed Answer :**Objectives of business :**

- (a) **Market standing** : Market standing refers to the position of an enterprise in relation to its competitors. A business enterprise must aim at standing on stronger footing in terms of offering competitive products to its customers and serving them to their satisfaction.
- (b) **Productivity** : Productivity is calculated by comparing the value of outputs with the value of inputs. It is used as a measure of efficiency. In order to ensure continuous survival and progress, every enterprise must aim at greater productivity by the best use of available resources.
- (c) **Earning profits** : One of the objectives of business is to earn profits on the capital employed. Profitability refers to profit in relation to capital investment. Every business must earn a reasonable profit which is so important for its survival and growth.
- (d) **Physical and financial resources** : Any business requires physical resources like plants, machines, offices, etc., and financial resources, i.e., funds to be able to produce and supply goods and services to its customers. The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently.

26. (a) Huge capital.
(b) Foreign collaboration.
(c) Advanced technology.
(d) Product innovation.

(or Any other with brief explanation) 2 + 2

[Scheme of Valuation, 2018]

Detailed Answer :

- (a) **Huge capital resources** : These enterprises are characterised by possessing huge financial resources and the ability to raise funds from different sources. They may issue equity shares, debentures or bonds to the public. They are also in a position to borrow from financial institutions and international banks.
- (b) **Foreign collaboration** : MNCs usually enter into agreement with companies of host countries on the terms of sale of technology, use of brands names, etc. helping them to expand and diversify their business.

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- (c) **Advanced technology** : These enterprises possess technological superiorities in their methods of production. They are able to conform to international standards and quality specifications. This leads to industrial progress of the country in which such corporations operate since they are able to optimally exploit local resources and raw materials. Computerisation and other inventions have come due to the technological advancements provided by MNCs.
- (d) **Product innovation** : These enterprises are characterised by having highly sophisticated research and development departments engaged in the task of developing new products and superior designs of existing products.

27. (a) Acceptance of deposit.
(b) Lending of funds.
(c) Cheque facilities.
(d) Remittances funds.
(e) Allied services.

(or Any other with brief explanation) 2 + 2

[Scheme of Valuation, 2018]

Detailed Answer :

The main functions of commercial banks are described below :

- (a) **Collection of deposits** : One of the basic and primary functions of commercial banks is that they accept deposits from their clients. The depositors can withdraw their money from their accounts in the form of cash or through cheques and drafts.
- (b) **Granting loans** : Banks grant loans to industry, trade and commerce. The banks lend the money which they get in the form of deposits. The funds lent out by banks help in the development of trade and industry.
- (c) **Collection of cheques and bills** : Banks collect the cheques for their customers drawn on other banks. To collect cheques, banks have clearing houses. In case of local houses, the banks take no extra charges. For collecting outstation cheques, banks charge a commission. Banks also accept bills of exchange and encash them by charging a commission called discount before the maturity date.
- (d) **Agency functions** : Banks pay insurance premium on behalf of their clients. They also collect dividend, premium, interest, pension, etc. on behalf of customers and credit the same in their accounts.

28.

Traditional Business	e-business
Difficult Formation	Simple and easy formation
Physical presence required	Not required
Cost of setting is high	Low
More inter personal touch	Less

[Scheme of Valuation, 2018] 2 + 2

Detailed Answer :

Distinction between Traditional Business and e-business :

Basis of distinction	Traditional Business	e-business
(a) Ease of formation	Difficult	Simple
(b) Physical presence	Required	Not required
(c) Locational requirements	Proximity to the source of raw materials or the market of the product	None
(d) Cost of setting up	High	Low

29. **Share holders** : Fair return on their capital investment to provide information about the working of company, to ensure safety to such investment. (or Any other)

Consumer : Supply right quality and quantity of goods services to reasonable price, precaution against adulterations, provide right information. (or Any other) 2 + 2

[Scheme of Valuation, 2018]

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Detailed Answer :**Social responsibility of business towards :**

- (a) **Shareholders :** (i) To ensure safety of investment, (ii) to ensure fair and regular return on investment, (iii) to give complete information regarding the financial position of business, (iv) to ensure appreciation of investment by proper utilisation of resources.
- (b) **Consumers :** (i) production and supply of safe items by maintaining quality standards, (ii) to follow fair and lawful trade practice, (iii) to handle consumer complaints and grievances quickly, (iv) to produce the goods according to consumers' needs and requirements.

