



# STUDY MATERIAL

— 10+2 COMMERCE —

Session : 2023-24

- Accountancy
- Business Studies
- Fundamentals of  
E-Business

Prepared By: State Commerce Team

# **ACCOUNTANCY**

## **SECTION — A**

### **CHAPTER -1**

## **NON PROFIT ORGANISATION**

Not-for -Profit Organisations refer to the organisations that are for used for the welfare of the society and are set up as charitable institutions which function without any profit motive. Their main aim is to provide service to a specific group or the public at large. Normally, they do not manufacture, purchase or sell goods and may not have credit transactions. Hence they need not maintain many books of account (as the trading concerns do) and Trading and Profit and Loss Account. The funds raised by such organisations are credited to capital fund or general fund. The major sources of their income usually are subscriptions from their members donations, grants-in-aid, income from investments, etc. The main objective of keeping records in such organisations is to meet the statutory requirement and help them in exercising control over utilisation of their funds. They also have to prepare the financial statements at the end of each accounting period (usually a financial year) and ascertain their income and expenditure and the financial position, and submit them to the statutory authority called Registrar of Societies.

The Not-for-Profit Organisations are also required to prepare financial statements at the end of the each accounting period. Although these organisations are non-profit making entities and they are not required to make Trading and Profit & Loss Account but it is necessary to know whether the income during the year was sufficient to meet the expenses or not. Not only that they have to provide the necessary financial information to members, donors, and contributors and also to the Registrar of Societies. For this purpose, they have to prepare their final accounts at the end of the accounting period and the general principles of accounting are fully applicable in their preparation as stated earlier, the final accounts of a 'not-for-profit organisation' consist of the following:

- (i) Receipt and Payment Account
- (ii) Income and Expenditure Account, and
- (iii) Balance Sheet.

### **Receipt and Payment Account**

It is prepared at the end of the accounting year on the basis of cash receipts and cash payments recorded in the cash book. It is a summary of cash and bank transactions under various heads. For example, subscriptions received from the members on different dates which appear on the debit side of the cash book, shall be shown on the receipts side of the Receipt and Payment Account as one item with its total amount.

**Receipt and Payment Account for the year ending ———**

<b>Receipts</b>	<b>Amount (₹)</b>	<b>Payments</b>	<b>Amount (₹)</b>
Balance b/d		Balance b/d (Bank overdraft)	xxx
Cash in Hand	xxx	Wages and Salaries	xxx
Cash at Bank	xxx	Rent	xxx
Subscriptions	xxx	Rates and Taxes	xxx
General Donations	xxx	Insurance	xxx
Sale of newspaper/ periodicals/waste paper	xxx	Printing and Stationery	xxx
Sale of old sports materials	xxx	Postage and courier	xxx
Interest on fixed deposits	xxx	Advertisement	xxx
Interest/Dividend on general investments	xxx	Sundry expenses	xxx
Locker Rent	xxx	Telephone charges	xxx
Sale of scraps	xxx	Entertainment expenses	xxx
Proceeds from charity show	xxx	Audit fees	xxx
Miscellaneous receipts	xxx	Honorarium	xxx
Grant-in-aid	xxx	Repair and Renewals	xxx
Legacies	xxx	Upkeep of ground	xxx
Specific Donations	xxx	Conveyance	xxx
Sale of Investments	xxx	Newspapers and Periodicals	xxx
Sale of Fixed Assets	xxx	Purchases of Assets	xxx
Life membership fees	xxx	Purchase of Investments	xxx
Entrance fees	xxx	Balance c/d	
Receipts on account of specific purpose funds	xxx	Cash in Hand	xxx
Interest on specific funds' investments	xxx	Cash at Bank	xxx
Balance b/d (Bank Overdraft)*	xxx		
	xxx		xxx

It may be noted that the receipts side of the Receipt and Payment Account gives a list of revenue receipts (for past, current and future periods) as well as capital receipts. Similarly, the payments side of the Receipts and Payments Account lists the Revenue Payments (for past, current and future periods) as well as Capital Payments.

## **Income and Expenditure Account**

It is the summary of income and expenditure for the accounting year. It is just like a profit and loss account prepared on accrual basis in case of the business organisations. It includes only revenue items and the balance at the end represents surplus or deficit. The Income and Expenditure Account serves the same purpose as the profit and loss account of a business organisation does. All the revenue items relating to the current period are shown in this account, the expenses and losses on the expenditure side and incomes and gains on the income side of the account. It shows the net operating result in the form of surplus (i.e. excess of income over expenditure) or deficit (i.e. excess of expenditure over income), which is transferred to the capital fund shown in the balance sheet. The Income and Expenditure Account is prepared on accrual basis with the help of Receipts and Payments Account along with additional information regarding outstanding and prepaid expenses and depreciation etc. Hence, many items appearing in the Receipts and Payments need to be adjusted.

### Steps in the Preparation of Income and Expenditure Account

Following steps may be helpful in preparing an Income and Expenditure Account from a given Receipt and Payment Account:

1. Pursue the Receipt and Payment Account thoroughly.
2. Exclude the opening and closing balances of cash and bank as they are not an income.
3. Exclude the capital receipts and capital payments as these are to be shown in the Balance Sheet.
4. Consider only the revenue receipts to be shown on the income side of Income and Expenditure Account. Some of these need to be adjusted by excluding the amounts relating to the preceding and the succeeding periods and including the amounts relating to the current year not yet received.
5. Take the revenue expenses to the expenditure side of the Income and Expenditure Account with due adjustments as per the additional information provided relating to the amounts received in advance and those not yet received.
6. Consider the following items not appearing in the Receipt and Payment Account that need to be taken into account for determining the surplus/ deficit for the current year :
  - (a) Depreciation of fixed assets.
  - (b) Provision for doubtful debts, if required.
  - (c) Profit or loss on sale of fixed assets

## **Balance Sheet**

'Not-for-Profit' Organisations prepare Balance Sheet for ascertaining the financial position of the organisation. The preparation of their Balance Sheet is on the same pattern as that of the business entities. It shows assets and liabilities as at the end of the year. Assets are shown on the right hand side and the liabilities on the left hand side. However, there will be a Capital Fund or General Fund in place of the Capital and the surplus or deficit as per Income and Expenditure Account which is either added to/deducted from the capital fund, as the case may be.

Preparation of Balance Sheet The following procedure is adopted to prepare the Balance Sheet:

1. Take the Capital/General Fund as per the opening balance sheet and add surplus from the Income and Expenditure Account. Further, add entrance fees, legacies, life membership fees, etc. received during the year.
2. Take all the fixed assets (not sold/discarded/or destroyed during the year) with additions (from the Receipts and Payments account) after charging depreciation (as per Income and Expenditure account) and show them on the assets side.
3. Compare items on the receipts side of the Receipts and Payments Account with income side of the Income and Expenditure Account. This is to ascertain the amounts of:
  - (a) subscriptions due but not yet received;
  - (b) incomes received in advance;
  - (c) sale of fixed assets made during the year;
  - (d) items to be capitalised (i.e. taken directly to the Balance Sheet) e.g. legacies, interest on specific fund investment and so on.
4. Similarly compare, items on the payments side of the Receipt and Payment Account with expenditure side of the Income and Expenditure Account. This is to ascertain the amounts if:
  - (a) outstanding expenses;
  - (b) prepaid expenses;
  - (c) purchase of a fixed asset during the year;
  - (d) depreciation on fixed assets;
  - (e) stock of consumable items like stationery in hand;
  - (f) Closing balance of cash in hand and cash at bank as, and so on.

A proforma Balance Sheet is given for the proper understanding of preparing the balance sheet

**Balance Sheet of as on .....**

<b>Liabilities</b>	<b>Amount (₹)</b>	<b>Assets</b>	<b>Amount (₹)</b>
Capital fund:			
Opening Balance	xxx	Cash in hand and /or Cash at Bank	xxx
Add: Surplus		Outstanding Incomes	xxx
OR		Prepaid Expenses	
Less: Deficit		Stock of Consumable Items: Previous Balance	
Add: Capitalised Income of the	xxx	Add: Purchases in the	
Current Year on	xxx		

account of:	xxx	current period	
Legacies	xxx	Less: Value consumed	xxx
Entrance Fees	xxx	During the period	
Life Membership Fees		Assets:	
Closing Balance		Previous Balance	
Special Fund/Donations		Add: Purchases in the	
Previous Balance (If any )		current	xxx
Add: Receipts for the item		period	
during the period		Less: Book Value of the	
Add: Income earned on		Asset sold/disposed	
fund/Donations'		off	
Investments		Closing Balance	
Less: Expenses paid out of	xxx		
fund/Donations			
Net Balance	xxx		
Creditors for Purchases	xxx		
and/or supplies	xxx		
Bank Overdraft	xxx		
Outstanding Expenses			
Income received in Advance	xxx		xxx

### Special Terms :-

#### Donations:

It is a sort of gift in cash or property received from some person or organisation. It appears on the receipts side of the Receipts and Payments Account. Donation can be for specific purposes or for general purposes.

(i) Specific Donations: If donation received is to be utilised to achieve specified purpose, it is called Specific Donation. The specific purpose can be an 2018-19 26 Accountancy – Not-for-Profit Organisation and Partnership Accounts extension of the existing building, construction of new computer laboratory, creation of a book bank, etc. Such donation is to be capitalised and shown on the liabilities side of the Balance Sheet irrespective of the fact whether the amount is big or small. The intention is to utilise the amount for the specified purpose only.

(ii) General Donations: Such donations are to be utilised to promote the general purpose of the organisation. These are treated as revenue receipts as it is a regular source of income hence, it is taken to the income side of the Income and Expenditure Account of the current year.

#### Legacies:

It is the amount received as per the will of a deceased person. It appears on the receipts side of the Receipt and Payment Account and is directly added to capital fund/general fund in the balance sheet, because it is not of recurring nature. However, legacies of a small amount may be treated as income and shown on the income side of the Income and Expenditure Account.

#### Life Membership Fees:

Some members prefer to pay lump sum amount as life membership fee instead of paying periodic subscription. Such amount is treated as capital receipt and credited directly to the capital/general fund.

### **Entrance Fees:**

Entrance fee also known as admission fee is paid only once by the member at the time of becoming a member. In case of organisations like clubs and some charitable institutions, is limited and the amount of entrance fees is quite high. Hence, it is treated as non-recurring item and credited directly to capital/general fund. However, for some organisations like educational institutions, the entrance fees is a regular income and the amount involved may also be small. In their case, it is customary to treat this item as a revenue receipt. However, if there is specific instruction, it is advisable to treat the entire amount as capital receipt and the relevant amount should be directly added to capital/general fund.

### **Endowment Fund:**

It is a fund arising from a bequest or gift, the income of which is devoted for a specific purpose. Hence, it is a capital receipt and shown on the Liabilities side of the Balance Sheet as an item of a specific purpose fund.

### **Government Grant:**

Schools, colleges, public hospitals, etc. depend upon government grant for their activities. The recurring grants in the form of maintenance grant is treated as revenue receipt (i.e. income of the current year) and credited to Income and Expenditure account. However, grants such as building grant are treated as capital receipt and transferred to the building fund account. It may be noted that some Not-for-Profit organisations receive cash subsidy from the government or government agencies. This subsidy is also treated as revenue income for the year in which it is received.

## **I. MULTIPLE CHOICE QUESTIONS**

### **WORK SHEET**

#### **Choose the correct option :**

**Q-1 The Receipt and Payment account of a Non- Profit Organisation is a**

- (a) Nominal Account      (b) Real Account      (c) Income Statement Account      (d) Financial Statements

**Q-2 In regard to Rent expenses paid in advance of a non- profit organisation which of the following classification is correct**

- (a)Expense                      (b) Liability                      (c) Equity                      (d) Assets

**Q-3 Income & Expenditure Account is based on**

- (a) Cash Accounting      (b) Accrual Accounting      (c) Government Accounting      (d) Management Accounting

**Q-4 Which of the following is used to show purchase of fixed asset for a non profit organisation ?**

- (a) Income & Expenditure Account      (b) Profit & Loss Account      (c) Balance Sheet      (d) None of the above





### 1. State the meaning of Not-for-profit organisation.

Ans. Not-for-profit organisations are those organisations whose objective is not to earn profit but to provide services to its members and to the society. These organisations are set up for the welfare of the society as a whole, rather than for the benefit of any one individual and are set up for the purpose of promoting culture, art, religion, education etc., e.g., clubs, hospitals, libraries, schools, societies for promotion of sports, arts and culture, etc

### 2. Distinguish between income and expenditure account and receipts and payment account.

Ans. The differences between income and expenditure account and receipts and payments account are :

Basis	Income & Expenditure Account	Receipts & Payments Account
1. Nature	It is a nominal account.	It is a real account.
2. Nature of Items	It records income and expenditure of revenue nature only.	It records Receipts and Payments of revenue as well as capital nature.
3. Period	Income and expenditure items relate only to the current period.	Receipts and Payments may also relate to preceding and succeeding periods.

### 3. What is subscription? How is it calculated?

Ans. It is the membership fee paid by the members on annual basis. It is the main source of income of non-profit organisations

**Table Showing Calculation of Subscriptions**

Particulars	Amount ₹
Subscriptions received during the year (whether in respect of previous, current or future period) as shown in receipts and payments account	X X X
Add : Subscriptions outstanding at the end of the year	X X X
Subscriptions received in advance in the beginning of the year	<u>X X X</u>
Less : Subscriptions outstanding in the beginning of the year	X X X
Subscriptions received in advance at the end of the year	<u>X X X</u>
Subscriptions to be shown in the Income & Expenditure Account	<u>X X X</u>

### Four Marks Questions

#### 1. Explain the basic features of income and expenditure account.

Ans. The basic features of income and expenditure account are :

- Nature. It is a nominal account.
- Capital Items. No capital items are recorded in this account.
- Debit and Credit Sides. Its debit side includes all the expenses pertaining to the particular period and credit side includes all the income pertaining to the same period.
- Opening and Closing Balances. No opening and closing balances are recorded in it.
- Only Current Period Items. No item either revenue or expenditure, pertaining to the past period or the future period is entered in this account.

#### 2. What are the features of receipts and payments account?

Ans. The features of receipts and payments account are :

- (i) Nature. Receipts and Payments Account is a real account in nature.  
(ii) Period. In this account, all receipts and payments, irrespective of the period to which they pertain, are shown.  
(iii) Capital and Revenue. All cash receipts and cash payments whether of capital nature or of revenue nature are included.  
(iv) Banking Transactions. Receipts payments made through bank are also recorded.

**3. The Receipts and Payments Account of Harimohan Charitable Institution for the year ending March 31, 2019 is given :**

Dr.		Cr.	
Reciepts	₹	Payments	₹
To Cash at Bank	22,000	By Furniture	3,000
To Cash in Hand	8,800	By Investments	55,000
To Donations	32,000	By Advance for Building	20,000
To Subscriptions	50,200	By Charities	60,000
To Endowment Fund	60,000	By Salaries	10,400
To Interest on Investment	3,800	By Rent and Taxes	4,000
To Interest on Deposits	800	By Printing	1,000
To Sale of Old Newspapers	500	By Postage	300
		By Advertisements	1,100
		By Insurance	4,800
		By Cash at Bank	32,000
		By Cash in Hand	10,500
	2,02,100		2,02,100

Prepare the Income and Expenditure Account for the Year ended on March 31, 2019 after considering the following :

- (i) It was decided to treat Fifty per cent of the amount received on account of Legacies and Donations as income.  
(ii) Liabilities to be provided for are : Rent Rs. 800; Salaries Rs. 1,200; Advertisement Rs. 200; Furniture Purchased Rs. 1,500.  
(iii) Rs. 2,000 due for interest on investment was not actually received

**Solution :**

INCOME AND EXPENDITURE ACCOUNT  
for the year ending 31st March, 2019

Dr.		Cr.	
Expenditutre	₹	Income	₹
To Rent and Taxes	4,000	By Subscriptions	50,200
Add : Outstanding	<u>800</u>	By Legacies	12,000
To Salaries	10,400	By Donations	16,000
Add : Outstanding	<u>1,200</u>	By Interest on Investment	3,800
To Advertisement	1,100	Add : Accrued Interest	<u>2,000</u>
Add : Outstanding	<u>200</u>	By Interest on Deposits	800
		By Sale of Old Newspapers	500
To Charities	60,000		
To Printing	1,000		
To Postage	300		
To Insurance	4,800		
To Surplus (Excess of Income over	1,500		

Expenditure)			
	85,300		85,300

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## CHAPTER - 2

# FUNDAMENTALS OF PARTNERSHIP FIRMS

### MEANING OF PARTNERSHIP

“Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all”.

### PARTNERSHIP DEED

The document containing the agreement in writing amongst partners is called ‘Partnership Deed’. In other words, partnership deed is a written agreement between two or more persons for managing the affairs of a partnership firm.

### PROVISIONS IF PARTNERSHIP DEED IS ABSENT/SILENT

1. Interest on Capital. No interest is to be allowed on capitals if partnership deed is silent regarding interest on capital. But in case the deed provides for payment of interest on capital but does not specify the rate, the interest will be paid at the rate of 6 per cent per annum. However, the interest is payable only out of the profits of the business and not if the firm incurs losses during the period.
2. Interest on Drawings. No interest is to be charged on drawings made by the partners.
3. Salary to Partners. No partner is entitled to get any salary from the firm.
4. Interest on Loan. If any partner, advances loan to the firm without any agreement to interest he is entitled to receive interest @ 6% per annum.
5. Profit-sharing Ratio. Profits and Losses are to be shared equally by partners irrespective of their capitals contribution in the firm

### PARTNERS' CAPITAL ACCOUNTS

In a partnership firm separate capital accounts are maintained in the names of partners. These capital accounts represent the balance of capital standing to the credit of partners individually. Capital Accounts are maintained using one of following two methods :

- (i) Fixed capital account method.
- (ii) Fluctuating capital account method.

### INTEREST ON DRAWINGS

Interest is charged for the period from the date of drawings to the date of closing of the accounts at a predetermined rate on each and every withdrawal. The following is the formula to calculate the interest :

Amount of Drawings x Rate of Interest/100 x Average Months/12

### SALARY OR COMMISSION TO PARTNERS

According to Partnership Act, 1932, salary or commission is allowed to partners if partnership deed permits. Commission may be allowed as :

- (i) Percentage of net profit before charging such commission.
- (ii) Percentage of net profit after charging such commission

Methods of Calculation

- (i) Percentage of Net Profit before charging commission  
Net profit (before commission) × Rate of Commission/100
- (ii) Percentage of Net Profit after charging the Commission.  
Net Profit (after commission) × Rate of Commission/100+ Rate of Commission

### PROFIT AND LOSS APPROPRIATION ACCOUNT

DIVISION OF PROFIT AMONG PARTNERS :  
PREPARATION OF PROFIT AND LOSS APPROPRIATION ACCOUNT

#### PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.		Cr	
for the year ending .....			
Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Net Loss as per P & L A/c	xxxx	By Net Profit as per P&L A/c	xxxx
To Partners' Salary	xxxx	By Interest on Drawings	xxxx
To Partners' Commission	xxxx	By Loss transferred to Partners' Capital/Current Accounts in their profit sharing ratio	xxxx
To Interest on Partners' Capital	xxxx		
To General Reserves	xxxx		
To Provision for tax	xxxx		
To Profit transferred to Partners' Capital Accounts/ Current Accounts in their Profit Sharing ratio	xxxx		
	xxxx		xxxx

## I. MULTIPLE CHOICE QUESTIONS

### WORK SHEET

Choose the correct option :

1. In the absence of agreement, Partners are entitled to :

- (a) Salary      (b) Commission      (c) Interest on Loans and Advances      (d) Profit share in Capital ratio

2. Number of partners in a partnership firm may be :

- (a) Maximum Two      (b) Maximum Ten      (c) Maximum One Hundred      (d) Maximum Fifty

3. Partnership Deed is also called

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(a) Prospectus      (b) Principles of Partnership      (c) Articles of Association      (d) Articles of Partnership

**4. Following are essential elements of a partnership firm except :**

- (a) Atleast two persons      (b) There is an agreement between all partners  
(c) Equal share of profits and losses      (d) Partnership agreement is for some business

**5. In case of partnership the act of any partner is :**

- (a) Binding on all partners      (b) Binding on that partner only  
(c) Binding on all partners except that particular partner      (d) None of the above

ANSWERS - (1) c, (2) d, (3) d, (4) c, (5) a

**State whether the following statements are True or False**

1. It is compulsory to have a partnership agreement in written.
2. In the absence of partnership deed mutual relation are goverened by the Indian Partnership Act, 2013.
3. A body corporate can be a partner in partnership firm.
4. Sleeping partner are those who do not take part in conduct of the business.
5. The nature of Profit and Loss Account is real.

ANSWERS : 1. False 2. True 3. False 4. False 5. False

**Fill in the Blanks**

1. Manager's commission is a .....against profits.
2. Interest on partner's loan is not credited to the Partner's .....
3. .... is an extension of Profit & Loss A/c .
4. Salary or Commission to a partner is an ..... out of profit.
5. X drew ₹ 50,000 during the year. If the rate of interest on drawings is 10% then ..... will be the amount of interest on drawings

ANSWERS : 1. Charge; 2. Capital A/c; 3. Profit & Loss Appropriation A/c; 4. Appropiation; 5. ₹ 5,000.

**One mark Questions**

**1. Define Partnership.**

Ans. Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

**2. Give two features/characteristics/elements of partnership.**

Ans. (i) Partnership comes into existence with an agreement among partners. (ii) Partners must share the profits & losses of the business.

**3. Does partnership firm has a separate legal entity? Give reason in support of your answer.**

Ans. No, a partnership firm has no separate legal entity. Reason. Private assets of the partners can be used to meet the liabilities of the firm in case firm's assets are not adequate to meet the liabilities.

**4. Define partnership deed.**

Ans. Partnership deed is a written agreement among partners for managing the affairs of a firm.

**5. Why is it necessary to have a partnership deed?**

Ans. Partnership deed is necessary because of the following reasons : (i) It makes the partners aware of their partnership terms. (ii) It enables the partners to avoid future disputes

**Two Marks Questions**

**1. X, Y and Z started a business on 1st July, 2019 contributing ₹ 1,80,000 each as share of capital. Three months later on 1st October, 2019. X introduced ₹ 1,00,000 as additional capital and Y introduced ₹ 1,20,000 which will be treated as a loan to firm. The profit for the year ended March, 2020 amounted to ₹ 1,84,200 before charging any interest. Partners are allowed a salary of ₹ 4,500 per quarter. Partners withdraw each ₹ 5,000 per month. Prepare Profit and Loss Appropriation Account for the year ended 31st March 2020.**

[Ans. Divisible Profit : ₹ 41,000 to each partner.]

**2. X and Y are partners in a firm sharing profits in the ratio 2 : 1. For the year ended 31st March, 2020 their drawings were as — X ₹ 4,10,000 and Y ₹ 3,60,000. Calculate interest on drawings at the rate of 9% p.a.**

[Ans. X — ₹ 18,450 and Y — ₹ 16,200]

**3. If the Partners' Capital Accounts are fixed, where will you record the following items:**

- (a) Salary payable to a partner
- (b) Drawings made by a partner
- (c) Fresh capital introduced
- (d) Shares of profit earned by a partner

Ans. (a) Credit side of partner's current account  
(b) Debit side of partner's current account  
(c) Credit side of partner's capital account  
(d) Credit side of partner's current account

**4. Give two provisions if partnership deed is absent/silent.**

Ans. (i) No interest is allowed on partners' capitals.  
(ii) No interest is charged on partners' drawings.  
(iii) Salary is not paid to any partner.  
(iv) Interest on partner's loan is given @ 6% per annum.  
(v) Partners share profits and losses equally. (any two)

**5. State two elements of the Partnership Deed.**

Ans. Elements of a partnership deed are as follows :  
(i) It contains all the terms and conditions agreed upon by all the partners and is a written document.  
(ii) It acts as an evidence in court in case of any dispute among the partners

## Four Marks Questions

### 1. Calculate interest on drawings in each of the following :

- (i) X withdrew ₹ 36,000 in the beginning of each quarter for the year ended March 31, 2019. Calculate interest on drawings @ 10% p.a.  
(ii) Y withdrew ₹ 60,000 during the year ended Dec. 31, 2018. Calculate interest on drawings @ 6% p.a.  
(iii) Z withdrew ₹ 60,000 during the year ended March 31, 2019.

### Calculate interest on drawings @ 6%.

### SOLUTION.

- (i) Average time period =  $12 + 3 / 2 = 15 / 2 +$  months  
Total drawings = ₹ 36,000 × 4 = ₹ 1,44,000  
Interest on drawings = ₹ 1,44,000 × 10 / 100 × 15 / 2 × 12  
= ₹ 9,000
- (ii) Total drawings = ₹ 60,000  
Time = 6 months  
(Since no dates are mentioned)  
Interest on drawings = ₹ 60,000 × 6 / 12 × 6 / 100 = ₹ 1,800
- (iii) Total drawings = ₹ 60,000  
As time period for rate of interest is not given, so interest will be charged without considering any time period.  
Interest on drawings = ₹ 60,000 × 6 / 100  
= ₹ 3,600

### 2. A and B were partners sharing profits in the ratio 2 : 1. On April 1, 2019 they had capitals of ₹ 1,80,000 and ₹ 1,60,000 respectively. According to deed :

- (a) Interest on capital will be allowed @ 6% p.a.  
(b) A will be allowed a quarterly salary of ₹ 3,500 each.  
(c) B will be allowed a monthly salary of ₹ 1,150.  
(d) A will get a commission of 5% after charging all salary and interest on capital but before any commission.  
(e) B will get a commission of 10% after charging all salary, interest and commission ended 31st March, 2020.  
Profit for the year amounted to ₹ 1,62,000.

### You are required to prepare Profit and Loss Appropriation A/c.

[Ans. A's Commission ₹ 5,690; B's Commission ₹ 9,828; Profit Divided — A—₹ 65,521; B — ₹ 32,761]



## CHAPTER – 3 & 4

### GOODWILL & CHANGE IN PROFIT SHARING RATIO

Goodwill is an indication of the good name, reputation and connections of a business. It is because of goodwill that old customers will resort to the same place and at the same time new customer will be attracted. It results in an increase in both sales and profit of the enterprise. Goodwill is an intangible asset which helps in earning extra profit over and above the normal profits prevailing in the industry. According to Lord Eldon, “Goodwill is nothing more than the probability that the old customers will resort to the old place.” Lord Lindley defines “It is generally used to denote the benefit arising from connection and reputation and its value is what can be got for the chance of being able to keep that connection and improve it.”

Classification of Goodwill Goodwill of a firm can be divided into following two categories :

#### (a) Self Generated Goodwill

#### (b) Purchased or Acquired Goodwill

**(a) Self Generated Goodwill.** As the name suggests it is an internally generated form of goodwill. It is created because of a number of attributes possessed by a running business. It is created over a period of time. Its valuation is subjected to the judgement of the valuer. As per AS-26, self generated goodwill cannot be raised and recorded in the books of accounts though it is considered an Asset.

**(b) Purchased or Acquired Goodwill.** It is that form of goodwill which is acquired by a business after making a compensation for it in cash or in kind. It mainly arises on the purchase of a business or brand name etc. It will be recorded in the books of accounts as some consideration has been paid for it. It is also shown as an asset in the Balance Sheet. Value of purchased goodwill is ascertained by the mutual consent of buyer and seller

#### Factors affecting Value of Goodwill

1. Location of Business. If the firm is situated at a prominent centrally located convenient place, its goodwill will be more due to better business and sales.
2. Types of the Business. In case it is a monopoly business, where it is difficult for other firms to enter, the business will definitely have excellent goodwill.
3. Efficiency of Management. If the firm is managed and controlled by the experienced and efficient management, with whose best efforts the firm enjoys the benefits of high productivity and low cost its profit will go on increasing, which results in increasing the value of goodwill.
4. Better Quality of Products. If the firm produces goods of better quality, then it will lead to increase in turnover and will gain more goodwill. Similarly, if a business produces goods of daily use, it will have steady profits as the demand for these goods will be stationary. Such business will have more goodwill. But if it produces fancy goods, its profits will be uncertain and the value of the goodwill will be less.

5. Impressive Publicity and Advertisement. Effective and impressive publicity and advertisement by the firm will create demand for its products resulting an increased goodwill.

6. Favourable Contracts. If the contracts of the firm have been with other reputed firms and business houses or the firm has received bulk orders from highly reputed firms, its goodwill will increase tremendously

### **Methods of Valuation of Goodwill**

1. Average Profit Method.
2. Super Profit Method.
3. Capitalisation Method

### **Reconstitution of Partnership**

Any change in the economic relationship among existing partners amounts to “Reconstitution of the Partnership”. Reconstitution of partnership puts curtain on the existing agreement among partner and a new partnership agreement is established.

Sacrificing Ratio

Sacrificing Ratio = Old Ratio – New Ratio

Gaining Ratio

Gaining Ratio = New Ratio – Old Ratio

Accounting Treatment of Goodwill when there is change in Profit Sharing ratio among Existing Partners

(A) When Goodwill is not raised :

Gaining Partner’s Capital A/c Dr.  
To Sacrificing Partner’s Capital A/c

(B) When Goodwill is raised and written off :

(a) Goodwill A/c Dr. [At full value in  
To Partners’ Capital A/cs old profit sharing ratio]  
(Being Goodwill raised in old profit sharing ratio)

(b) Partners’ Capital A/cs Dr. [New profit  
To Goodwill A/c sharing ratio will be used]  
(Being Goodwill written off in new profit-sharing ratio)

### **Distribution of Accumulated Profits and Reserves**

(1) When reserves and accumulated profits are not distributed then following entry is passed

Gaining Partner’s Capital A/c Dr.  
To Sacrificing Partners’ Capital A/c

(2) When partners decide to distribute reserves and profits then following entries are passed

(i) For transfer of Reserves and Accumulated profits in old ratio

Reserves/Profit and Loss A/c Dr.

To Partners' Capital A/c

(ii) For transfer of Accumulated losses and Deffered Revenue expenditure in old ratio

All Partners' Capital A/c Dr.

To P & L A/c/Deffered Revenue Expentiture A/c

### **Workmen Compensation Reserve**

1. If there is no claim against workmen compensation reserve. The amount of workmen compensation reserve will be distributed among partners in old profit sharing ratio.

JOURNAL

Workmen Compensation Reserve A/c Dr.

To Partners' Capital A/cs

(Being Workmen Compensation Reserve distributed in old profit sharing ratio)

2. If there is a claim for workmen comepnasation is less than the amount of workmen compensation reserve.

JOURNAL

Workmen Compensation Reserve A/c Dr.

To Provision for Workmen Compensation Claim

To Partners' Capital A/cs

(Being amount for workmen compensation provided and balance of workmen compensation reserve distributed among partners in old ratio)

3. If the claim is exactly equal to the amount of workmen compensation reserve : In such a situation the entire amount of workmen compensation reserve will be transferred to workmen compensation claim.

JOURNAL

Workmen Compensation Reserve A/c Dr.

To Provision for Workmen Compensation Claim

(Being the amount provided for workmen compensation claim)

4. If the claim is more than the amount of workmen compensation reserve :

JOURNAL

Workmen Compensation Reserve A/c Dr.

Revaluation A/c Dr.

To Provision for Workmen Compensation Claim

(Being amount for workmen compensation provided)

Partners' Capital (or Current) A/cs Dr.

To Revaluation A/c

(Being Loss on Revaluation transferred to Capital Accounts in old ratio)

### **Investments Fluctuation Reserve**

Investments Fluctuation Reserve A/c Dr.

## I. MULTIPLE CHOICE QUESTIONS

### WORK SHEET

#### Choose the correct option :

**1. Which one of the following does not affect goodwill?**

- (a) Nature of business (b) Location of customers (c) Efficiency of management (d) Technical know-how

**2. Which one of the following market will have maximum goodwill?**

- (a) monopoly (b) oligopoly (c) duopoly (d) perfect competition

**3. Under super profit goodwill is calculated as**

- (a) Super profit divided by expected rate of return. (b) Super profit multiplied by expected rate of return. (c) Super profit multiplied by number of years purchased. (d) Super profit subtracted from net assets

**4. Goodwill is**

- (a) An intangible asset (b) A realisable value (c) A fictitious asset (d) None of the above

**5. Sacrificing Ratio :**

- (a) New Ratio – Old Ratio (b) Old Ratio – Gaining Ratio (c) Old Ratio – New Ratio (d) Gaining Ratio – Old Ratio

.Answers : 1. (b) 2. (a) 3. (c) 4. (a) 5. (c)

#### State whether the following statements are True or False

1. Goodwill exists only when the firm earns super profit.
2. The need for valuation of Goodwill arises when the firm is dissolved involving sale of business as a going concern.
3. Self generated goodwill is recorded in the books of accounts as some consideration is paid for it.
4. A, B and C are partners sharing profits in the ratio of 2 : 2: 1. They decide to share equally in future. B has neither sacrificed nor gained.
5. The partners whose shares have decreased as result of change in profit sharing ratio are known as sacrificing partners

Answers 1. True 2. True 3. False 4. True 5. True

### Fill in the Blanks

1. Goodwill is an .....asset, but not a .....asset.
2. Under weighted average method it is considered to be better to give a ..... Weightage to the profit to the recent years.
3. Following two main steps are involved in valuing the goodwill under the ..... Method :  
(i) Calculate super profit (ii) Multiply super profit X number of years purchase
4. If average capital employed in a firm is ₹ 5,00,000, actual profit is ₹ 70,000 and normal rate of return is 10%, then super profit is : .....
5. If Drawings are made at the beginning of each month, the interest on drawing is calculated for ..... months

ANSWERS : 1. Intangible, Fictitious; 2. Highest; 3. Super Profit; 4. 20,000; 5. 6.5

### One mark Questions

#### 1. What is meant by “Reconstitution of a Partnership Firm”?

Ans. Any change in the economic relationship among existing partners amounts to “Reconstitution of the Partnership Firm.

#### 2. What is Sacrificing ratio?

Ans. The ratio in which the old partners agree to sacrifice their share of profit in favour of the new partners is called Sacrificing ratio

#### 3. What is meant by change in profit sharing ratio.

Ans. A change in profit sharing ratio implies purchase of share of profit by one or more partners from other partners.

#### 4. Change in profit-sharing ratio amounts to dissolution of partnership or partnership firm? Give reason in support of your answer.

Ans. Change in profit-sharing ratio amounts to dissolution of partnership and not dissolution of firm as the existing agreement comes to an end and the firm continues under new agreement.

#### 5. Define goodwill.

Ans. Goodwill is the value of reputation of a firm in respect of the profits expected in future over and above the normal profits.

### Two Marks Questions

#### 1. A, B and C are partners sharing profits in the ratio 5 : 3 : 2. In future they will share profits and losses equally. Calculate the gaining ratio as well as the sacrificing ratio.

[Ans. A Sacrifices  $\frac{1}{6}$  and B gains  $\frac{1}{30}$  and C gains  $\frac{2}{15}$  ]

#### 2. Calculate goodwill by capitalisation of average profits method :

(i) Actual Average Profits ₹ 72,000 (ii) Normal Rate of Return 12% (iii) Assets ₹ 8,00,000 (iv) Liabilities ₹ 3,50,000

[Ans. ₹ 1,50,000]

**3. Name any two factors affecting goodwill of a partnership firm**

**4. Calculate the value of Goodwill on the basis of three years' purchase of the average profit of the last five years.**

**The Profit/Losses were**

**2020 — Profit ₹ 40,000**

**2017 — Profit ₹ 70,000**

**2019 — Loss ₹ 32,000**

**2016 — Profit ₹ 82,000**

**2018 — Profit ₹ 80,000**

[Ans. ₹ 1,44,000 ]

**5. The average net profits expected in the future by ABC firm are ` 45,000 per year. The average capital employed in the business by the firm is ` 2,20,000. The rate of return expected from capital invested in this class of business is 10%. The remuneration of partner is estimated to be ` 6,500 per annum. Calculate the value of goodwill on the basis of two years' purchase of super profits.**

[Ans. Rs 33,000 ]

### **Four Marks Questions**

**1. Discuss the factors affecting Goodwill ?**

Ans : Factors affecting Value of Goodwill Goodwill originates with the customers' confidence in the partnership firms. If the firm is able to win the customer's confidence, there is an extra-ordinary increase in the profits of the business of the firm. It is clear that the goodwill is the extra-earning capacity of a business. Thus all factors which help a firm in earning profits affect the goodwill of the firm. The value of goodwill is affected by the following factors :

**1. Location of Business.** If the firm is situated at a prominent centrally located convenient place, its goodwill will be more due to better business and sales.

**2. Types of the Business.** In case it is a monopoly business, where it is difficult for other firms to enter, the business will definitely have excellent goodwill.

**3. Efficiency of Management.** If the firm is managed and controlled by the experienced and efficient management, with whose best efforts the firm enjoys the benefits of high productivity and low cost its profit will go on increasing, which results in increasing the value of goodwill.

**4. Better Quality of Products.** If the firm produces goods of better quality, then it will lead to increase in turnover and will gain more goodwill. Similarly, if a business produces goods of daily use, it will have steady profits as the demand for these goods will be stationary. Such business will have more goodwill. But if it produces fancy goods, its profits will be uncertain and the value of the goodwill will be less.

**5. Impressive Publicity and Advertisement.** Effective and impressive publicity and advertisement by the firm will create demand for its products resulting an increased goodwill.

**6. Favourable Contracts.** If the contracts of the firm have been with other reputed firms and business houses or the firm has received bulk orders from highly reputed firms, its goodwill will increase tremendously.

**7. Trend of Profit.** If the market conditions are favourable, the profits of the business are increasing continuously, the value of its goodwill will be more. If the profits are uncertain or if the profits are declining, the value of its goodwill will be less.

**8. Personal Popularity and Relationship.** If the owners of the firm are honest, sincere, customers friendly, diligent, hard working and socially cautious, the business will earn higher profits due to their popularity.

**2 Calculate the value of goodwill of X and Y using following information :**

- (i) At two years' purchase of Average Profit.
- (ii) At two years' purchase of Super Profit.
- (iii) On the basis of capitalisation of super profit.
- (iv) On the basis of capitalisation of average profit.

It is given that :

- (a) Average Capital Employed is ₹ 12,00,000
- (b) Profit for the firm for past three years : 2017—₹ 1,80,000; 2018—₹ 1,60,000; 2019—₹ 2,60,000
- (c) Normal rate of return is 10%.
- (d) Remuneration to each partner is ₹ 3,000 per month.
- (e) Assets—₹ 13,50,000 and liabilities ₹ 1,50,000.