30. (a) Name clause
(b) Registered clause
(c) Liability clause
(d) Capital clause

(or Any other) (with brief explanation) 2 + 2**[Scheme of Valuation, 2018]****Detailed Answer :****Clauses of Memorandum of Association :**

- (a) **Name Clause :** This clause contains the name of the company with which the company will be Registered with Registrar of Companies.
- (b) **Registered office clause :** This clause contains the name of the state in which the registered office of the company is proposed to be situated. The exact address of the registered office must be notified to the Registrar within 30 days of the incorporation of the company.
- (c) **Liability clause :** This clause defines the liability of the members of the company. In case of companies limited by shares, the liability of the members is limited to the extent of unpaid amount of their share capital.
- (d) **Capital clause :** This clause specifies the amount of share capital with which company is to be registered, i.e., authorised share capital of the proposed company along with its division into the number of shares having a fixed face value.

31. Fixed capital requirements and working capital requirement.

(with brief explanation) 2 + 2**[Scheme of Valuation, 2018]****Detailed Answer :****Financial needs of the business :****The financial needs of a business can be categorised as follows :**

- (a) **Fixed capital requirements :** In order to start business, funds are required to purchase fixed assets like land and building, plant and machinery, etc. This is known as fixed capital requirements of the enterprise. The funds required in fixed assets remain invested in the business for a long period of time. Different business units need varying amount of fixed capital depending on various factors such as – nature of business, growth prospects, scale of operation, technological upgradation etc.
- (b) **Working capital requirements :** No matter how small or large a business is, it needs funds for its day-to-day operations. This is known as working capital of an enterprise, which is used for holding current assets such as stock of raw material, bills receivables, etc. The amount of working capital required varies from one business concern to another depending on various factors like credit allowed, operating efficiency, nature of business, etc.

32. Deposits raised by the company from public are called public deposit.

Merits :

- (a) Procedure of obtaining is simple.
- (b) Cost of public deposit lower than bank loans.
- (c) Do not usually create any charge on asset.
- (d) Depositors not having voting rights.

[Scheme of Valuation, 2018] 4

Detailed Answer :

Public Deposits are raised by companies directly from the public at a fixed rate of interest for a period upto three years.

Four merits of public Deposits :

- (a) The procedure of obtaining deposits is simple and does not contain any restrictive conditions.
- (b) Cost of public deposits is generally lower than the cost of borrowings from banks and financial institutions.
- (c) Public Deposits do not usually create any charge on the assets of the company.
- (d) As the depositors do not have voting rights, the control of the company is not diluted.

33. (a) Land
(b) Power
(c) Water
(d) Finance

(or Any other) (with brief explanation) 2 + 2

[Scheme of Valuation, 2018]

Detailed Answer :**The incentives provided by the government are as follows :**

- (a) **Land** : Developed plots are offered by every state for establishing industries.
- (b) **Power** : Some states supply power at a concessional rate of 50%, while some give it free of cost during the initial years.
- (c) **Water** : Water is either supplied at 50% concession or is totally free for a period of 5 years.
- (d) **Finance** : Small business units are offered loans at a very low rate of interest, i.e., 10 to 15% subsidy is given for building capital assets.
- (e) **Sales tax** : Exemption from sales tax is extended by some states for a period of 5 years while all union territories provide full exemption from sales tax. It is also known as Value Added Tax (VAT).
- (f) **Raw material** : Units located in backward areas get preferential treatment in the matter of allotment of scarce raw materials like cement, iron, steel, etc.

34. (a) Attract large number of customer.
(b) Convenience in buying.
(c) Attractive service.
(d) Economy of large scale operation.