Answers : (i) ₹ 2,56,000, (ii) ₹ 16,000, (iii) ₹ 80,000, (iv) ₹ 80,000

## CHAPTER – 5

### ADMISSION OF A PARTNER

#### One Word to One Sentence Questions

**Q. 1. What is meant by admission of a new partner ?**

**Ans.** When a new partner is admitted into an existing firm.

**Q. 2. Why is it necessary to revalue the assets and liabilities in case of admission of a new partner ?**

**Ans.** So that any 'gain' or 'loss' in assets and liabilities should not be shared/borne by new partner.

**Q. 3. What is hidden goodwill ?**

**Ans.** Excess of desired total capital over the actual combined capital of all partners.

**Q. 4. Define new profit sharing ratio in case of admission of a new partner.**

**Ans.** The profit sharing ratio of all the partners (including new) after the admission of a new partner.

**Q. 5. What is the formula for calculating Sacrifice Ratio ?**

**Ans.** Sacrifice Ratio = Old Ratio — New Ratio

#### True or False Statements

1. When a partner is admitted, it amounts to reconstitution of the firm.
2. All accumulated profits and losses are transferred to the Revaluation Account at the time of admission of a partner.
3. If the incoming partner brings the amount of goodwill in cash then the same is distributed among the old partners in their new profit sharing ratio.
4. Unless otherwise stated, the ratio of sacrifice is equal to old profit sharing ratio.
5. New Profit sharing ratio is the difference of old ratio and sacrificing ratio.

**Ans.** 1. True, 2. False, 3. False, 4. True, 5. True,

#### Fill in the Blanks

1. Profit or loss arising from revaluation is shared by ..... partners. (Old/New)
2. Share of goodwill brought in cash by new partner is called ..... (Goodwill/Assets)
3. If new partner's capital is not given, it can be worked out with the help of ..... (Balance of old Partner's Capital Account/All Partner Capital Account)
4. When premium is raised in the books for the purpose of admission of a partner, it is credited to the capitals of ..... partners. (Old/New)

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5. The amount paid by the new partner to the old partners as a compensation for their past effort is called .....  
(Reserve/Goodwill)

Ans.1. Old, 2. goodwill, 3. Balance of old partners capital accounts, 4. old, 5. Goodwill.

### SHORT NUMERICALS (2 MARKS)

Q.1. Raman and Shaman are partners sharing profits in the ratio of 7 : 3. Mohan was admitted with  $\frac{3}{7}$  th share in the profits which he took  $\frac{2}{7}$  th from Ram and  $\frac{1}{7}$  th from Shyam. Calculate new ratio of partners.

Q. 2. Sita, Priya and Ragini were partners in a firm sharing profits in 3 : 3 : 2 ratio. They admitted Gita as a new partner for  $\frac{4}{7}$  profit. Gita acquired his share  $\frac{2}{7}$  from Sita,  $\frac{1}{7}$  from Priya and  $\frac{1}{7}$  from Ragini. Calculate new profit sharing ratio.

Q. 3. Puneet and Rahul are partners in a firm sharing profits in the ratio of 7 : 3. Vikas is admitted as a new partner. Puneet sacrifices  $\frac{1}{7}$ th of his share in profits in favour of Vikas and Rahul  $\frac{2}{7}$ th of his share in favour of Vikas. Calculate the new profit sharing ratio between Puneet, Rahul and Vikas.

### NUMERICALS (4 MARKS)

Q.1. The following was the Balance Sheet of A and B who were sharing profits in the ratio of  $\frac{2}{3}$  and  $\frac{1}{3}$  as at 31st march, 2023 :

Liabilities	`	Assets	`
Creditors	65,900	Cash	1,200
Capitals :		Sundry Debtors	9,700
A	30,000	Stock	20,000
B	20,000	Plant & Machinery	35,000
		Building	50,000
	1,15,900		1,15,900

On 1st April, 2023 they agreed to admit C into partnership on the following terms :

- (a) C was to be given  $\frac{1}{3}$  share in profits, and was to bring ` 15,000 as capital and ` 6,000 as share of goodwill.
- (b) That the value of stock and plant & machinery were to be reduced by 10%.
- (c) That a provision of 5% was to be created for doubtful debts.
- (d) That the building account was to be appreciated by 20%.
- (e) Investments worth ` 1,400 (not mentioned in the Balance Sheet) were to be taken into account.
- (f) That the amount of goodwill was to be withdrawn by the old partners.

**Prepare the Revaluation A/c, Capital Accounts of the new firm.**

Q.2. The following is the Balance Sheet of A and B as at 31st March, 2023 who share profits in the ratio of 2 : 1.

Liabilities	`	Assets	`
Bank Overdraft	15,000	Sundry Debtors	40,000
Reserve Fund	12,000	Less : Provision	<u>3,600</u>
Sundry Creditors	20,000	Stock	20,000
Capitals : A	40,000	Building	25,000



B	30,000	Patents	2,000
		Machinery	33,600
	1,17,000		1,17,000

They admitted C into partnership on 1st April, 2023. New profit sharing ratio is agreed as  $\frac{3}{6} : \frac{2}{6} : \frac{1}{6}$ . C brings in proportionate capital after the following adjustments :

- (1) C brings in ` 10,000 in cash as his share of Goodwill.
- (2) Provision for doubtful debts is to be reduced by ` 2,000.
- (3) There is an old typewriter valued ` 2,600. It does not appear in the books of the firm. It is now to be recorded.
- (4) Patents are valueless.
- (5) 2% discount is to be received from creditors.

**Prepare Revaluation Account, Capital Accounts.**

## CHAPTER – 6

### RETIREMENT OR DEATH OF A PARTNER

#### One Word to one Sentence Questions

**Q. 1. What do you mean by Retirement of a partner ?**

**Ans.** Retirement of a partner means that the partner ceases to be a partner of the firm. It results in reconstitution of the firm by which old partnership comes to an end and a new partnership among the continuing (remaining) partners comes into existence.

**Q. 2. What is Gaining Ratio ?**

**Ans.** Ratio acquired by continuing partners on the retirement of a partner.

**Q. 3. What is the formula for calculating Gaining Ratio ?**

**Ans.** New Ratio — Old Ratio = Gaining Ratio.

**Q. 4. Who are called Gaining Partners ?**

**Ans.** The partners whose shares have increased as a result of change are known as Gaining Partners.

**Q. 5. What is meant by reconstitution of partnership firm ?**

**Ans.** Any change in existing agreement of partnership amounts to reconstitution of partnership firm.

#### Fill in the Blanks

1. Gaining Ratio = New Ratio - ..... (Old Ratio/Sacrificing Ratio)
2. Sacrificing Ratio = old Ratio-..... (New Ratio/Gaining Ratio)
3. Retiring partner share of goodwill is adjusted from remaining partner capital account in ..... (Gaining Ratio/Sacrificing Ratio)
4. Revaluation account is a .....account. (Nominal /Real)
5. A joint life policy became due when any of partner..... or the policy mature whichever is earlier. (Dies/Live)

**Answer:**(1) Old Ratio (2) New Ratio (3) Gaining Ratio (4) Nominal (5) Dies

#### True or False Statements

1. Profit all loser on revaluation transfer to centering partner capital account only.
2. New and gaining ratio between centering partner are always the same.
3. The amount due to retiring partner will always be settled in cash.
4. Unexpired insurance in an Assets.

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5. Entire share of retiring partner may same live bl acquired by one partner alone.

Answers: (1) False (2) False (3) False (4) True (5) True

### SHORT NUMERICALS (2 MARKS)

Q.1. (i) X, Y and Z are partners sharing profits in the ratio of  $1/2 : 1/3 : 1/6$ . Find out the new ratio if Y retires.

(ii) A, B and C are partners sharing profits in the ratio of  $1/2 : 2/5 : 1/10$ . Find out the new ratio if A retires.

Q.2. P, Q and R were partners sharing profits in the ratio of  $5 : 4 : 3$ . R retired and his share was taken up by P and Q in the ratio of  $3 : 2$ . Find out the new ratio.

Q.3. M, N, O and P are partners sharing profits and losses in the ratio of  $1/3, 1/6, 1/3$  and  $1/6$  respectively. O retires and M, N and P decide to share the profits and losses equally in future. Calculate the gaining ratio.

### 4 MARKS QUESTIONS

Q. 1. What adjustments are required to be made at the time of retirement of a partner?

Ans. The following adjustments are usually required to be made at the time of retirement of a partner :

- Adjustment in profit sharing ratio.
- Adjustment of goodwill.
- Adjustment of profit or loss arising on the revaluation of assets and liabilities.
- Adjustment of reserves, accumulated profits and losses.
- Adjustment of joint life policy,.
- Making payment to the retiring partner.
- Adjustment of partners' capitals.

Q. 2. Give any two differences between Sacrificing Ratio and Gaining Ratio.

Ans. Distinction between Sacrificing Ratio and Gaining Ratio :

Basis	Sacrificing Ratio	Gaining Ratio
Meaning	Sacrificing Ratio is the ratio in which old partners surrender a part of their share in favour of the new partner.	Gaining Ratio is the ratio in which the remaining partners acquire the share of the retiring or deceased partner.
Formula	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio
When to Calculate ?	This ratio is calculated at the time of admission of a partner.	This ratio is calculated at the time of retirement or death of a partner.
Use	This ratio is calculated to find out the amount of compensation to be paid by the new partner.	This ratio is calculated to find out the amount of compensation to be paid to the retiring partner.

Q. 3. What adjustments are required to be made at the time of death of a partner ?

Ans. The following adjustments are usually required to be made at the time of death of a partner:

- Calculation of new profit sharing ratio of the remaining partners.

- (2) Adjustment of goodwill.
- (3) Revaluation of assets and liabilities and distribution of the profit or loss arising on such revaluation.
- (4) Adjustment of reserves, accumulated profits and losses.
- (5) Adjustment of deceased partner's share of profit from the date of last balance sheet to the date of his death.
- (6) Adjustment of joint life policy.
- (7) Making payment to the executors of the deceased partner.
- (8) Adjustment of partners' capitals.

## CHAPTER – 7

### DISSOLUTION OF PARTNERSHIP FIRM

#### One Word to One Sentence Questions

**Q. 1.**What is meant by Dissolution of Partnership firm ?

**Ans.**According to Section 39 of the Partnership Act 1932 : “Dissolution of firm means dissolution of partnership between all the partners in the firm.”

**Q. 2.**When may the court order dissolution of a firm ?

**Ans.**(i) Partner becomes of unsound mind (ii) Permanent incapability of partner (iii) Misconduct of a partner transfers his share to third party without consent of other partners.

**Q. 3.**What are the important causes of dissolution of partnership firm ?

**Ans.**A firm may be dissolved by Agreement, by happening of an event voluntarily, Compulsory or by orders of the court.

**Q. 4.**What is meant by compulsory dissolution of a firm ?

**Ans.**That condition under which dissolution of firm has become compulsory, it is called compulsory dissolution of the firm.

**Q. 5.**Give two cases of compulsory dissolution of firm.

**Ans.**(a) On the Insolvency of any partner. (b) Business of firm developed illegal.

#### Fill in the Blanks

1. Amount received from realisation of an unrecorded asset is showed ----- side of Realisation Account. (Debit/credit)
2. When firm is dissolved goodwill account is closed by transfer to-----.  
(Realisation account/Nominal)
3. Realisation account is a -----account. , (Nominal/Book)
4. On dissolution all assets and liabilities are transferred to the realization account at their respective -- -----values. (Letter/(Book).
5. In the event of dissolution of a firm partners----- assets are first use are payment of personal liabilities. (Real/Personal)

**Answer:**

- (1) credit (2) Realisation account (3) Nominal (4) Book (5) Personal

#### Multiple Choice Questions:

1. On the dissolution of a firm, an amount realized firm the underscored assets is credited to  
(a) cash account (b) realization account (c) revaluation account(d) None of these
2. Out of the proceeds received from the sale of Sunday asset-will be paid first and all.  
(a) Partner's capital(b) Creditors liability(c) Partner's loss (d) None of these

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3. When a first dissolved goodwill account closed by transfer to  
 (a) realization account (b) capital account and the partner (c) revaluation account (d) None of these
4. Unrecorded Liability when paid on dissolution of a firm is debited to  
 (a) Liability account (b) Realization account  
 (c) partners capital account the partners personal Assets (d) None of above
5. At the time of dissolution on unrecorded assets taken away by Mr. X a partner should be debited to  
 (a) assets account (b) Mr. X capital account (c) profit and loss (d) None of above

**Answer:** (1) Realization account (2) Creditors liability (3) Realization account (4) Realization account  
 (5) Mr. X capital account

## 2 Marks Questions

**Q. 1. What is meant by Dissolution of Partnership Firm ?**

**Ans.** Dissolution of Partnership Firm means firm comes to an end and ceases to function as a firm. According to Section 39 of Indian Partnership Act, 1932, “Dissolution of a firm means dissolution of partnership between all the partners in the firm”. If all the partners decide to dissolve the firm, as a result, all the business activities come to an end, accounting books of the firm are closed and accounts of all assets & liabilities are closed by transferring these to realisation account. The assets of the firm are sold, auctioned or disposed off and external liabilities are paid. After paying the external liabilities, the balance is paid to the partners in settlement of their accounts.

**Q. 2. Write any two difference between Firm’s debts and Private debts.**

**Ans.**

### DIFFERENCE BETWEEN FIRM’S DEBTS AND PRIVATE DEBTS

Basis	Firm’s debts	Private debts
<b>Meaning</b>	Firm’s debt means the debt owed by the firm to outsiders.	Private debt means debt owed by a partner in his personal capacity to any other person.
<b>Liability</b>	Partners are jointly & severally liable for the firm’s debt.	The partners are personally liable for their private debts.

**Q. 3. What is Compulsory Dissolution of Firm ?**

**Ans.** According to Section 41 of Indian Partnership Act, 1932, there will be compulsory dissolution of partnership firm under following circumstances :

- On the insolvency of all partners or all except one.
- If the resident of an enemy country becomes a partner in the firm.
- If the business of the firm is declared illegal.

**Q.4. Pass journal entries for the following transactions :**

- (i) Realisation expenses amounted to ₹ 10,000.
- (ii) Realisation expenses amounted to ₹ 7,000 were paid by partner M.
- (iii) Realisation expenses amounted to ₹ 20,000 were paid by the firm on behalf of a partner.

**Q.5. Pass journal entries for the following transactions :**

(i) Vijay, a partner, is allowed a remuneration of ₹ 20,000 for dissolution work and is to bear all expenses of realisation which amounted to ₹ 12,000 were paid by the firm.

(ii) Raman, a partner, is to be paid remuneration of ₹ 30,000 for dissolution work. Realisation expenses amounted to ₹ 7,000 were paid by the firm.

## 4 Marks Questions

**Q. 1. Give any four difference between dissolution of partnership and dissolution of partnership firm.**

**Ans. Difference between Dissolution of Partnership and Dissolution of Partnership Firm :**

Basis	Dissolution of Partnership	Dissolution of Partnership Firm
<b>Meaning</b>	Dissolution of partnership means the change in the existing relations of partners.	Dissolution of a firm means the complete closure of the business.
<b>Business Activities</b>	The firm may continue its business activities as usual.	All business activities of the firm come to an end.
<b>Revaluation/Realisation</b>	It involves reconstitution of the firm and thus requires revaluation of the assets and liabilities of the firm.	It involves winding up of the firm and thus requires realization of assets and settlement of liabilities.
<b>Closure of Books of Accounts</b>	It does not require final closure of books of accounts of the firm.	It requires final closure of books of accounts of the firm.

**Q. 2. What are the various steps to be taken to close the books of accounts at the time of dissolution ?**

**Ans.** Dissolution of the firm involves closure of firm's books of accounts. Following are steps to be taken to close the books of accounts.

- (1) Balance Sheet on the date of dissolution is to be prepared if it is not given.
- (2) After preparation of Balance Sheet, Realisation Account should be prepared to know profit or loss on realisation.
- (3) Partners' capital accounts are then prepared to find out final amount to be paid to partners or to be brought by them.
- (4) Lastly, cash account is prepared. Balance of both Receipts & Payments side should be equal which also verify the arithmetical accuracy of accounting treatment.

**Q.3. D and R were partners sharing profits and losses equally. On 31st March, 2023, the Balance Sheet of the firm was as follows :**

### BALANCE SHEET AS AT 31ST MARCH, 2023

Liabilities	₹	Assets	₹
Sundry Creditors	60,000	Cash	25,000
R's Loan	15,000	Debtors	42,000
General Reserve	15,000	Less : Provision for	
Investment Fluctuation Fund	2,000	Doubtful Debts	6,000
R's Capital	30,000	Stock	12,000
D's Capital	10,000	Investments	18,000
		Plant and Machinery	39,000
		D's Loan	2,000
	1,32,000		1,32,000

Their firm was dissolved on above date and the assets and liabilities were settled as follows :

- (i) The creditors were paid off by giving them the plant and machinery at a discount of 10% and the balance in cash.

- (ii) R's loan was paid with interest of ₹ 500.
- (iii) Debtors realised 10% less of the amount due from them.
- (iv) Stock was taken over by R at ₹ 7,000.
- (v) Investments realised 80% of their book value.
- (vi) Realisation expenses ₹ 600 were paid by D.

**You are required to prepare Realisation Account.**

## SECTION — B

### CHAPTER -1

## Accounting for Share Capital

#### One Mark Questions:

1. What is Company?

Ans. Company is an artificial person created by law, having separate entity with perpetual succession and common seal.

2. What do you mean by shares?

Ans. The units into which the capital of a company is divided are called shares.

3. Name the types of shares issued as Per Companies Act 2013.

Ans. Equity shares and Preference shares.

4. State any one essential feature of a company.

Ans. It is an artificial person created by law.

5. What is preference share?

Ans. That part of share capital which enjoys preferential right to (a) payment of dividend (b) Return of Capital.

#### Fill in the Blanks:

1. A new company cannot issue shares at a..... (Discount/Premium)
2. Shares which are not preference shares are called..... (Equity Share /debenture)
3. Premium received on issue of shares is shown on the side of balance sheet. (Assets/Liabilities)
4. Balance in share forfeited account is shown in balance sheet under the head ..... (Shares Capital/Current Liabilities)
5. Share allotment account is a ..... account.(Personal/Real)

**Answer:**(1) Discount (2) Equity shares (3) Liabilities (4) Share capital (5) Personal

#### Multiple Choice Questions:-

1. A company has .....
  - (a) Limited Liability
  - (b) Perpetual Existence
  - (c) Separate Legal Entity
  - (d) All of the above
2. Shareholders are :
  - (a) Creditors of the company
  - (b) Owners of the company
  - (c) Customers of the company
  - (d) None of these
3. The Liability of members in a company is .....
  - (a) Fluctuating
  - (b) Stable
  - (c) Unlimited
  - (d) Limited
4. Maximum number of members in a private company is :
  - (a) No Limit
  - (b) 20
  - (c) 200
  - (d) 7
5. Shareholders receive from the company :

(a) Dividend (b) Profit (c) Commission (d) Interest

1. (d), 2. (b), 3. (d), 4. (c), 5. (a),

**True or False**

1. Liability of its members is generally limited.
2. Company's shares are generally transferable.
3. Share Application Account is a nominal account.
4. Share Allotment Account is a real account.
5. Equity Shareholders are creditors of the company.

1. True, 2. True, 3. False, 4. False, 5. False.

**Two Marks Questions:**

**Q.1 What is meant by equity share ?**

**Ans.** An equity share is that share which does not carry those preferential rights which are attached to every preference share. “An equity share is a share which is not a preferential share.” Equity shares carry no special rights in respect of annual dividend and return of capital in case of winding up of company. Unless otherwise stated, the shares of a company are deemed to be equity or ordinary share. Equity shareholders are entitled to surplus profits after all preferential rights have been satisfied.

**Q.2 What is Sweat Equity Shares ?**

**Ans.** Sweat equity shares means the equity shares issued by the company to its employees or directors at a discount or for consideration other than cash for providing know how or making available intellectual property rights provided that not less than one year has elapsed since the date of commencement of business. Such shares cannot be resold by their holders within a period of one year called lock-in-period.

**Q.3 Make a difference between Calls in Arrears & Calls in Advance.**

**Ans.**

Calls in Advance	Calls in Arrears
1. Applicants send more money than called up is called Calls-in-Advance.	1. Shareholder makes a default in sending call money is called as calls in arrears.
2. Company allow interest on calls in arrears.	2. Company charge interest on calls in advance.
3. Rate of interest as per Table 'F' is 12% p.a.	3. Rate of interest as per Table 'F' is 10% p.a.

**Q.4 Spencer took over assets of ₹ 25,00,000 and liabilities of ₹ 6,00,000 of Queen Ltd. Spencer Ltd. paid the purchase consideration by issuing 12,000 Equity Shares of ₹ 100 each at a premium of 10% and ₹ 10,00,000 by Bank Draft. Calculate purchase consideration and pass necessary Journal entries in the books of King Ltd.**

**Solution :**

**Calculation of Purchase Consideration :**

₹

Nominal value of shares issued = 12,000 × ₹ 100 = 12,00,000  
 Securities Premium Reserve = 1,20,000  
 Bank Draft = 10,00,000  
 Purchase consideration = 23,20,000

**JOURNAL OF SPENCER LTD.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Sundry Assets A/c Dr.		25,00,000	
	Goodwill A/c (Balancing Figure) Dr.		4,20,000	
	To Sundry Liabilities A/c			6,00,000
	To Queen Ltd.			23,20,000
	(Purchase of assets and liabilities of Queen Ltd.)			
(ii)	Queen Ltd. Dr.		23,20,000	
	To Equity Share Capital A/c			12,00,000
	To Securities Premium Reserve A/c			1,20,000

	To Bank A/c (12,000 equity shares of ₹ 100 each issued at a premium of 10% and ₹ 10,00,000 paid by bank draft)			10,00,000
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**Q. 5 Raghav Ltd. issued fully paid equity shares of ₹ 60 each at a premium of 25% for the purchase of a running business from Gupta Bros. for a sum of ₹ 15,00,000.**

**The assets and liabilities consisted of the following :**

**Plant ₹ 6,00,000; Trucks ₹ 8,00,000; Stock ₹ 3,00,000; Machinery ₹ 6,00,000 and Sundry Creditors ₹ 5,00,000.**

**You are required to pass necessary journal entries for the above transactions in the books of Raghav Ltd.**

**Solution :**

**JOURNAL OF RAGHAV LTD.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Plant A/c	Dr.	6,00,000	
	Trucks A/c	Dr.	8,00,000	
	Stock A/c	Dr.	3,00,000	
	Machinery A/c	Dr.	6,00,000	
	To Sundry Creditors A/c			5,00,000
	To Gupta Bros.			15,00,000
	To Capital Reserve (Balancing Figure)			3,00,000
	(Purchase of Business from Gupta Bros.)			
	Gupta Bros.	Dr.	15,00,000	
	To Equity Share Capital A/c			12,00,000
	To Securities Premium Reserve A/c			3,00,000
	(Issue of 20,000 Shares of ₹ 60 each at a premium of ₹ 15 per share)			

**Note :** No. of Shares to be issued  $\frac{15,00,000}{75} = 20,000$

**Q. 6. On 1.1.2022 A Ltd. received in advance the first call of ₹ 3 per share on 10,000 equity shares. The first call was due on 15-2-2022.**

**Journalise the above transactions and transfer the advance to first call account by opening a Calls-in-Advance Account.**

**Solution :**

**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 Jan. 1	Bank A/c	Dr.	30,000	
	To Calls-in-Advance A/c			30,000
	(First call money received in advance on 10,000 equity shares)			
Feb. 15	Calls-in-Advance A/c	Dr.	30,000	
	To Equity Share First Call A/c			30,000
	(Amount transferred from Calls-in-advance account)			

**DR. CALLS-IN-ADVANCE ACCOUNT CR.**

Date	Particulars	₹	Date	Particulars	₹
2022 Feb. 15	To Equity Share First Call A/c	30,000	2022 Jan. 1	By Bank A/c	30,000



**Q. 7.** A Limited company forfeited 100 equity shares of the face value of 10 each. Rs 6 per share called up, for non-payment of first call of Rs 2 per share, The forfeited share were subsequently re-issued as fully paid @Rs7 each. Give necessary entries in company's journal.

**Q. 8.** A Ltd. Purchased assets for Rs 4,50,000 from B & Co. A sum of Rs 1.75,000 was paid by means of bank draft and for the balance due A Ltd. issued equally share of Rs 10 each at a premium of 10% journalise the above transactions in the books of the company.

### Four Marks questions:

**Q. 1 Explain Types of Preference Shares.**

**Ans. (i) Cumulative Preference Shares.** Cumulative Preference Shares are those shares on which arrears of dividend accumulate. It means that if dividend is not declared in any year due to non availability of profit then arrears of dividends are to be carried forward and paid out of profits of subsequent years before dividend is paid to equity shareholders. For example. A company has 10,000 9% preference shares of ` 100 each and dividend is not paid for 2012 and 2013. The directors must pay ` 2,70,000 to preference shareholders before they can pay the dividend to equity shareholders for 2014.

**(ii) Non cumulative preference shares.** In this case, if no dividend is declared in any particular year, the right to receive such dividend for that year expires or Arrears of dividend do not accumulate.

**(iii) Participating Preference Shares.** Shares providing a right to its holders to participate in the surplus profits left after paying dividend to equity shareholders at a stipulated rate are participating preference shares. These shares usually also provide a right to participate in the surplus assets left after the repayment of capital to equity shareholders on the winding up of the company.

**(iv) Non-participating preference shares.** The preference shares which do not carry the right to participate in the profits remaining after equity shareholders, have been paid dividend are 'Non-participating Preference Shares'. Unless otherwise stated, a preference share is always deemed to be a non-participating preference share.

**(v) Convertible preference shares.** Convertible preference shares are those shares which can be converted into equity shares with in a certain period.

**(vi) Non-convertible preference shares.** These are the shares which do not have the right of the conversion into equity shares. Unless otherwise stated, a preference share is always deemed to be a non-convertible one.

**(vii) Redeemable preference shares.** These are the shares, the amount of which will be returned by the company to the holder of such shares after the specified time or at a time earlier to it.

**(viii) Irredeemable Preference Shares.** Irredeemable Preference Shares are those Preference Shares the amount of which can be returned by the company to the holders of such shares when the company is wound up.

The Companies Act, 2013 does not permit issue of Irredeemable Preference Shares.

**Q. 2 What are the categories in which the share capital of a company is divided ?**

**Ans.** The term share capital refers to the amount of money raised by the issue of shares. The share capital of a company is divided into following categories :

**1. Authorised capital.** It is the capital with which the Joint Stock Company is registered. It is the maximum amount of share capital which is stated in the memorandum of company which a company is authorised to issue. It is also called as registered or Nominal Capital.

**2. Issued capital.** It is that part of Authorised capital which is issued for cash or for consideration other than cash and includes shares issued to the signatories of the memorandum.

**3. Subscribed Capital.** It is that part of issued capital which is actually subscribed for by the public and includes shares subscribed by the signatories of memorandum.

**4. Called up capital.** It is that part of subscribed capital which is actually called up by the company.

**5. Paid up capital.** It is that part of called up capital which has actually been paid by the shareholders. It is equal to called up capital minus calls in arrears.,

**6. Reserve Capital.** A company may by special resolution determine that any portion of it's uncalled share capital shall not be called up except in the event and for the purpose of winding up of the company. Such capital is known as 'Reserve Capital'.

**Q. 3 Distinguish between 'Reserve Capital' and 'Capital Reserve'.**

**Ans.**

Reserve Capital	Capital Reserve
1. It refers to that portion of uncalled share capital which shall not be called up except in the event of winding up of the company.	Capital reserve is made out of capital profits. It refers to those amounts which are not regarded as free for distribution by way of dividend.
2. It is not mandatory to create reserve capital.	It is mandatory to create capital reserve in case of capital profits.
3. It is not shown in the company's balance sheet.	It is shown as a first item under the head 'Reserve and Surplus' on the liabilities side of company's balance sheet.

4. A special resolution is required to be passed for its creation.

No special resolution is required to create capital reserve.

**Q.4 Alpha limited company invited applications for 30,000 equity shares of ₹ 10 each payable as follows :**

- On Application** ..... ₹ 3
- On Allotment** ..... ₹ 4
- On First Call** ..... ₹ 2
- On Final Call** ..... The Balance

**Applications were received for 33,000 shares. Allotments were made on following basis :**

- (i) To applicants for 21,000 shares – in full.**
- (ii) To applicants for 12,000 shares – 9,000 shares**

**Excess money paid on application was utilized towards allotment money.**

**Ram who was allotted 900 shares out of the group applying for 12,000 shares failed to pay allotment money and money due on calls. His shares were forfeited. 600 forfeited shares were re-issued as fully paid on receipt of ₹ 8 per share.**

**Pass journal entries in the books of the company.**

**Solution :**

**JOURNAL**

<b>Date</b>	<b>Particulars</b>	<b>Dr. (₹)</b>	<b>Cr. (₹)</b>
	Bank A/c (33,000 × 3) Dr. To Equity Share Application A/c (Application money received)	99,000	99,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (30,000 × 3) To Equity Share Allotment A/c (3,000 × 3) (Transfer of application money)	99,000	90,000 9,000
	Equity Share Allotment A/c (30,000 × 4) Dr. To Equity Share Capital A/c (Allotment money due)	1,20,000	1,20,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)	1,08,300	1,08,300
	Equity Share First Call A/c (30,000 × 2) Dr. To Equity Share Capital A/c (First call due)	60,000	60,000
	Bank A/c (29,100 × 2) Dr. Call in Arrears A/c (900 × 2) Dr. To Equity Share First Call A/c (First call received)	58,200 1,800	60,000
	Equity Share Second & Final Call A/c (30,000×1) Dr.. To Equity Share Capital A/c (Second and final call due)	30,000	30,000
	Bank A/c Dr. Call in Arrears A/c (900 × 1) Dr. To Equity Share Second & Final Call A/c (Second and final call received)	29,100 900	30,000
	Equity Share Capital A/c (900 × 10) Dr. To Equity Share Allotment A/c	9,000	2,700

To Equity Share First Call A/c			1,800
To Equity Share Second & Final Call A/c			900
To Share Forfeited A/c (1,200 × 3) (900 shares of Ravi forfeited)			3,600
Bank A/c (600 × 8)	Dr.	4,800	
Share Forfeited A/c (600 × 2)	Dr.	1,200	
To Equity Share Capital A/c (600 × 10) (Reissue of 600 forfeited shares)			6,000
Share Forfeited A/c	Dr.	1,200	
To Capital Reserve A/c (Profit on re-issue of 600 shares tfd. to Capital Reserve A/c)			1,200

## CHAPTER -2

### Accounting for Debentures

#### One Mark Questions:

Q. 1. What do you understand by the term 'Debentures'?

Ans. According to Section 2(30) of the Companies Act, 2013 "Debenture includes debenture stock, bonds and any other instrument of the company evidencing a debt, whether constituting a charge on the assets of the company or not."

Q. 2. Give any one characteristic of debentures.

Ans. It is a loan taken by company.

Q. 3. Name any three types of debentures.

Ans. 1. Secured Debentures. 2. Redeemable Debentures. 3. Registered Debentures.

Q. 4. What is meant by Bearer Debenture?

Ans. Those Debentures which are transferable by mere delivery.

Q. 5. What do you mean by Convertible Debentures ?

Ans. The holders of which are given option to convert the debenture into equity shares.

Q. 6. What are Redeemable Debentures ?

Ans. Which are repayable after a stipulated period.

Q. 7. What do you mean by Redemption of Debentures ?

Ans. Redemption of Debentures mean repayment of amount borrowed from debenture holders.

Q. 8. What is DRR ?

Ans. DRR stands for Debenture Redemption Reserve, which is created out of profits for the purpose of redemption of debentures.

Q. 9. Name two methods of Redemption of Debentures ?

Ans. (a) By lumpsum (b) draw of lots.

Q. 10. What do you mean by redemption of debenture in lumpsum on maturity ?

Ans. Total amount of debenture are paid in one instalment on due date of maturity.

Q. 11. What is meant by redemption of debentures out of capital?

Ans. When debentures are redeemed without issuing fresh debentures.

Q. 12. Name two sources of finance for redemption of debentures.

Ans. (i) Out of profit (ii) Out of fresh issue.

#### True or False:

1. Debenture holders are the owners of the company.
2. Debenture holders are not the member of the company.
3. Debentures constitute loan to the company.
4. Debentures cannot be issued at discount.
5. Debentures are normally known as secured debentures.
6. Discount on issue of debentures is an fictitious assets.
7. A company cannot buy its own debenture on the purpose of redemption.

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8. A company can start business only by issuing debenture.
9. Premium on redemption of debentures a/c is debited at the time of redeeming the debentures.
10. Annual instalment set aside for the redemption of debentures is debited to profit and loss appropriation account.
11. Debentures can be redeemed out of capital and in instalments.
12. Redemption of Debentures imply the payment of interest in time.

**Answers :** 1 False, 2. True, 3. True, 4. False, 5. False, 6 True, 7 False, 8 False. 9. True, 10. True, 11. True, 12. False,

### Multiple Choice Questions:

1. Discount on issue of debentures is an \_\_\_\_\_ asset :  
 (a) Fictitious (b) Fixed (c) Current (d) None of these
2. Zero coupon bonds are issued :  
 (a) Without specified Rate of Interest (b) With specified Rate of Interest  
 (c) At Zero Interest rate (d) None of these
3. Interest payable on debentures is :  
 (a) Transferred to general reserve (b) transferred to sinking fund investment account  
 (c) a charge against profits of a company (d) an appropriation of profits of the company
4. A debenture holder is entitled to :  
 (a) Interest at the fixed rate (b) Voting rights in the company  
 (c) Share in profits (d) Fixed dividend
5. On liquidation of a company, principal amount of debentures in returned :  
 (a) After Equity Capital (b) Before Equity Capital (c) Last of All (d) First of All
6. When debentures are issued at par and redeemable at a premium, credit given to premium on redemption of debentures account is in the nature of a:  
 (a) nominal account (b) real account (c) personal account (d) both (a) and (b)

1. (a), 2. (a), 3. (c), 4. (a), 5. (b), 6. (c),

### True or False:

1. Shares have a prior claim as regards return of principal as compared to debentures.
2. No entry is made in respect of debentures issued as a collateral security.
3. Debenture interest is payable by the company, always at issue price of debentures.
4. Debentures constitute loan to the company.
5. Premium on redemption of debentures a/c is debited at the time of redeeming the debentures.
6. Annual instalment set aside for the redemption of debentures is debited to profit and loss appropriation account.
7. Debentures can be redeemed out of capital and in instalments.
8. Redemption of Debentures imply the payment of interest in time.

1. False, 2. False, 3. False, 4. True, 5. True, 6. True, 7. True, 8. False

## 2 Marks Questions:

### Q. 1. What is a debenture ?

**Ans.** According to **Section 2(30) of the Companies Act, 2013** “*Debenture includes debenture stock, bonds and any other instrument of the company evidencing a debt, whether constituting a charge on the assets of the company or not.*”

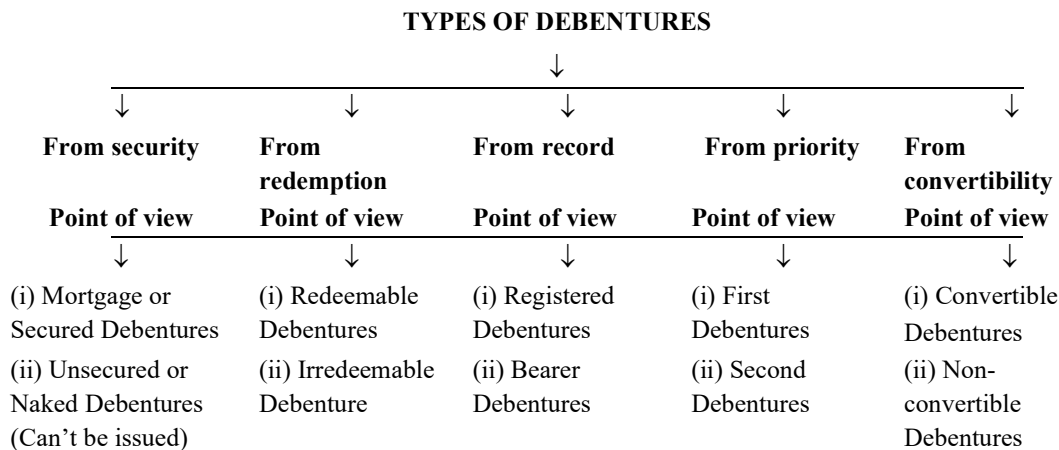
### Q. 2. Write difference between Debentures and Debenture Stock.

**Ans. Difference between Debenture and debenture stock**

1. Debenture stock is always fully paid up where as debentures need not to be fully paid up.
2. Debenture stock has no identity where as debentures have identity in terms of number assigned to them.
3. Debenture stock can be transferred to any fractions which the holder wishes, where as Debenture can only be transferred in full units.

**Q. 3. Write Types of Debentures.**

**Ans. Following Chart Shows Various Types of Debentures**



**Q. 1. What is meant by Redemption of Debentures?**

**(P.S.E.B. March 2022)**

**Ans.** Redemption of debentures means repayment of the amount of debentures to debenture holders. In other words, redemption refers to discharge of liability on account of debentures by repaying the due amount of debentures. Debentures can be redeemed at par, at premium or at discount.

**Q. 2. When can a Debenture be redeemed?**

**Ans.** It can pay a lump sum on the date of maturity or may pay in annual installments. A company can also purchase it from the open market or convert to an equity share in case of convertible debentures.

**Q. 3. Name the account which is opened only when redemption is out of profits.**

**Ans.** Redemption out of profits means that an amount equal to debentures issued (i.e., 100% of the amount of debentures) is transferred from Surplus in Statement of Profit and Loss to a newly opened account named 'Debenture Redemption Reserve Account'.