(or Any other with brief explanation) 2 + 2

[Scheme of Valuation, 2018]

Detailed Answer :**Four merits of Departmental stores :**

- (a) **Convenient shopping** : Departmental stores offer a large variety of goods under one roof which enables consumers to save time and the effort of making purchases at different places.
- (b) **Central location** : Departmental stores are located at central places so that more and more people can approach these stores easily.
- (c) **Economies of scale** : Large scale operation and buying goods in bulk by department stores offers benefit of economies of large scale.
- (d) **Services** : Departmental stores offer various services to their customers such as credit facility, free home delivery, rest rooms, etc. which makes shopping pleasant for customers.

SECTION-D
IV.**35. Merits :**

- (a) Quick decision making.
- (b) Confidential Information.

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- (c) Direct Incentives.
- (d) Ease of formation and closure.

Demerits :

- (a) Limited resources.
- (b) Limited life.
- (c) Unlimited liability.
- (d) Limited managerial ability.

(or Any other with brief explanation) 4 + 4

[Scheme of Valuation, 2018]

Detailed Answer :

Merits : Sole proprietorship offers many advantages. Some of the important ones are as follows :

- (a) **Quick decision making :** A sole proprietor enjoys considerable degree of freedom in making business decisions.
- (b) **Confidential and secrecy :** Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy. A sole trader is also not bound by law to publish the firm's accounts.
- (c) **Direct incentive :** A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profits.
- (d) **Sense of accomplishment :** There is a personal satisfaction involved in working for oneself. The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also instills a sense of accomplishment and confidence in one's abilities.

Limitations / Demerits : Sole proprietorship has some limitations which are as follows :

- (a) **Limited resources :** Resources of a sole proprietor are limited to his/her personal savings and borrowings from others.
- (b) **Limited life of a business concern :** In the eyes of law, the proprietor and the owner are considered one and the same. Death, insolvency or illness of a proprietor affects the business and can lead to its closure.
- (c) **Unlimited liability :** A major disadvantage of sole proprietorship is that the owner has unlimited liability. If the business fails, the creditors can recover their dues not only from the business assets, but also from the personal assets of the proprietor.
- (d) **Limited managerial ability :** The owner has to assume the responsibility of varied managerial tasks, such as purchasing, selling, financing, etc. It is rare to find an individual who excels in all these areas.

36. (a) Artificial person.
 (b) Separate legal entity.
 (c) Formation.
 (d) Perpetual succession.
 (e) Control.
 (f) Liability.
 (g) Common seal.
 (h) Risk bearing.

(with brief explanation) 4 + 4

[Scheme of Valuation, 2018]

Detailed Answer :

Features of Joint Stock Company :

- (a) **Artificial person :** A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, borrow money, sue and be sued but unlike them it cannot breathe, eat, talk and so on.
- (b) **Separate legal entity :** From the day of its incorporation, a company acquires an identity distinct from its member.

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- (c) **Formation** : The formation of a company and registration involves preparation of several documents and compliance with several legal requirements. Registration of the company is compulsory.
- (d) **Perpetual succession** : Members may come and members may go, but the company continues to exist. It can be brought to an end only by law.
- (e) **Control** : The shareholders do not have the right to be involved in the day-to-day running of the business. A company is managed by and controlled by the Board of Directors who is directly accountable to the shareholders.
- (f) **Liability** : The liability of the shareholders is limited to the extent of their capital contributed in the company.
- (g) **Common seal** : The company being an artificial person acts through its Board of Directors. Board of Directors enters into an agreement with others by indicating the company approval through a common seal.
- (h) **Risk bearing** : In the face of financial difficulties, all shareholders in a company have to contribute to the debts to the extent of their shares in the company's capital.

37. (a) Utmost good faith.
 (b) Insurable interest.
 (c) Indemnity.
 (d) Proximate cause.
 (e) Subrogation.
 (f) Contribution and Mitigation.