**Q. 1. B Ltd. issued 1,000, 4% Debentures of ₹ 100 each at a discount of 5% payable in one installment. Make journal entries.**

**Solution :**

**JOURNAL**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		95,000	
	To Debenture Application & Allotment A/c (Being application & allotment money received)			95,000
	Debenture Application & Allotment A/c (1,000 × 95) Dr.		95,000	
	Discount on Issue of Debentures A/c (1,000 × 5) Dr.		5,000	
	To 4% Debentures A/c (1,000 × 100) (Being 1,000 debentures of ₹ 100 each issued at a discount of 5%)			1,00,000

**Q. 4. Z Ltd. purchased building for ₹ 6,60,000. Half of the payment was made in cash and the remaining half by the issue of 12% debentures at a premium of 10%. Pass necessary journal entries.**

**Solution :**

**IN THE BOOKS OF Z LTD.**

**JOURNAL**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Building A/c Dr. To Vendor's A/c (Being building purchased)		6,60,000	6,60,000
	Vendor's A/c Dr. To Bank A/c To 12% Debentures A/c (3,30,000 × 100/110) To Securities Premium Reserve A/c (Being payment made to vendor)		6,60,000	3,30,000 3,00,000 30,000

**Q. 5. X Ltd. bought machinery from Y & Co. for ₹ 5,80,000. It paid ₹ 1,05,000 by cheque and the balance by issuing 10% debentures of ₹ 10 each at 5% discount. Pass journal entries in the books of X Ltd.**

**Solution :**

**IN THE BOOKS OF X LTD.**

**JOURNAL**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Machinery A/c Dr. To Y & Co.'s A/c (Being machinery purchased)		5,80,000	5,80,000
	Y & Co.'s A/c Dr. Discount on Issue of Debentures A/c (50,000 × 10 × $\frac{5}{100}$ )		5,80,000 25,000	
	To Bank A/c To 10% Debentures A/c *(50,000 × 10) (Being payment made to Y & Co.)	Dr.		1,05,000 5,00,000

Balance amount to be paid by issuing 10% debentures = 5,80,000 – 1,05,000 = 4,75,000

Issue price of debentures = 10 – (10 × 5%) = 10 – 0.50 = ₹ 9.50

\* No. of 10% debenture to be issued to Y & Co. =  $\frac{4,75,000}{9.50} = 50,000$

**Q. 4. Punjab National Bank issued 10,000. 9% Debentures of ₹ 100 each at a premium of 10% on Sep. 30, 2018 redeemable on Sep. 30, 2023. The issue was fully subscribed. Record necessary entries for issue and redemption of debentures.**

**Solution :**

**BOOKS OF PUNJAB NATIONAL BANK**

**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 Sep. 30	Bank A/c Dr. To 9% Debenture Application & Allotment A/c (Being Receipt of application money)		11,00,000	11,00,000
Sep. 30	9% Debentures Application & Allotment A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being Transfer of application money)		11,00,000	10,00,000 1,00,000

2023				
Sep. 30	9% Debentures A/c To Debentureholders A/c (Being Amount due on redemption)	Dr.	10,00,000	10,00,000
Sep. 30	Debentureholders A/c To Bank A/c (Being Payment of amount due to debentureholders)	Dr.	10,00,000	10,00,000

## CHAPTER -3

### Analysis of Financial statement

#### One Mark Questions

#### Multiple Choice Questions

- Balance Sheet of a company is required to be prepared in the format given in .....  
 (a) Table A (b) Schedule III Part III  
 (c) Schedule III Part I (d) Schedule III Part II
- As per Companies Act, the Balance Sheet of a company is required to be presented in .....  
 (a) Vertical form (b) Horizontal form  
 (c) Either Horizontal or Vertical Form (d) Neither of the above
- In a company's Balance Sheet ..... appear under the head 'non-current assets'.  
 (a) Vehicles (b) Patents  
 (c) Goodwill (d) All of the above
- Debentures are shown in the balance sheet of a company under the item  
 (a) current liabilities (b) long term borrowing  
 (c) unsecured loans (d) none of above
- The balance sheet of a company  
 (a) should be prepared in any form so as to give a true and fair picture of the state of affairs of the company  
 (b) must be prepared in the form set out by law  
 (c) may be prepared in any form  
 (d) None of these

**Answers:** 1. (c), 2. (a), 3. (d), 4. (b), 5. (b)

#### True or False Statements:

- Balance Sheet and Statement of financial position are anonymous.
- Financial Statements are the end products of accounting process.
- Proposed dividend is a contingent liability.
- Unclaimed dividend is not shown on the assets side of the balance sheet of the company.
- Preliminary expense is a current liability.

**Answers :** True, 2. True, 3. True, 4. True, 5. False.

#### Fill in the Blanks:

- A new company cannot issue shares at a..... (Discount/Premium)
- A public company cannot issue.....shares. (Deferred/Equity)
- The balance in share forfeited account for the reissue of forfeited shares is shown on the ..... side of balance sheet. (Liabilities/Assets)
- Shares which are not preference shares are called..... (Equity Share /debenture)

5. Premium receiver on issue of shares is shown on the side of balance sheet. (Assets/Liabilities)
6. Balance in share forfeited account is shown in balance sheet under the head..... (Shares Capital/Current Liabilities)

**Answer:**(1) Discount (2) deferred (3) Liabilities (4) Equity shares (5) Liabilities (6) Share capital

## **2 Marks Questions:**

### **Q.1. What is meant by Financial Statements ?**

**Ans.** Financial Statements are the end products of the accounting process. Financial statements may be defined as the reports prepared for the purpose of presenting a periodical review of the performance and the financial position of a business enterprise. Financial statements are the indication of profitability and financial soundness of a business enterprise.

### **Q.2. What is meant by Contingent Liabilities ?**

**Ans.** Contingent Liabilities are those liabilities which have not yet arisen, but may arise in future upon happening of a certain event. These are shown as a footnote to balance sheet. Their amount is not included in total of balance sheet. It includes claims against companies not acknowledged as debt, uncalled liability on partly paid shares, arrears of fixed accumulative dividends, liabilities for bill discounted etc.

### **Q.3. Discuss Nature of the Financial Statements.**

#### **Ans. Nature of the Financial Statements**

1. Financial statements are prepared under set standard by Company Act, 2013.
2. These statements are in summarised form but details are shown in various notes etc. depend on the statements.
3. These are prepared at the end of accounting period i.e. 1 April to 31 March.
4. All the decision by management can be taken on these statements.
5. These statements are totally based on recorded data.
6. These statements are mostly affected by personal judgement of the accountant.

For example : Methods for Valuation of Stock, Depreciation method.

### **Q. 4. List out the important causes of change in cost of goods sold.**

**Ans.** Factors which affect or change the cost of goods sold are as follows :

- (1) Increase and decrease in opening and closing stock.
- (2) Increase or decrease in purchase.
- (3) Increase or decrease in direct expenses.

### **Q. 5. What Is Internal Analysis?**

**Ans.** An analysis conducted by internal parties is known as internal analysis. Internal parties are those who have access to the detailed records of the enterprise.

### **Q. 6. What is External Analysis?**

**Ans.** An analysis conducted by external parties is known as external analysis. External parties are those which do not have access to the detailed records of the enterprise.

### **Q. 7. What are the objectives of Financial Statement ?**

#### **Ans. Objectives**

- (1) To determine the financial stability of the business concern.
- (2) To evaluate the earning capability of the firm.
- (3) To determine future growth and perspective.
- (4) To ensure the optimum utilization of resources.

## **4 Marks Questions:**



## COMPARATIVE BALANCE SHEET

Q. 1. From the following Balance Sheets, prepare Comparative Balance Sheet of Ltd. :

Particulars	2022 (₹)	2023 (₹)
<b>I. Equity and Liabilities</b>		
<b>1. Shareholder's Funds</b>		
Share Capital	3,00,000	3,50,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings	2,00,000	1,00,000
<b>3. Current Liabilities</b>		
Trade Payables	1,00,000	1,50,000
<b>Total</b>	<b>6,00,000</b>	<b>6,00,000</b>
<b>II. Assets</b>		
<b>1. Non-Current Assets</b>		
Fixed Assets (Tangible)	3,00,000	4,00,000
<b>2. Current Assets</b>		
Trade Receivables	3,00,000	2,00,000
<b>Total</b>	<b>6,00,000</b>	<b>6,00,000</b>

Solution :

### A LTD. COMPARATIVE BALANCE SHEET AS AT....., 2022 AND 2023

Particulars	2022 (₹)	2023 (₹)	Absolute Change (Increase or Decrease) ₹ (B) – (A) (C)	Percentage Change (Increase or Decrease) % $\frac{(C)}{(A)} \times 100$
	(A)	(B)		
<b>I. Equity and Liabilities</b>				
<b>1. Shareholder's Funds</b>				
Share Capital	3,00,000	3,50,000	50,000	16.67%
<b>2. Non-Current Liabilities</b>				
Long-term Borrowings	2,00,000	1,00,000	(1,00,000)	(50%)
<b>3. Current Liabilities</b>				
Trade Payables	1,00,000	1,50,000	50,000	50%
<b>Total</b>	<b>6,00,000</b>	<b>6,00,000</b>	<b>–</b>	<b>–</b>
<b>II. Assets</b>				
<b>1. Non-Current Assets</b>				
Fixed Assets (Tangible)	3,00,000	4,00,000	1,00,000	33.33%
<b>2. Current Assets</b>				
Trade Receivables	3,00,000	2,00,000	(1,00,000)	(33.33%)
<b>Total</b>	<b>6,00,000</b>	<b>6,00,000</b>	<b>–</b>	<b>–</b>

Q. 2. Prepare a Comparative Statement of Profit & Loss from the following :

Particulars	31.3.2023	31.3.2022
Revenue from Operations	60,00,000	30,00,000
Finance Costs	30,00,000	27,00,000
Employee Benefit Expenses	4,00,000	3,00,000

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Other Expenses	40,000	50,000
Income Tax 40% of Net Profit		

Solution :

**COMPARATIVE STATEMENT OF PROFIT & LOSS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2022 AND 2023**

Particulars	Note No.	2021-22	2022-23	Absolute Change (Increase or Decrease)	Percentage Change (Increase or Decrease)
1		2	3	4	5
		A	B	(B - A = C)	C/A × 100 = D
I. Revenue from Operations		30,00,000	60,00,000	30,00,000	100
II. Less : Expenses					
Employee Benefit Expenses		3,00,000	4,00,000	1,00,000	33.33
Finance Costs		27,00,000	30,00,000	3,00,000	11.11
Other Expenses		50,000	40,000	(10,000)	(20.00)
Total Expenses		30,50,000	34,40,000	3,90,000	12.78
III. Profit/Loss before Tax (I-II)		(50,000)	25,60,000	26,10,000	5220.00
IV. Less : Tax		-	10,24,000	10,24,000	100.00
V. Profit/Loss after tax (III - IV)		(50,000)	15,36,000	15,36,000	3172.00

Q. 3. Following particulars are obtained from the books of Tanushree Ltd. :

	Note No.	31.3.2023	31.3.2022
Revenue from Operations		40,00,000	25,00,000
Purchase of Stock in Trade		33,60,000	18,50,000
Changes in Inventories		(2,00,000)	1,50,000
Other Expenses		1,20,000	1,00,000
Other Income		1,60,000	50,000

You are required to prepare a Common Size Statement of Profit & Loss.

Solution :

**TANUSHREE LTD.  
COMMON SIZE STATEMENT OF PROFIT & LOSS  
FOR THE YEARS ENDED 31<sup>ST</sup> MARCH 2022 & 2023**

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2021-22	2022-23	2021-22	2022-23
I. Revenue from Operations		25,00,000	40,00,000	100	100
II. Add : Other Incomes		50,000	1,60,000	2	4
III. Total Revenue (I + II)		25,50,000	41,60,000	102	104
IV. Less : Expenses :					

Purchase of Stock in Trade		18,50,000	33,60,000	74	84
Change in Inventories		1,50,000	(2,00,000)	6	(5)
Other Expenses		1,00,000	1,20,000	4	3
Total Expenses		21,00,000	32,80,000	84	82
V. Profit before Tax (III – IV)		4,50,000	8,80,000	18	22

## CHAPTER -4

### RATIO ANALYSIS

#### One Mark Questions:

1. What do you mean Ratio Analysis?
2. Give the names of liquidity Ratio.
3. What is another name of current Ratio?
4. Name different type of current Ratio?
5. What is liquidity Ratio?
6. What level of quick Ratio is considered satisfactory?
7. What level of current Ratio is considered satisfactory Ideal?

#### Answers:

1. Analysis of financial statements with the help of Ratio called Ratio Analysis.
2. Current Ratio, Quick Ratio and absolute liquid Ratio.
3. Working capital turnover Ratio.
4. Liquidity Ratio, solvency Ratio, Activity Ratios, Profit Ratios.
5. Ratio used to measure short- turn solvency of the firm
6. 1:1
7. 2:1

#### True or False

1. Ratio can be expressed in fraction?
2. Turnover ratio are generally expressed in times.
3. Working capital is excuse of current assets over current liabilities.
4. Higher turnover ratio indicate efficient use of resources.
5. Fictitious Assets are considered while calculating capital employed.
6. Ratio Analyses help to make comparison between two firms.

**Answer key:** 1. True 2. True 3. True 4. True 5. False 6. True

#### Multiple Choice Questions

1. Opening Inventory ₹ 1,00,000 ; Closing Inventory ₹ 1,50,000 ; Purchases ₹ 5,75,000 ; Carriage ₹ 50,000 ; Wages ₹ 2,00,000. Inventory Turnover Ratio will be :  
 (a) 6.2 Times (b) 7.4 Times  
 (c) 7 Times (d) 6.6 Times
2. Cost of revenue from operations ₹ 6,00,000 ; Inventory Turnover Ratio 5 ; Find out the value of Opening Inventory, if Opening Inventory is ₹ 8,000 less than the Closing Inventory.  
 (a) ₹ 1,16,000 (b) ₹ 1,24,000

- (c) ₹ 1,12,000 (d) ₹ 1,28,000
3. If Working Capital is Rs. 1,92,000, Long Term Debt is Rs. 80,000 and Total Debt is Rs. 2,00,000, Current Ratio will be :  
 (a) 2.6 : 1 (b) 3.6 : 1  
 (c) 2 : 1 (d) 1.6 : 1
4. Opening Inventory is Rs. 50,000, Closing Inventory is Rs. 40,000 and Cost of Revenue from operations is Rs. 7,20,000. What will be the Inventory Turnover Ratio ?  
 (a) 18 times (b) 16 times  
 (c) 14.4 times (d) 8 times
5. Revenue from operations is Rs. 1,80,000, Rate of Gross Profit is 25% on cost. What will be the Gross Profit ?  
 (a) Rs. 45,000 (b) Rs. 36,000  
 (c) Rs. 40,000 (d) Rs. 60,000

**Answer:** 1. (a), 2. (a), 3. (a), 4. (b), 5. (b)

## Numerical Questions

**Q. 1. Calculate the Current Ratio from the following information :**

	₹
<b>Total Assets</b>	<b>9,00,000</b>
<b>Fixed Assets</b>	<b>5,40,000</b>
<b>Non Current Investments</b>	<b>1,10,000</b>
<b>Shareholder's Funds</b>	<b>6,00,000</b>
<b>Non Current Liabilities</b>	<b>80,000</b>

**Solution :**

$$\begin{aligned} \text{Current Assets} &= \text{Total Assets} - \text{Fixed Assets} - \text{Non Current Investments} \\ &= ₹ 9,00,000 - ₹ 5,40,000 - ₹ 1,10,000 = ₹ 2,50,000 \end{aligned}$$

Total of Assets side of Balance Sheet will be equal to total of Equity and Liabilities side.

$$\begin{aligned} \text{Hence, Current Liabilities} &= \text{Total Assets} - \text{Shareholder's Funds} - \text{Non Current Liabilities} \\ &= ₹ 9,00,000 - ₹ 6,00,000 - ₹ 80,000 = ₹ 2,20,000 \end{aligned}$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2,50,000}{2,20,000} = 1.136 : 1$$

**Q. 2. Calculate Current Ratio from the following :**

**Working Capital ₹ 8,00,000; Trade Payables ₹ 1,80,000 and other Current Liabilities ₹ 20,000.**

**Solution :**

$$\begin{aligned} \text{Current Liabilities} &= \text{Trade Payables} + \text{Other Current Liabilities} \\ &= ₹ 1,80,000 + ₹ 20,000 = ₹ 2,00,000 \end{aligned}$$

$$\begin{aligned} \text{Current Assets} &= \text{Working Capital} + \text{Current Liabilities} \\ &= ₹ 8,00,000 + ₹ 2,00,000 = ₹ 10,00,000 \end{aligned}$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{10,00,000}{2,00,000} = 5 : 1$$

**Q.3. X Ltd.'s inventory is ₹ 1,12,000; Liquid Assets are ₹ 1,20,000 and quick ratio is 1.6. Work out the current ratio.**

**Solution :**

$$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$1.6 \text{ (Given)} = \frac{₹ 1,20,000 \text{ (Given)}}{\text{Current Liabilities}}$$

$$\text{Therefore: Current Liabilities} = \frac{₹ 1,20,000}{1.6} = ₹ 75,000$$

$$\text{Current Assets} = \text{Liquid Assets} + \text{Inventory}$$

$$= ₹ 1,20,000 + ₹ 1,12,000 = ₹ 2,32,000$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2,32,000}{75,000} = 3.09 : 1$$

**Q. 4. Calculate Debt Equity Ratio from the following particulars :**

	₹
Share Capital	2,00,000
Reserve & Surplus	1,10,000
Long term Borrowings	1,20,000
Long term Provisions	50,000
Current Liabilities	70,000
Non Current Assets	3,30,000
Current Assets	2,20,000

**What conclusions do you draw about the company on the basis of this ratio ?**

**Solution :**

$$\text{Debt-Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} \text{ or } \frac{\text{Long term Debts}}{\text{Shareholder's Funds}}$$

$$\text{Long term Debts} = \text{Long term Borrowings} + \text{Long term Provisions}$$

$$= ₹ 1,20,000 + ₹ 50,000 = ₹ 1,70,000$$

**Calculation of Shareholder's Funds (Equity & Liabilities Side Approach) :**

$$\text{Shareholder's Funds} = \text{Share Capital} + \text{Reserve & Surplus}$$

$$= ₹ 2,00,000 + ₹ 1,10,000 = ₹ 3,10,000$$

Alternatively, Shareholder's Funds may also be calculated as follows :

**Calculation of Shareholder's Funds (Assets Side Approach) :**

$$\text{Shareholder's Funds} = \text{Non Current Assets} + \text{Working Capital} - \text{Non Current Liabilities}$$

$$\text{Or Non Current Assets} + \text{Current Assets} - \text{Current Liabilities} - \text{Non Current Liabilities}$$

$$\text{i.e., Long term Borrowings and Long term Provisions}$$

$$= ₹ 3,30,000 + ₹ 2,20,000 - ₹ 70,000 - ₹ 1,20,000$$

$$- 50,000$$

$$= ₹ 3,10,000$$

$$\text{Debt Equity Ratio} = \frac{1,70,000}{3,10,000} = 0.55 : 1$$

**Q. 5. Compute Debt Equity Ratio from the following information :**

	₹		₹
Share Capital	40,00,000	Long term Provisions	3,00,000
Securities Premium Reserve	2,00,000	Short term Provisions	1,00,000
Reserves and Surplus	10,00,000	Short term Borrowings	4,00,000
Loan from Industrial Finance Corporation @ 8%	20,00,000	Trade Payables	5,00,000
9% Bonds	25,00,000		

**Solution :**

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} \text{ or } \frac{\text{Long term Debts}}{\text{Shareholder's Funds}}$$

$$\text{Long term Debts} = \text{Loan from Industrial Finance Corporation} + 9\% \text{ Bonds}$$

	+ Long term Provisions
	= ₹ 20,00,000 + ₹ 25,00,000 + ₹ 3,00,000 = ₹ 48,00,000
Shareholder's Funds	= Share Capital + Reserve and Surplus
	= ₹ 40,00,000 + ₹ 10,00,000 = ₹ 50,00,000
Debt Equity Ratio	= $\frac{48,00,000}{50,00,000} = 0.96 : 1$

## CHAPTER -5

### Cash Flow Statement

#### True or False

- Cash flow statement is prepared under As-39 Revised).
- Cash increases with the decrease in the value of fixed assets.
- Cash flow statement is based upon accrual basis of accounting.
- Example of cash flow from investing activity is sale of investment by a financial enterprises.
- Dividend paid is not a source of cash.
- Example of cash flow from financing activity is payment of dividend.
- Sale of goods on credit is not a source of funds.

**Answer Key :** 1. False 2. False 3. False 4. False 5. True 6. False 7. True

#### Fill in the Blanks:

- Cash from operations will increase due to.....  
(a) Increase in current liabilities (b) Taxes or dividend paid (c) neither of the two (d) neither of the two
- Cash flow statement is based upon  
(a) Hybrid System of Accounting (b) Accrual Basis of accounting (c) Cash basis of Accounting (d) None of these
- Inflow of cash will take place due to .....  
(a) Increased in land (b) Issue of shares(c) Decreased in capital (d) payment of tax
- Cash flow statement is required for the financial planning of  
(a) medium range (b) long range(c) short range (d) very long range
- Interest and dividend received in the case of manufacturing enterprise should be classified as cash flow from.  
(a) Medium range(b) short range(c) Financing Activities(d) None of these

#### Answer Key:

- (a) Increase in current liabilities 2. (c) Cash basis of accounting 3. (b) Issue of shares 4. (c) short range 5. (c) Financing Activities

#### Multiple Choice Questions

- Cash from operations will increase due to...  
(a) increase in current liabilities (b) decrease in current assets  
(c) neither of the two (d) both the above
- Increase in the amount of prepaid Expenses result in  
(a) No change in cash (b) Increase in cash  
(c) Decrease in cash (d) None of these
- Cash flow statement is based upon

- (a) Hybrid System of Accounting (b) Accrual Basis of Accounting  
 (c) Cash Basis of Accounting (d) None of these
4. Cash from operation is equal to :  
 (a) Net profit plus bonus paid in the form of fully paid bonus shares  
 (b) Net profit plus decrease in current assets  
 (c) Net profit plus decrease in current liabilities  
 (d) All the above
5. Taxes paid must usually be shown order :  
 (a) Investing activities (b) Operating activities  
 (c) Financing activities (d) None of these

**Answer Key:** 1. (d), 2. (c), 3. (c), 4. (b), 5. (b).

## 2 Marks Questions

### Q. 1. What do you mean by Cash Equivalent ?

**Ans.** Cash Equivalent are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore an investment normally qualifies as a cash equivalent only when it has a short maturity, of say, three months or less from the date of acquisition. Examples of cash Equivalents are Treasury Bills, Commercial Paper, Money Market Funds, Investment in preference shares redeemable within three months (provided there is only an insignificant risk of failure of the company to repay the amount at maturity).

### Q. 2. What treatment is needed regarding Amortisation of goodwill, while computing operating net profit ?

**Ans.** Goodwill is an intangible asset and therefore it does not have any real value. It is always desirable to write off such items at the earliest. If it is written off, it will reduce the amount of net profit. Writing off of goodwill will not have any effect on the inflow or outflow of cash. To find out the value of operating net profit goodwill written off is added to the net profit. Amortisation of goodwill means reduction in the value by way of writing off. Amortised value of goodwill shall be added back to Net Profit, while computing the operating net profit.

### Q. 3. What are the steps involved in preparation of cash flow statement.

**Ans. (i) Step I.** Preparation of Balance Sheet of two data for which cash flow statement is being prepared.  
**(ii) Step II.** Analysing changes in non-current items with the help of other informations.  
**(iii) Step III.** Computation of cash from operations.  
**(iv) Step IV.** Preparation of cash flow statement highlighting the net cash flow provided by operating, investing and financing activities.

### Q. 4. The following is the abstract of balance sheet of Rupa Ltd. for the year 2019 & 2020.

#### Balance Sheet

Liabilities	2019	2020	Assets	2019	2020
			Machinery	20,000	25,000

#### Additional Information

- (i) Depreciation during the year ₹ 4,000.  
 (ii) Machine costing ₹ 3,000 on which depreciation has accumulated ₹ 800, was sold for ₹ 2,000.

**Show the effect of above adjustments on the calculation of cash flow from operating activities.**

#### Machinery Account

Particulars	Amount	Particulars	Amount
To Balance b/d	20,000	By Depreciation	4,000
To Bank—Purchases (B.Fig.)	11,200	By Bank	2,000
		By P & L (Loss on Sale)	200
		By Balance b/d	25,000
	31,200		31,200

#### Effect on Cash Flow from Operating Activities

- (i) Depreciation of ₹ 400 will be added to Net Profit during the year (Non Cash Expenses)

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(ii) Loss on sale of machine ₹ 200 will be added to net profit during the year (Non-operating expense)

**Q. 5. From the following information calculate the amount of Cash Flows from Investing Activities :**

Particulars	31.03.2019	31.03.2020
	₹	₹
Plant and Machinery	8,00,000	10,00,000
Non Current Investments	40,000	1,00,000
Land (At cost)	2,00,000	1,00,000

**Additional Information :**

(i) Depreciation charged on Plant and Machinery was ₹ 50,000.

(ii) Plant and Machinery with a book value of ₹ 60,000 was sold for ₹ 40,000.

(iii) Land was sold at a gain of ₹ 60,000.

**Solution :** Calculation of Cash from Investing Activities

Particulars	₹
Sale of Plant and Machinery	40,000
Sale of Land (See Note 1)	1,60,000
Purchase of Plant & Machinery (See Note 2)	(3,10,000)
Purchase of Non-Current Investments	(60,000)
Net Cash flows from Investing Activities	(1,70,000)

**Working Note No. 1**

**LAND A/C**

Particulars	₹	Particulars	₹
To Balance b/d	2,00,000	By Bank (Sale of Land)	
To Gain on Sale of Land	60,000	(Balancing Figure)	1,60,000
		By Balance c/d	1,00,000
	2,60,000		2,60,000

**Working Note No. 2**

**PLANT & MACHINERY A/C**

Particulars	₹	Particulars	₹
To Balance b/d	8,00,000	By Depreciation	50,000
To Bank		By Bank (Sale of Machinery)	40,000
(Purchase of Machinery)		By Loss on Sale of Machinery	20,000
(Balancing Figure)	3,10,000	By Balance c/d	10,00,000
	11,10,000		11,10,000

**4 Marks Questions**

**Q. 1. What is Cash Flow Statement ?**



**Ans.** Cash Flow Statement is a statement that shows the changes in cash position from one accounting period to another. It contains in flow of cash, outflow of cash and change in cash, including difference between inflow and out flows of cash. AS-3 (revised) issued by ICAI has defined Cash Flow Statement as a statement which shows in flows (receipts) and outflow (payments) of cash and its equivalents in an enterprise during a specific period of time. Where, in flows (sources) of cash result from cash profits earned by the organisation, issue of shares and debentures for cash, borrowings, sale of assets or investment etc. The outflows (uses) of cash result from purchase of assets or investments, redemption of debentures or preference shares, repayment of loans, payment of tax, dividend or interest etc.

According to the Institute of Cost and Works Accountants of India, "Cash Flow statement is a statement setting out the flow of cash under distinct heads of sources of funds and their utilization to determine the requirements of cash during the given period and to prepare for its adequate provision."

It can be prepared daily, weekly, monthly, quarterly, annually or for any fixed time gap.

**Q. 2. What are the objectives of Cash Flow Statement.**

**Ans.** According to AS-3 (revised) the objectives of cash flow statement is to provide information about the cash flow of an enterprise to users of financial statement to assess the ability of the enterprise to generate cash and cash equivalent and the needs of the enterprise to utilise these funds. The main objectives of cash flow statement are as under:

- (1) To ascertain the specific sources (i.e. operating/Investing/financing activities) from which cash and cash equivalents were generated by an enterprise.
- (2) To ascertain the specific uses (i.e. operating/investing/financing activities) for which cash and cash equivalent were used by an enterprise.
- (3) To reveal good and bad points relating to the management of cash by ascertaining the net change in cash and cash equivalent (difference between total sources and total uses) between the dates of two balance sheet.
- (4) To provide information for planning for short term cash needs of the enterprise.
- (5) To assess whether enterprise would be able to meet its current obligations or not.
- (6) To decide the speed at which cash is being generated from current assets such as debtors, bills receivables, stock etc.
- (7) To disclose the speed as which current liabilities such as creditors, bills payable etc. are being paid.
- (8) To assess the true position of cash in future.
- (9) To help management to prepare cash budget.
- (10) To facilitate formulation of financial policies such as dividend policy etc.
- (11) To ascertain the liquidity of the enterprise.

**Q. 3. Give three advantages of Cash Flow statement.**

**Ans.** Preparation of Cash Flow statement has following advantages:

- (1) Helps in Short term planning : Business enterprise will have to pay cash to its creditors, for expenses and purchase of fixed assets and payment of its loan. Thus, Cash Flow Statement with short term analysis helps the management in planning for cash by looking to past cost flow.
- (2) Helpful to decide dividend Policies and repayment of loan : Cash flow from operating activities help the manager to know the cash generated from operating activities and thus helps in deciding payment of dividends and loans etc.
- (3) Helpful in efficient Cash management : It helps the management to know how much cash it need and from what sources it will come. How much is generated internally and how much to take from outside.

**Q. 4. Explain briefly the limitations of cash flow statement.**

**Ans.** Cash flow statement is very useful tool of financial analysis but it also has certain limitations which are as follows :

- (1) Cash flow statement can not replace income statement. Net increase or decrease in cash does not mean net income of the business.
- (2) Cash flow statement does not take into consideration those transactions which do not affect cash for example : purchase of fixed assets by issue of shares or debentures to vendors.
- (3) Cash flow statement is based on secondary data. It only rearranges the primary data already appearing in other statement i.e. Income statement and Balance Sheet.
- (4) Cash Flow statements are basically historical in nature, unless projected cash flow statement is prepared to plan for the future.

**Q. 5. What do you mean by Cash Flow From Operating Activities ?**

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**Ans.** Cash Flow from the operating activities are the principal revenue producing activities of the enterprise. Therefore the cash flows resulting from sale and purchase of goods and payments for salaries, wages and expenses are shown under this head. Following are some examples of cash flow from operating activities :

- Cash receipts from sale of goods on rendering of services.
- Cash receipts from royalties, fees, commission and other revenues.
- Cash payment to suppliers for goods and services.
- Cash payment to and on behalf of employees.
- Cash receipts and cash payments of on insurance enterprise for provisions and claims, an unities and other policy benefits.
- Cash payment or refund of income tax unless they can be specifically identified with financing and investing activities.
- Cash receipts and payments relating to future contracts, forward contracts, option contracts and swap contracts when the contracts are held for dealing or trading purpose.

# **BUSINESS STUDIES**

## Chapter – 1 Nature and Significance of Management

### True or False

State with reasons whether the following statements are True or False.

1. "Management principles can be applied to all types of activities." **True;**
  2. "Coordination is required at all levels of management in all management functions." **True;**
  3. "Management involves the decisions by a manager and it is not a group activity." **False;**
- Top management level is responsible for implementing plans and strategies of the organisation. **False;**

### MCQs

1. **Which one of the following statements is not correct?**  
(a) Management is a goal-oriented process.      (b) Management is a continuous process.  
(c) Management is a dynamic process.      **(d) Management is a rigid process.**
2. **Which one of the following is not an importance of management?**  
(a) Integrating various interest groups      (b) Developing society  
(c) **Disciplining employees**      (d) Inculcating creativity
3. **Management is not**  
(a) an applied science.      (b) **a pure science.**  
(c) an art.      (d) an art and science both.
4. **In which category does management fall?**  
(a) Well-established profession      (b) Semi-profession  
(c) **Emerging profession**      (d) Marginal profession
5. **Top management is concerned with formulation of**  
(a) guidelines for supervisors.      (b) **long-term plans.**  
(c) short-term plans.      (d) None of these.
6. **Coordination is**  
(a) a management function.      (b) **the essence of management.**  
(c) an objective of management.      (d) a social  
objective. Ans. 1 – (d), 2 – (c), 3 – (b), 4 – (c), 5 – (b), 6 – (b)

### Fill in the Blanks

1. The element that aims at integrating group efforts to achieve group objectives is called\_\_\_.  
**Coordination**
2. Managing Director is the position of\_\_\_\_\_ level of management in a large company.  
**Top**
3. Management is multidimensional because it has\_\_\_\_\_ dimension.  
**Three**

4. Management is a \_\_\_\_\_ directed process as it aims at achieving specified goals.

**Goal**

5. \_\_\_\_\_ is a systematised body of knowledge that explains certain general truths or operation of general laws.

**Science**

**1. Why is it said that management is a goal-oriented process?**

**Ans** Because management unites the efforts of different individuals in the organisation Towards achieving the goals.

**2. At which level of management the managers are responsible for the welfare and survival of the organisation?**

**Ans** Top level management. The top management frame all the policies for the organisation.

**3. What are the personal objectives of the management?**

**Ans** Personal objective refer to the objectives which are related to the employees of an organisation. They are as follows:

- i. Financial needs like competitive salary, incentives and other monetary benefits like dearness allowances, pension etc.
- ii. Social needs like peer recognition in the organisation or provide them a status to recognise in the organization.
- iii. Higher level need which includes personal growth and development
- iv. Safety and security needs like permanency in job.

**2. Name any two activities undertaken at the "Top Level Management".**

**Ans** Two main activities undertaken at top level management:

- i. Top Level Management formulates policies and plans to control and organise the business activities in a proper direction to fulfill the goal of organisation effectively and efficiently..
- ii. Top Level Management plays important role in the welfare and survival of an organization and maintains good relations with the customers, shareholders and government etc as they held responsible for all the activities of business and for its impact on the society for long as well as short run.

**4. Explain any four features of management. or**

**Ans** Four points which highlight the importance of management are enumerated below:

- iii. **Management helps in achieving group goals:** Every organisation has a set of goals to be achieved. Management is required man organisation to achieve the goals by giving proper direction to the efforts of all individuals. It directs the effort of all individuals of the firm in the same direction of achieving organisational goal effectively and efficiently.
- iv. **Management increases efficiency:** By making optimum utilisation of all resources such as men, money and material, management increases efficiency. A manager achieves efficiency and reduces costs through proper planning, organising, staffing, directing and controlling. Management insists on efficiency and effectiveness in the work through all the function of management.
- v. **Management creates a dynamic organisation:** Every organisation works in an ever-changing environment and It is generally seen that individuals resist change but in order to get successful in the market it is essential for every organisation to adopt changes as fast as possible Thus, management helps people to adapt to these changes so that an organisation is able to maintain its competitive edge and it is beneficial for both organisations as well as for individual because its increase their efficiency level.
- vi. **Management helps in achieving personal objectives:** Every individual who is working man organisation desires handsome salary, peer recognition, profit sharing, etc. Through motivation and leadership, management helps an individual to achieve his/her personal objectives, along with attainment of organisational objectives. As an individual want to earn more and more and organisation wants maximum production so it is the need of both if production is good than the employee gets a maximum salary.

## Chapter – 2 Principles of Management

1. Management principles are flexible whereas \_\_\_\_\_ principles are rigid.  
**Pure Science**
2. \_\_\_\_\_ denotes concentration of authority at the top level.  
**Centralisation**
3. \_\_\_\_\_ is the technique in which each worker is supervised by eight supervisors.  
**Functional foremanship**
4. \_\_\_\_\_ principle of management puts emphasis on judicious application of penalties by themanagement. **Discipline**
- 5.principle of management states that there should be a place for everything and everything should be in its place. **Order**

6. \_\_\_\_\_ means one plan, one boss.  
Unity of direction/ **Unity of command**
7. \_\_\_\_\_ involves harmony and team spirit among employees. **Discipline**/ Esprit de corps

### True or False

State with reasons whether the following statements are True or False.

1. "Unity of command means one employee getting orders and instructions from one supervisor". Ans. True;
  2. Time study involves analyzing movements involved in performing an activity. Ans. False;
  3. Scalar chain involves direct communication between two employees at horizontal level. Ans. False;
  4. Discipline principle of management leads to development of team spirit. Ans. False;
1. Which of the following statements best describes Mental Revolution?
    - a. Workers should be paid more wages.
    - b. The management and workers should not play the game of one-upmanship.
    - c. **Both management and workers require each other.**
    - d. It implies change of attitude of management only
  2. Life time of F.W. Taylor is \_\_\_\_\_.
    - a. **1856 to 1915** b. 1856 to 1935 c. 1856 to 1925 d. 1856 to 1905
  3. Esprit De Corps means \_\_\_\_\_.
    - a. Scalar Chain b. **Unity** c. Gang Plank d. Order
  4. Principles of management cannot be \_\_\_\_\_.
    - a. Defined b. Part of business c. **Tested in Laboratories** d. Applied Everywhere
  5. **What is the aim of Method study?**

**Ans** Method study is basically conducted to simplify the work or working methods and must go towards higher productivity and reduced cost.

6. "Workers should be encouraged to develop and carry out their plans for development." Identify the particular principle of management by Fayol.

7. **'Accurate cause and effect relationship cannot be established by principles of management.'** Why?

**Ans** Principle of initiative, According to this principle top management provides opportunities to its employees to suggest new ideas, experiences and more convenient methods of work.

8. **Explain briefly 'discipline' and 'scalar chain' as principles of general management.**

**Ans Discipline** According to Fayol, discipline is obedience, application and the outward mark of respect. It is the obedience to organizational rules and

employment agreement which are necessary for the working of the organization. According to Fayol, discipline requires- good superiors at all levels, dear and fair agreements and judicious application of penalties. Discipline can be of two types – imposed and self. It is really difficult to inculcate self-discipline among the employees as human beings are prone to get influenced and lured by various distractions. Therefore, it is nothing but the imposed discipline which needs to be applied in an organization.

**Scalar chain** It is the chain of superiors ranging from the top to the lowest ranks. The principle of the scalar chain suggests that there should be a clear line of authority from top to bottom linking managers at all levels. The scalar chain serves as the chain of command and also as the chain of communication. Under the chain of command, orders and instructions, issued at higher levels, flow through intermediate managers before reaching the lower levels. However, Scalar chain prolongs the chain of communication as there has to be a formal chain of command to be followed. As a measure to speed up communication, Fayol introduced Gang plank which means that two subordinates working at the same level of different departments can communicate with each other directly without following official chain of communication.

9. Explain how principles of management: help the managers in taking scientific decisions, and provide the managers with useful insights into real-world situations.

**Ans** Method study is basically conducted to simplify the work or working methods and must go towards higher productivity and reduced cost.

1. Principle of initiative, According to this principle top management provides opportunities to its employees to suggest new ideas, experiences and more convenient methods of work.

10 What are the adverse effects of the violation of the following principles? Give one adverse effect for each. Each answer two marks.

**Ans** Following are the consequences or adverse effects of each of these principles:

- a. **Division of work:** The violation of this principle leads to the dearth of specialization among the employees.
- b. **Unity of Command:** The violation of this principle leads to confusion in the mind of the subordinate in following the orders.
- c. **Remuneration:** The violation of this principle leads to a situation of unrest among the employees and makes them demotivated.
- d. **Order:** Improper placement of men and material may lead to wastage of resources.
- e. **Stability of tenure:** Instability and insecurity among employees and they would tend to leave the organization.



11 Explain Fayol's principles of 'equity' and 'order' with examples.

Ans **Equity** The principle of equity implies a sense of fairness and justice for all workers working in an organization. Observance of equity alone would make workers loyal and devoted to the organization. Equity does not mean equal salary to a peon and supervisor But equity means the application of the same disciplinary rules, leave rules, etc irrespective of their grade, position, and gender, language, religion or nationality, etc. for instance, a male and female working at the same level in an organization are getting different salary, then this is the violation of the principle of equity.

- i. **Order** According to Fayol, 'People and material must be in a suitable place at an appropriate time for maximum efficiency' This principle states that there should be a place for everything and everyone in an organization and that thing or person should be found at its allotted place This will lead to increased productivity and efficiency as it saves the time and specifically the wastage of time.  
For example, raw material should be available at the place prescribed for it so that the workers must not waste their time and remain focused on the production activities. This makes the organization productive as a whole.

11 Explain the following principles of Fayol with the help of one example of each.

- i. **Ans Division of work:** Every employee should be assigned only one type of work. It means that total work is divided into small tasks/jobs and a trained specialist performs each Job. The objective of the division of labor derive the benefits from the principle of specialization which can be applied to all work. Division of work minimizes the efforts and the burden of the tasks to be performed. It enables an individual to not to become 'jack of all trades and master of none'.  
for example, publishing of a book involves several operations like computer typing of text material. proofreading, printing, binding, etc. All the operations are performed by different people who are experts in their respective field.
- ii. **Unity of direction:** One unit and one plan for the group of activities having the same objective This principle implies that there should be one head and one plan for a group of activities having the same objective. It means that the efforts of members of the organization should be directed towards the achievement of a common goal, For example, the mission of a company is to provide quality products at an affordable price to the customers. This should serve as a direction for all the departments, namely, purchasing. financing, quality control, and marketing. This develops a sense of oneness among the employees and all of them realize they 'sail in the same boat', therefore, the onus of any success or failure is on all of them and not on any specific individual.