(with brief explanation) 4 + 4

[Scheme of Valuation, 2018]

Detailed Answer :

- (a) **Utmost good faith** : It is the duty of the insured to disclose all the material facts relating to risk to be covered. A material fact refers to the fact which would influence the mind of a prudent underwriter in deciding whether to accept a risk for insurance and on what terms.
- (b) **Indemnity** : The purpose of insurance is to restore the insured person to approximately the same financial position that existed prior to the loss. The losses paid here would be approximately the same and the reason for this is to prevent the insured from profiting from insurance to reduce moral hazards. Indemnity can be defined as the compensation of loss or injury sustained.
- (c) **Mitigation** : It is the duty of the insured to take reasonable steps to minimize the loss or damage to the insured property. If reasonable care is not taken like any prudent person then the claim from the insurance company may be lost.
- (d) **Subrogation** : Subrogation refers to transfer of rights and remedies for the insured to the insurer who has indemnified the insured in respect of the loss.
- (e) **Insurable interest** : The person getting an insurance policy must have an insurable interest in the property or life insured. A person is said to have an insurable interest in the property, if he is benefited by its existence and prejudiced by its destruction. Without insurable interest, the insurance contract is void.
- (f) **Contribution** : The principle of contribution allows the insurer the right to call on other insurers liable for the cost to share the claim payment.
- (g) **Proximate cause** : An insurer will only be liable to pay a claim under an insurance contract, if the loss which gives rise to the claim was proximately caused by an insured peril. This means that the loss must be directly attributed to an insured peril without any break in the chain of causation. (Any six)

38. (a) Cost.
 (b) Financial strength and stability of operation.
 (c) Forms of organisation and legal status.
 (d) Purpose and time period.
 (e) Risk profile.
 (f) Control.

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- (g) Effect of credit worthiness.
- (h) Flexibility and use.
- (i) Tax benefits.

(with brief explanation) 4 + 4
[Scheme of Valuation, 2018]

Detailed Answer :

Factors affecting the choice of the source of funds :

- (a) **Cost :** Both the cost of procurement of funds and cost of utilising funds should be taken into account while deciding about the source of funds that will be used by an organisation.
- (b) **Financial strength and stability of operations :** In the choice of source of funds, business should be in a sound financial position so as to be able to repay the borrowed fund and interest amount.
- (c) **Form of business organisation :** Sole proprietorship and partnership firm can't raise fund by issue of shares or debentures, whereas Joint Stock Companies prefer issue shares and debentures to raise funds.
- (d) **Time period :** Another factor which helps in deciding the source of funds is the duration for which the firm requires funds as for a short period trade credit, factoring, short-term loans etc. are suitable whereas for long-term shares and debentures are suitable.
- (e) **Risk involved :** Owners' fund securities (equity, retained earnings) involve no risk where as borrowed fund securities are risky securities. Accordingly the business should choose the source of finance.
- (f) **Control :** Voting rights of equity shareholders enable them to have control over the business, whereas borrowed capital securities does not dilute the control of management over the business.
- (g) **Flexibility :** Contractual restrictions by lending organisations/ creditors restricts the flexibility of the company. So if other options are available, then firms don't prefer loans from financial institutions and banks which put restrictions.
- (h) **Tax benefits :** Interest on debentures, loans is deducted from the profits of the company before calculating corporation tax, whereas dividend paid to equity shareholders is not deducted from the total income.

39. Merits :

- (a) Limited Capital requirement.
- (b) Elimination of middlemen.
- (c) Absence of bad debts.
- (d) Convenience.

Demerits :

- (a) Lack of personal contact.
- (b) High promotion cost.
- (c) No credit facilities.
- (d) Delayed delivery.

(or Any other with brief explanation) 4 + 4
[Scheme of Valuation, 2018]

Detailed Answer :

Merits :

- (a) **Limited Capital :** In mail order retailing, the retailer need not to maintain any showroom / shop, that saves the investment in shop's display, stock of goods, etc.
- (b) **Convenience :** Shopping becomes easy and convenient through mail order house. The customers can make purchases from their own homes.
- (c) **Wider market :** There is no geographical limit of market in mail order. Goods can be sold throughout the world wherever postal facilities are available.
- (d) **No bad debts :** As goods are sent through VPP so they are delivered only on receiving payment. Therefore, less chances of bad debts.