12 Explain any four points which highlight the importance of principles of management.

Ans Four points which highlight the importance of principles of management are

- i. **To Provide Managers with Useful Insights into Reality:** Principles of management are derived on the basis of continuous observation and analysis of events which managers face in real world situations. They help managers to improve their knowledge, ability and understanding of managerial situations. These principles enable managers to learn from past mistakes and conserve time by solving recurring problems quickly. Thus, management principles increase the efficiency of managers.
- ii. **Optimum Utilisation of Resources and Effective Administration:** Optimum utilisation of resources emphasise that resources (physical, financial and human) should be utilised in such a manner that they should give maximum benefit with minimum cost. Principles of management help in organising various activities in such a way that results in elimination of unwanted activities there by reducing inefficiency and wastage of resources. It also increases the efficiency of management, as through these principles managers adopt a systematic and logical approach to overcome the problems and discard hit and trial approaches.
- iii. **Scientific Decision:** Management principles help in thoughtful decision making because they are based on logical reasoning after making detailed research and investigation rather than blind faith or guess work. Such decisions are free from bias and prejudice. These principles develop a scientific approach as they give a realistic and subjective measurement for evaluation. Management principles are based on the objective assessment of the situation.
- iv. **Meeting Changing Environment Requirements:** Modern business environment is complex and ever-changing. In order to be survive and grow, organisations have to adapt to these changes. Although, principles are general guidelines but they are flexible and can be frequently modified as per business environment, which are favourable and profitable for the business.

### Chapter 03 Business Environment

1. \_\_\_\_\_ nature of business environment suggests that environment keeps on changing. **Dynamic**
2. \_\_\_\_\_ is the integration of world economy into a single market through removal of trade barriers between countries. **Globalisation**
3. \_\_\_\_\_ feature of business environment states that various factors of business environment affect each other. **Interrelatedness**

4. Legal rules and regulations relevant to business are included in environment of business. **Legal**

### True or False

State with reasons whether the following statements are True or False.

1. Investors and customers are the two components of specific forces of business environment. **True**
2. Dynamic nature of business environment suggests that it is pervasive. **False;**
3. Privatisation involves freedom of doing business. **False;**
- Political environment consists of political system and its working. **True;**
- Business environment consists of factors which are certain by nature. **False;**

1. Which of the following is an example of social environment? . **Composition of family**
2. External environment trends and changes will provide \_\_\_\_\_ **Threats**
3. Rise in GDP lead to rise in \_\_\_\_\_ **Disposable income of people**
4. What will be the affect of increase in tax by the government? **Increase in cost of production**

### Why is business environment called dynamic?

Ans Business environment keeps on changing. It is not static and Its components are highly flexible, hence Business Environment is called dynamic e.g. technological improvements, increase in competition, etc.

**Business environment includes both specific and general forces. List any four general forces.**

Ans General forces of business environment are:

- i. Political
- ii. Social
- iii. Legal
- iv. Technological

**The understanding of business environment helps the managers to identify the “Threats”. What is meant by “Threats” here?**

Ans Threats means anything that could cause damage to your organization, venture, or product. This could include anything from other companies (who might intrude on your market), to supply shortages (which might prevent you from manufacturing a product). Threats are negative, and external.

**Easy finance facilities on cars by different financiers and banks have considerably increased the demand for cars. Identify the type of environment highlighted in the given statement. (1)**

**Ans Economic environment.** It includes long term and short term interest rates, inflation rates, changes in disposable income of people etc.

**10. Explain any two impacts government policy changes on business and industry.**

**Ans** The two impacts of government policy changes on business and industry are:

- i. **Increasing competition:** As a result of changes in the rules of industrial licensing, entry of foreign firms creates competition for Indian firms, especially in service industries like telecommunication, airlines, banking, insurance, etc which were earlier placed in the public sector.

- ii. **More demanding customers:** Government policies leading to economic liberalisation allow consumers to become well-informed, increase their purchasing power (through rising incomes) and change their lifestyle, which makes them more demanding about quality and value-driven products/services.

11. What is meant by business environment? Explain dynamic nature and uncertainty as features of business environment. (2)

2. **Ans** Business environment is the sum total of all individuals, institutions and other forces like customers, competitors, suppliers, distributors. Business Environment means a collection of all individuals, entities and other factors, which may or may not be under the control of the organisation, but can affect its performance, profitability, growth and even survival. Every business organisation operates in a distinctive environment, as it cannot exist in isolation. Such an environment influence business and also gets affected by its activities.

**Dynamic nature:** Business environment is dynamic as it keeps on changing. It is not static and its components are highly flexible, e.g technological improvements, increase in competition, etc.

**Uncertainty:** Business environment is uncertain as it is difficult to predict future happenings when environment changes are taking place frequently.

12. What is meant by 'business environment'? Explain any five features of business environment. (4)

**Ans** Business environment is the sum total of all individuals, institutions and other forces like customers, competitors, suppliers, distributors, industry trends, substitutes, regulations, government activities. Social and cultural factors that are outside the control of the business enterprise but may affect its performance. The main features of business environment are:

- i. **Totality of external forces:** Business environment is the sum total of all external forces outside the control of a business.
- ii. **Consists of specific and general forces:** Specific forces are those, which affect the individual enterprises, viz competitors, customers, investors, and suppliers. Whereas general forces have an impact on all business enterprises. The general forces comprise of social, political, legal, economic and technological forces.
- iii. **Uncertainty:** Business environment is largely uncertain, as it is very difficult to predict future happenings, especially when changes takes place at a fast pace.
- iv. **Complexity:** Business environment is complex, as to understand it in totality, e.g. It becomes difficult to know the extent of relative impact of social, economic political. Legal and technological factors on change in demand of a product.
- v. **Dynamic:** Business environment is highly flexible and keep changing. It is not static or rigid that is why it is essential to monitor and scan the business environment continuously.

13. "Social environment of business is important for a business enterprise". Explain.

**Ans** A business is a part of the society in which it operates. The buying and consumption habits of the people, their languages, customs, tastes and preferences etc., are the factors that influence the business. Businessmen should be alert enough to visualize the factors that directly or indirectly affect their organization. The social environment consists of the sum total of a society's beliefs, customs, practices and behaviors. It is, to a large extent, an artificial construct that can be contrasted with the

natural environment in which we live. Cooperation between business and society will see business boom and will help growth of professional managers. The failure of any business organization in adapting to changes in the social environment will lead to dissatisfaction amongst its customers and rejection of its products. This shift of demand can even endanger the very survival of a business. For example, equal pay for male and female workers, demand for reservation in jobs for minorities and women etc.

14. The Indian corporate sector has come face-to-face with several challenges due government policy changes in business and industry. Explain any five such changes.

**Ans** Following challenges were faced by the business enterprises

- vi. **Rapidly changing Technological environment:** Increased competition force the firms to develop new ways to survive and grow in the market. Thus, there is a need to adopt new technologies in order to survive in the long-run.
- vii. **Need for developing human resources:** The new market conditions require people with higher competence and greater commitment. Hence, there is a need of developing human resources.
- viii. **Market-orientation:** The business enterprises start focusing on market-oriented techniques rather than production-oriented techniques.
- ix. **Increasing Competition:** With the opening of the economy, globalisation and entry of foreign firms in the country the competition for domestic players has increased as they have to compete with them. MNCs are at an advantage due to large financial resources, technological advancement and branded goods, thus posing a serious challenge and threat to domestic players.
- x. **Necessity for change** After 1991, the market forces have become turbulent. As a result, business enterprises have to continuously modify their operations.

15. How does the understanding of business environment help management following

3. **Ans** In the present day of competitive market, it is essential for a business to remain alert and aware of its environment, because of the following reasons:

- i. **Identify opportunities & getting the first mover advantage:** Awareness of environment helps an enterprise to identify the opportunities prevailing in the market. They can make strategies to capitalise such opportunities at the earliest. e.g. Maruti Udyog became the leader in the small car market because it was the first company who recognised the need for small cars in the environment.
- ii. **Identify threats and early warning signals:** Environmental awareness helps an enterprise in identifying possible threats in the future, so that the enterprise can take timely measures to minimise the threat and its adverse effects, if any, e.g; when the new firms entered the mid-segment cars (threat), Maruti Udyog increased the production of its Esteem car. Increase in production enabled the company to make faster delivery. As a result, the company captured a substantial share of the market and became a leader in this segment.
- iii. **Assist in planning and policy formulation:** Environment awareness helps a business unit to identify opportunities and threats in the market. These serve as a basis for planning future course of action and making policies for the same.
- iv. **Improving performance:** An enterprise that monitors its environment continuously is in a position to improve not only its present performance but also improve its future performance. This ensures success of the business in the long-run.

- v. **Tapping useful resources:** A business environment is an open system which gets resources such as capital, labour, machines, materials, etc from the environment, converts them into goods and services desired by the customers and then supplies its output to the environment. Thus, a business firm depends on its external environment for tapping various resources and for the sale of its output.

### Chapter – 4 Planning

- 1, Decision-making is the case of \_\_\_\_\_. **Planning**
2. \_\_\_\_\_ is a statement of expected results in numerical terms. **Budget**
3. \_\_\_\_\_ is a feature of planning also referred to as primacy of planning.  
**Primary function of management**
4. \_\_\_\_\_ is a comprehensive plan for achieving its objectives. **Strategy**
5. \_\_\_\_\_ is the type of plan which is time-bound and linked with measurable outcome.  
**Budget**
6. \_\_\_\_\_ is a standardized way or manner of performing a routine activity considering its objectives. **Method**
7. \_\_\_\_\_ specifies the end to be achieved. **Objective**
8. \_\_\_\_\_ are relevant to recurring activities. **Standing plans**

### True or False

State with reasons whether the following statements are True or False.

1. Rule is a specific statement that prescribes what is to be done or not to be done.  
True;
2. Rule is the prescribed way or manner in which a task has to be performed considering its objectives. False
3. Identifying alternative courses of action is a step in organizing process. False
4. Method is a chronological sequence in which an activity should be performed.  
False
5. The last step in the process of planning is “Plan Implementation.” False
6. Planning premises are the actual plans about the future organizational resources.  
False

1. **Planning eliminates changes/uncertainties’. Do you agree? Give reason in support of your answer.**

Ans No, I do not agree because planning only tries to foresee the future by making some assumptions. It does not eliminate changes/ uncertainties.

1. How does planning create rigidity?

Ans Since plans are formed by top level of managers and rest of the organisation is neither allowed to deviate from those plans nor to invent any new alternatives. It results in rigidity in operations.

2. It helps the manager to look into future and make a choice amongst various alternative courses of action. Enumerate the importance of planning indicated here

Ans Planning facilitates decision-making. Because plans decide the future course of actions. The objectives and goals are set before hand. These facilitate the managers to take quick decisions.

3. Name the type of plan which is time-bound and linked with a measurable outcome.

Ans Both objectives and budget are time bound and linked with measurable outcomes.

4. Planning is Pervasive". Explain briefly.

Ans Planning is the pervasive function of the management. It is required in all the types of organisation, whether big or small, business or non-business, social, political or religious. It is needed in all the departments of the organisation. Planning is performed even at all levels of management at the top, middle and lower level. As top level managers plan to make objectives and policies for the organisation. Middle-level managers plan to implement policies and rules among their departments. Lower level managers plan to control, inspect and supervise workers in the factory. In this way, planning is all pervasive.

10 How is planning forward looking?

Ans Planning is forward-looking because it essentially involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively to the best possible advantage of the organisation. It is always for the future and never for the past. It involves peeping into the future, analysing and then preparing plans accordingly. For e.g. on the basis of the sales forecasts, annual plans for production are drawn.

5. Explain "Objective" and "Policy" as types of plan using suitable examples.

**Ans Objectives:** Objectives are those endpoints which every organization strives to achieve. These are the basic reason for a firm's existence. These are usually stated in measurable terms. These are time-bound i.e these are to be achieved within a given period of time. All the activities of the organisation are directed towards the attainment of the objectives. These provide broad direction to employees about what they should do. For e.g. it is a firm's objective to increase its sales targets by 20%. **Policy:** A Policy is a general statement that guides decision making. It acts as a guide to managerial actions and decisions in implementing strategy. A policy defines the boundaries within which decisions can be made by the subordinates. The main purpose of policies is to provide a practical shape to objectives by elaborating



the manner in which goals are to be achieved. Policies play important role in setting the parameters within which a manager may function. There are different policies at different levels ranging from major company policies to minor policies. Major policies are concerned with the market, competitors, customers and clients etc. whereas minor policies are concerned with the insiders.

6. **What are the main points in the definition of planning?**

Ans In the words of Koontz O'Donnell, Planning is deciding in advance what to do, how to do it, when to do it and who is going to do it. Planning bridges the gap from where we are and where we want to go. It is a trap to capture the future. Main points involved are:

- Setting objectives
- Time period
- Formulating alternatives course of action
- Selecting a course of action.

13 **Defining 'organizational objectives' as the first step in the process of planning. Explain in brief the other steps of this process.**

Ans The first step in the planning process is to establish objectives. Objectives determined must be clear, realistic and specific as to what is to be accomplished. The further steps in the planning process are:

- Establishing Planning Premises
- Identifying the Alternative Courses of Actions
- Evaluating the Alternative Courses
- Selecting the Best Alternative
- Implementing the Plan
- Follow-up Action

- Establishing Planning Premises:** Planning premises are the anticipated environments in which plans are expected to operate. They include assumptions or forecasts of the future. Premises provide useful facts and information to the managers to facilitate the work of planning. Various assumptions regarding government policies, prices, taste, and preference etc are made.
- Identifying the Alternative Courses of Actions:** On the basis of objectives to be achieved, alternative courses of doing a particular work are discovered. It is a difficult task and it depends upon the creativity and logical thinking of the planner which opens up different avenues for the firm.
- Evaluating the Alternative Courses:** In this stage, it is seen as to what extent an alternative course can help in the attainment of the objective. Every alternative has its own pros and cons. Each alternative is carefully evaluated with all its merits and demerits and their feasibility is judged accordingly.



- iv. **Selecting the Best Alternative:** The next step is to find out the most suitable course to be followed. Efforts are directed towards selecting that course which increases efficiency in the organization by maximizing output and profits at minimum costs. The best-suited for the purpose is selected.
  - v. **Implementing the Plan:** After having decided the Chief Plan and the subsidiary plans, they are to be implemented. At this step, a plan is transformed from a thought (a dream) to an action (reality) by activating the other managerial functions. After implementing the plans the sequence of different activities are also decided.
  - vi. **Follow-up Action:** The process of planning does not end with the implementation of plans. There should be a constant review of the plans to ensure success in an uncertain future. Due to uncertainties of future, it is necessary that the plan should be evaluated from time to time to measure its effectiveness and to see that the objectives are achieved or not.
2. **State any three limitations of planning.**
- Ans Some limitations of planning are as follows:
- i. **Planning Reduces Creativity:** Under planning, all the activities connected with the attainment of the objectives of the organization are preconceived and predetermined. Consequently, everybody works as they have been directed to do and as it has been made clear in the plans. Managers can't think of any new ways for doing the tasks. Thus, it reduces creativity.
  - ii. **Planning Does not work in Dynamic Environment:** Planning is based on the anticipation of future happenings. Since the future is uncertain and dynamic, therefore the future anticipations are not always true. Planning does not work in the dynamic environment as plans are rigid with least scope of any changes.
  - iii. **Planning Involves Huge costs:** In planning a lot of work is to be done, a lot of information is to be collected. When so many people remain busy in the same activity, the organization faces huge costs. Also, it involves applying of forecasting techniques, determining alternatives, analyzing data etc. All these make planning a costly process.

## Chapter – 5 Organising

1. involves giving authority and responsibility to subordinates. **Delegation**
2. \_\_\_\_\_ is the process of grouping similar activities together and creating departments.

### Departmentalisation

3. \_\_\_\_\_ is the organisational structure in which activities are grouped on the basis of products. **Divisional structure**
4. \_\_\_\_\_ is the organisational structure in which no department is responsible for end results. **Functional structure**
5. \_\_\_\_\_ is the duty for job performance. **Responsibility**

6. \_\_\_\_\_ is the right to command. **Authority**
7. \_\_\_\_\_ cannot be delegated. **Accountability**

True or False

State with reasons whether the following statements are True or False.

1. Delegation is the step of organising process through which departments and sections in an organisation are created. **False.**
2. Divisional structure is the aspect of organising that establishes relationships between people, work and resources. **False;**
3. Formal organisational structure is consciously and deliberately designed structure of well-defined jobs. **True**
4. Responsibility cannot be delegated at all. **False**

1. Which of the following arises from delegation of authority? **Responsibility**
2. Which of the following arises from the responsibility? **Accountability**

1. Formal organisation is directed by \_\_\_\_\_ **Rules**
2. \_\_\_\_\_ cannot be entirely delegated **Responsibility**

**3. Define 'organising' as a function of management.**

Ans "Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives." It refers to the process of defining and grouping the activities of an enterprise and establishing authority relationship among them.

**4. Scope of decentralisation of authority is wider than delegation. Why?**

Ans Decentralisation implies extension of delegation to the lowest level of management. Decentralization refers to systematic effort to delegate to the lowest level all authority except that which can be exercised at central points.

**5. On the basis of flow of communication, differentiate between formal and informal organisation.**

Ans In formal organisation, flow of communication takes place through the scalar chain whereas under informal communication it can take place in any direction.

**6. Give the meaning of 'responsibility' as an element of delegation.**

Ans Responsibility is an attribute of the superior who delegates the work to his subordinate. A superior can delegate his authority to his subordinate but not the responsibility, The accomplishment or the non-accomplishment of the delegated task is the responsibility of the superior who delegates it to the subordinate.

**1. What does the term 'Span of management' refer to?**

Ans Span of management refers to the number of subordinates that can be effectively managed by a superior. It depends on the ability of the superiors, availability of time for supervision, the intelligence of subordinates and nature of work etc. Span of management gives shape to the organizational structure.

It also helps an enterprise to adjust itself according to the environment changes. An effective manager is recognized through his span of management. The greater the span, the highly effective the manager.

2. Describe the features of formal organisation?

Ans

- i. **Defined inter-relationship:** It specifies the relationships among various job positions and the nature of their inter-relationship. This clearly defines superior subordinate relationship.
- ii. **Rules and procedures:** It lays down rules and procedures essential for their achievement and every individual is assigned a fixed authority or decision making power.
- iii. **More Emphasis on Work:** Formal organisational structure lays more emphasis on work than interpersonal relations.
- iv. **Coordination:** Formal organisation coordinates and integrates the efforts of various departments.
- v. **Communication:** Formal organisational structure creates a scalar chain of communication in the organisation.
- vi. **Purpose:** It is created to achieve the organisational goals like productivity, profitability, survival, growth and efficiency. Each individual is assigned a specific job.

2. Explain the statement. "Delegation of authority helps in reducing the workload of managers".

Ans (Delegate authority due to the following reasons:

- **It reduces the workload of managers.** By sharing some of his own work with the subordinates, the manager is able to concentrate on more important jobs. This way he increases his own effectiveness and that of his subordinates. When delegation of authority takes place at all levels of the organisation it leads to proper division of work and assignment to all managers in a systematic manner.
- **It increases morale of the subordinates:** Delegation helps the subordinate to develop their capabilities to handle new and more challenging jobs. This gives him job satisfaction. it increases his morale, self confidence and efficiency to get promotion.
- **It establishes a superior-subordinate relationship.** The flow of authority from top to lower level of management is directed and controlled by the process of delegation. This gives meaning and content to the flow of authority and to managerial jobs.