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Demerits of Mail order House :

- (a) **No personal contact** : There is no face-to-face contact or interaction between buyer and seller. So many customers do not have confidence in this type of trading.
- (b) **Limited variety** : Bulky items, perishable items and the items requiring demonstration can't be sold through mail order retailing.
- (c) **Postal delay** : The mail order retailing has great dependence on the postal department. There are chances of undue delay, spoilage of goods in transit, etc.
- (d) **Heavy advertising cost** : In mail order retailing, demand can be created only by advertisements. They have to spend a huge amount of funds on advertisement.
- (e) **Chances of cheating** : As there is no chance of personal inspection, dishonest traders may cheat. They may collect advance payments and fail to deliver the goods.

40. Joint venture means establishing a new business that is formally owned by two or more firms otherwise independent firms.

Advantages :

- (a) The local partner also contributes to the equity capital, the international firm finds it financially less burdensome to expand globally.
- (b) It is possible to execute long projects requiring huge capital and manpower.
- (c) The foreign business firms may get benefits from a local partner's knowledge of the host country.
- (d) Risk and cost can be avoided by sharing.

Disadvantages :

- (a) Technology and secrets disclosed to others.
- (b) Dual ownership leads to conflict

[Scheme of Valuation, 2018] 1 + 4 + 3

Detailed Answer :

When two or more individuals or enterprises either private or government owned or a foreign company join together through participation in equity capital for achieving a common target and mutual benefit is known as joint venture.

- (a) **Reduces competition** : When two companies join together it results in reducing the competition as instead of wasting resources in competition they will strengthen their organization.
- (b) **Reduces risk** : High risk involved in new and innovative ventures can be reduced when two companies join together to share the risk.
- (c) **Advance technology** : By joining hands with foreign companies, Indian company can get the benefit of advanced technology.
- (d) **Large capital** : In joint ventures, two companies together contribute capital, as a result large capital can be arranged without much difficulty.
- (e) **Reduction in cost** : When two firms join together, then they can operate on large scale and get benefit of economies of scale hence, reduces cost of production and marketing.

Limitations of Joint Venture :

- (a) **Problem in sharing capital** : To get control over the company both firms try to increase equity share holdings.
- (b) **Legal restrictions** : Often there are legal restrictions on foreign investment, e.g., - FERA and FEMA have laid restriction on foreign participation in equity capital of an Indian company.
- (c) **Conflicts** : Sometimes there can be conflicts among different parties involved in joint ventures because of difference in culture and economic development of two countries.
- (d) **Mergers and monopolies** : By taking major share holdings in equity capital or by mergers, big companies may create monopoly in market.

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SECTION-E (Practical Oriented)

V.

41. (a) Natural causes.
(b) Human causes.
(c) Economic causes.
(d) Other causes.

(or Any other) 5

[Scheme of Valuation, 2018]

Detailed Answer :

- (a) **Natural causes** : Human beings have little control over natural calamities like flood, earthquake, lightning, heavy rains, famine, etc. They result in heavy loss of life, property and income in business.
- (b) **Human causes** : Human causes include such unexpected events like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency, etc.
- (c) **Economic causes** : These include uncertainties relating to demand for goods, competition, price, collection of dues from customers, change of technology or method of production, etc. Financial problems like rise in interest rate for borrowing, levy of higher taxes, etc., also come under these type of causes as they result in higher unexpected cost of operation of business.
- (d) **Other causes** : These are unforeseen events like political disturbances, mechanical failures such as the bursting of boiler, fluctuations in exchange rates, etc., which lead to the possibility of business risks.

42. **NABARD** : National Bank for Agriculture and Rural development.

RSBDC : Rural Small Business Development.

NSIC : National Small Industries Corporation.

SIDBI : Small Industries Development Bank of India.

RWED : Rural and Woman Entrepreneurship Development.

DICs : District Industries Centres.

(or Any other) 5

43. (a) Duty drawback scheme
(b) Exemption from payment of sales tax
(c) Export manufacturing under bond scheme.
(d) Advance licence Scheme
(e) Trading houses and superstar trading houses for export service.
(f) Export finance
(g) 100% export oriented
(h) Export processing zones

(or Any other) 5

□□□