3. What is meant by divisional structure of organisation? State its advantages.

Ans **Divisional structure:** Any organization that divides its employees and other resources into different groups based on regional and product differences, such that each group is responsible and answerable for its own actions, has a divisional structure. Under the divisional structure, an organization is divided into different divisions or units on the basis of

products or geographical area Each division is a self-contained, semi-autonomous business unit. Each unit has a divisional manager responsible for performance and who has authority over the unit. There are certain matters, which are determined at the apex level only, viz goal determination and policy formation. It is suitable for those enterprises where

- i. A large variety of products are manufactured.
- ii. An organization grows and needs more employees and more departments.
- iii. High degree of Specialization is required.

Advantages of the divisional structure are as follows:

- i. **Accountability:** The divisional organizational structure allows each division of a firm to be accounted for in isolation. It can easily be seen which department is successful in making profits while which are bearing losses. Product specialization helps in the development of varied skills.
- ii. **The team working:** The divisional organizational structure allows people in a single division to interact with each other. The Principle of Unity of Direction, as well as Unity of Command, follows here. When all of them are working towards a single goal, the success of their division, the motivation is higher than ever.
- iii. **Organizational culture:** Organizational culture is the values and the practices that persist in an organization. The divisional structure allows this type of culture to persist in a division.
- iv. **Autonomy in working:** Every division of an organization in itself, is an independent entity and is free to follow practices in its own stride for the achievement of organizational objectives.

**1. What is Organizational Structure? Distinguish between Functional and Divisional structure on the following bases: (i) Formation (ii) Managerial development (iii) Responsibility (iv) Suitability.**

Ans An organizational structure defines how activities such as task allocation, coordination and supervision are directed towards the achievement of organizational aims. It specifies the relationships between people, work and resources. It allows correlation and coordination among human, physical and financial resources and this enables a business enterprise to accomplish desired goals.

Basis	Functional Structure	Divisional Structure
Formation	Formation is based on functions.	Formation is based specialized divisions
Managerial Development	Difficult, as each functional manager has to report to the top management.	Easier, autonomy as well as the chance to perform multiple functions helps in managerial development.

Responsibility	Difficult to fix responsibility on a particular department.	Easy to fix responsibility for performance.
Suitability	More suitable for organisations engaged in production and distribution of a single product or a small number of products.	More suitable for the firms having several products and each product ha distinct features.

## Chapter – 6 Staffing

1. Estimating Manpower Requirements include \_\_\_\_\_ **Staffing**
  1. Web publishing is a/an \_\_\_\_\_ source of recruitment. **External**
  2. \_\_\_\_\_ is a limitation of internal source of recruitment.
  3. \_\_\_\_ is the “On the Job Training” method used to train electricians. **Apprenticeship**

### True or False

State with reasons whether the following statements are True or False.

1. Promotion is an external source of recruitment.  
False
2. Preliminary screening is a step in the selection process.  
True.
3. Development is the process of increasing knowledge and skills.. False
4. Vestibule training is a method used in development of employees. Ans. False

2. Main aim of Recruitment is \_\_\_\_\_. **To attract more and more candidates**
1. Staffing is \_\_\_\_\_ function **Managerial Function**
2. Which test is helpful in assessing the individuals? capacity for learning new skills?  
a. **Aptitude Test** b. Personality Test c. Trade Test d. Intelligence Test
3. **What is meant by selection of employees?**

Ans Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job by means of various tests and interviews. Its objective is to measure the ability and skill of the applicants.

4. State the method of training in the below statement.

Trainee is put under the guidance of a master worker to acquire a higher level of skill. For example to become plumber, electrician, etc.

Ans "Apprenticeship Programme is the method.

5. How does staffing improve job satisfaction and morale of employees? State.

Ans Staffing helps in improving job satisfaction and morale of the employees by employing right people at the right job, train them and developing their abilities, evaluating their performance and promoting them. The effort is made to provide them with all the desired facilities. Special care is taken for, that in no way the pay package of employees is reduced. Thus, they get total job satisfaction and their morale is boosted.

6. State how staffing ensures 'continuous survival and growth of enterprise'.

Ans Proper staffing ensures continuous survival and growth of an enterprise through succession planning for managers. It includes training and development, performance appraisal, promotion and career planning, compensation etc.

No, I don't agree with this statement. There is a great need of manpower planning due to the following reasons.

4. Human resource manager has to find out the number of employees required by the organisation and make provision for their recruitment.
5. Developing compensation and incentive plans from time to time with the aim of improving the policies concerning personnel.
6. Manpower planning helps companies in handling grievances and complaints. It establishes cordial relations between the employees and the employer.

"There is no need of human resource planning as so many people are available in the market these days." Do you agree with this statement? Give reasons.

Ans

(a) The internal/external sources of recruitment used by 'Montac Enterprises Ltd' to fill up the above-stated vacancies are.

- a. **Promotion:** It is an internal source of recruitment in which an employee is shifted to a higher post. Leena's vacancy was filled by using this source.
- b. **Placement Agencies and Management Consultants:** It is an external source of recruitment. These agencies provide nationwide service in matching personnel demand and supply. Vikas's vacancy was filled by using this source.

- c. **Casual Callers:** It is again an external source of recruitment through which the organisation keeps a database of unsolicited applicants in their files. Atul's vacancy was filled by using this source.

**Merits :**

- a. **Promotion:** It helps to increase the motivation and satisfaction of employees as their status and salary are enhanced.
  - b. **Placement Agencies and Management Consultants:** They help organisations to recruit technical, professional and managerial personnel easily. They establish a balance between the demand and supply of the employees.
  - c. **Casual Callers:** It is an inexpensive method of recruitment. The casual callers, also called as unsolicited applications are the job seekers who come to the well-renowned organizations casually and either mail or drop in their job applications seeking the job opportunity.
2. **Transfer:** It means shifting of employees from one job position to other at the same level of authority. Only the working place is changed. Therefore, it refers to a horizontal movement of the workers. This procedure is usually followed when some employees are surplus in one department and there is shortage of similar type of employees in another department.

**Promotion:** It refers to shifting of employees from one job position to the other with a higher level of authority. Here, employees move in an upward direction within an organisational structure. There is also an increase in compensation or salary, e.g. promotion of a clerk to the post of an accountant. A post can be filled by sending an insufficient employees at some lower-position. It is known as recruitment by demotion.

3. Limitations of using internal sources of recruitment are:
1. **Stops entry of new (young) blood:** The main drawback of this source is that young, intelligent and technically sound candidates from outside do not get chance to enter the company. So, existing employee run the organisation with their outdated ideas.
  2. **Employees become lethargic:** Internal employees may lose the drive for proving their worth since they may feel automatic promotion by seniority and sure prospect. This feeling makes them lethargic and it affects their performance.
  3. **Not suitable for a new enterprise:** A new enterprise cannot use internal sources of recruitment. No organisation can fill all its vacancies from internal sources.
  4. **Spirit of cooperation:** Internal employees do not have to face the outside competition. Therefore, they do not put in the desired efforts for updating their knowledge, which is necessary for new jobs.

**Explain in brief the various steps involved in the process of staffing.**

Ans Various steps in the process of staffing are as follows

- i. **Estimating manpower requirements-** It refers to finding out the number of persons or employees and type of employees needed in the organisation in near future. At the time of determining the number of persons required, the possibilities regarding internal promotions, retirements, resignations and dismissals, etc.
  - a. **Work load analysis-** Finding the number and type of employees required to perform various jobs.
  - b. **Work force analysis-** Analysing existing work force already occupying the job positions.
  - c. **Comparison-** The manager compares the two and find out the excess of work load over work force indicating under staffing, and thus fulfills the gap.
- ii. **Recruitment-** It refers to the process of inducing the people to apply for the job in the organisation. After assessing the number and type of required employees, the manager tries to get a greater number of applicants for the job, so that the organisation can select better candidates.
- iii. **Selection-** It refers to the choosing of most suitable candidate to fill the vacant job position. Selection is done through a process, which involves tests, interviews, etc. It is important to keep in mind that the ability of the applicant and the nature of work must match.
- iv. **Placement and orientation-** Placement refers to join the post for which a person has been selected. After this, a brief presentation about the company is given and employee is introduced to his superiors, subordinates and colleagues and it refers to orientation.
- v. **Training and development-** In this step, training is imparted to the selected candidate, by which he/she can enhance his/her skills, knowledge, which increases their efficiency and effectiveness.
- vi. **Performance appraisal-** It refers to evaluating the performance of employees against some standards which are known to employees in advance. To judge his capability his actual work performance is compared with the work assigned to them.
- vii. **Promotion and career planning-** Promotions are an integral part of people's career. It means people placed in positions of increased responsibility on the basis of their capability and it usually means more pay, responsibility and job satisfaction.
- viii. **Compensation-** It refers to fixing the compensation of an employee for his contribution to the organisation. It includes pay, rewards and other incentives given to all the employees. It includes direct as well as indirect payments. It may be of two types:
  - a) Direct Financial Payments- It includes wages, salaries, incentives, commissions and bonuse
  - b) Indirect payments-It includes insurance, medical, vacations etc



2. A newly appointed Personnel Manager is of the view that there is no need for training the workers. Do you agree with this statement? Give reasons in support of your answer.

Ans No, I do not agree with this statement. Proper training is required to the workers because of following reasons:

- i. **Addressing Weaknesses:** Most employees have some weaknesses in their workplace skills. A training program allows you to strengthen those skills that each employee needs to improve
- ii. **Systematic learning:** Training is a systematic learning which improves knowledge and skills of employees. It helps in reducing the wastage of efforts and money.
- iii. **Higher profits:** Training helps in increasing the efficiency and productivity of the workers which lead to high quality products and higher profits.
- iv. **More efficient:** Training makes the employee more efficient and more technical. They can handle any machine easily. Thus, less prone to accidents.
- v. **Increases Morale of employees:** Training increases the satisfaction and morale of employees.
- vi. Increased job satisfaction and morale among employees.
- vii. Increases capacity to adopt new technologies and methods.
- viii. Increases innovation in strategies and products.

3. Explain any four external sources of recruitment. Which of these sources is ideal for a manufacturing organisation?

Ans Recruitment means inducing or attracting more and more candidates to apply for vacant job positions in the organisation. In other words, recruitment means making available persons to fill different vacant posts in the organisation. Efforts are made in this process to ensure that more and more people submit applications so that selection becomes easy. External sources of recruitment mean to invite applications for filling up the vacancies from candidates outside the organisation.

Different external sources of recruitment are

- i. **Casual callers:** It is generally followed by the factories of manufacturing organisations to fill up vacancies at the labour level. In such cases, the organisation keeps the record of casual callers and present them at the time of requirement.
- ii. **Advertising:** The most common and popular method of external recruitment is advertising, e.g. for the job of an accountant, the advertisement can be given in CA journal, for the lower rank it can be given in local newspapers and for the higher rank, it can be given in national level reputed newspapers. The advertisement may also be done through television.

- iii. **Placement agencies and management consultant:** These agencies provide nation-wide service of matching demand and supply of workforce and invite the bio-data and record from various job seekers and send them to suitable clients. These agencies charge fees for providing such service.

**Labour contractors:** They keep a close contact with labourers, and they supply manpower to the factory or manufacturing concerns. Through these contractors, workers are appointed in factories at very short notice. They act as a link between labourers and managers. Labour contractors is the ideal source for a manufacturing organisation. It is very much popular in road construction, building construction, and plantation industry. They keep close contact with labourers and supply manpower to manufacturing industries.

## Chapter – 7 Directing

- \_\_\_\_\_ is the process of stimulating people to engage in goal-directed behaviour.  
(a) Communication (b) Motivation  
(c) Directing (d) None of these
- The channel of communication which is transmitted through informal channels is called \_\_\_\_\_. **Grapevin**
- \_\_\_\_\_ aims at instructing, guiding, motivating people to achieve the desired results.  
**Directing**
- \_\_\_\_\_ is the process of converting a message into symbols.
- Directing flows in \_\_\_\_\_ direction. **Downward**
- \_\_\_\_\_ is the process of exchanging information and understanding between two or more persons. **Communication**
- Directing takes place at \_\_\_\_\_ levels of management.  
(a) Top (b) Middle  
(c) Lower (d) All

True or False

- Leadership and motivation are the two elements of directing. **True;**
  - Directing takes place at the top, middle and bottom level of management. **True;**
  - Encoding refers to converting symbols received by the receiver into meaning. **Ans. False;**
  - Democratic leadership style involves giving orders by a superior to his subordinates and expecting that his orders will be obeyed by them. **False**
- The highest level need in the need Hierarchy of Abraham Maslow:

### Self actualisation need

2 Which of the following is not a financial incentive \_\_\_\_\_ Recognition

3 Which one of the following is not an element of direction? Delegation

1. Under which style of leadership there is no delegation of authority?  
A Laissez Faire b Autocratic c. Democrati d. None of these

2.

1. What is meant by decoding as an element of communication?

**Ans Decoding** is the process of converting code into plain text or any format that is useful for subsequent processes. **Decoding** is the reverse of encoding. It converts encoded data communication transmissions and files to their original states.

2. It refers to the way in which urges, drives, desires, aspirations, strivings or needs direct control and explain the behavior of human beings. Which element of directing is indicated here?

Ans The element of directing indicated here is 'Motivation'.

3. Give any one measure to improve communication.

'Communicate according to the needs of receiver' is one measure to improve communication.

4. Define directing as a function of management. )

Ans Directing as a function of management is the process of instructing, inspiring and guiding people in the organisation to achieve its objectives.

5. What is meant by financial incentives? State any two financial incentives.

Ans Financial incentives refer to incentives which are in direct monetary form and serves to motivate people for better performance.

Two financial incentives are:

- i. **Pay and allowances:** Salary is the basic monetary incentive for every employee. It includes basic pay, dearness allowance and other allowances.
- ii. **Productivity linked wage incentives:** Many wage incentives are linked with the increase in productivity at individual or group level. For example, a worker is paid 50 rupees per piece if he produces 50 pieces a day but if he produces more than 50 pieces a day, he is paid 5 rupees extra per piece. Thus, on the 51st piece, he will be paid 55 rupees.

5. Ayasha Ltd. assured their employees that inspite of recession, no worker will be retrenched from the job.

- i. Name and explain the type of incentive offered to the employees.
- ii. Explain one more incentive of the same category.

Ans

- i. The name of the incentive offered is Job security. Employees want their job to be secure. They want certain stability about future income and work so that they do not feel worried on these aspect and work with greater zeal.

- ii. **Employee participation:** It means involving employees in decision making if the issues related to them. In many companies, these programmes are in practice in the form of joint management committees, work committees, canteen committees etc.

2. Define the terms 'motive', 'motivation' and 'motivator'.

- i. **Motive:** A motive is an inner state that energizes, activates or moves and directs behavior towards goals. Motives arise out of the needs of individuals. Realisation of a motive causes restlessness in the individual which prompts some action to reduce such restlessness.
- ii. **Motivation:** Motivation is the process of stimulating people to action to accomplish desired goals. Motivation depends upon satisfying needs of people.
- iii. **Motivator:** Motivator is the technique used to motivate people in an organisation. Managers use diverse motivators like pay, bonus, promotion, recognition, praise, responsibility etc., in the organisation to influence people to contribute their best.

3. To satisfy the social and physiological needs which type of incentives are needed? Explain any four types of such incentives.

Ans Psychological, cognitive and social factors can play a role in what incentives one finds motivating and to what degree. Incentives can be used to get people to engage in certain behaviors, but they can also be used to get people to stop performing certain actions. Financial incentives are needed to satisfy the social and physiological needs. Four types of such incentives are

- i. **Pay and allowances:** Salary is the basic monetary incentive for every employee. It includes basic pay, dearness allowance and other allowances like House Rent Allowance, Entertainment allowance etc. Under salary system, employees get regular annual increments and enhancement of allowances from time to time.
- ii. **Profit sharing:** Sometimes a company or a business firm may share some part of its profit with the employees. The main purpose of sharing profits with the employees is to improve their performance so that they can contribute more in increasing the productivity and profits of the firm.
- iii. **Productivity linked wage incentives:** Employees can be motivated by giving them productivity linked wage incentives. There are certain wage rate plans which offer higher wage for more efficient worker for example; different piece wage system allows high wages to efficient workers as compared to inefficient workers.
- iv. **Co-partnership/Stock option:** Sometimes companies offer their shares to its employees at a set price which is lower than the market price. The main purpose of allotting shares to the employees is to create a feeling of ownership among them so that they can contribute more for the growth of the organization.

#### 4. Explain the principles of Directing.

Ans Principles of directing are:

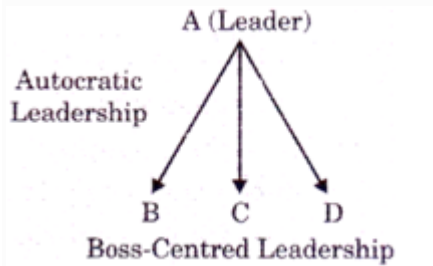
- i. **Maximum individual contribution:** Directing is helpful in motivating and inspiring every individual in the organization to contribute to his maximum potential for achievement of organizational objectives.
- ii. **Harmony of objectives:** Sometimes individual objectives of employees and the organizational objectives may conflict to each other. Through effective directing these conflicts may be settled.
- iii. **Unity of Command:** An employee should receive orders and instructions only from one superior. If not so, there would be indiscipline and confusion among the subordinates and disorder will ensue. Effective directing ensures that there is unity of command in an organization.
- iv. **Appropriateness of direction technique:** Direction techniques that are used by the managers should be appropriate i.e., it should be suitable to superiors, subordinates and the situation to ensure efficiency of direction. Motivation and proper leadership techniques should be used while directing the people.
- v. **Managerial communication:** Effective managerial communication at all levels in the organization makes direction effective. Directing ensures that clear instructions are given to the subordinates so that they can perform effectively and efficiently.
- vi. **Use of Informal organization:** In every formal organization there are informal groups or informal organizations exist. A manager should realise and utilize such organizations for effective directing.
- vii. **Follow through:** Manager must ensure that orders are being implemented accordingly or not. A good manager not only gives order but also follow it up by reviewing continuously whether employees are comfortable in implementing the orders or not. If necessary, suitable modifications should be made in the directions.
- viii. **Leadership:** A manager should be a good leader because good leadership will influence the subordinates positively without causing dissatisfaction among them.

#### 5. Describe the concept of Authoritative leadership and state its advantages?

**Ans Autocratic/Authoritarian leadership** Under this style, leader concentrates all authority in himself, instructs subordinates as to what to do, when to do it; how to do it, etc. He also exercises close supervision and control over his subordinates. Subordinates are expected to do what they are told.

The autocratic leader accomplishes the results through the use of authority, fear of deprivation, punishment and such other negative rewards. As it is negative in character, authoritarian approach will succeed only in the short

run.



#### Advantages of Autocratic Leadership:

- i. It provides for quick decision-making because here only one person i.e., the leader takes decisions.
- ii. Mostly subordinates like to work under centralized authority and strict supervision.
- iii. As there is no consultation with subordinates, confidential matters can be kept secretly.
- iv. Leadership gives strong motivation and satisfaction to the leader who dictates terms.
- v. At lower levels, only less competent subordinates are required.
- vi. This style may yield positive outcome if great speed is needed.

#### 6. What is meant by communication? Explain how communication is an important function of management.

Ans Communication is a two-way process wherein the message in the form of ideas, thoughts, feelings, opinions is transmitted between two or more persons with the intent of creating a shared understanding. Simply, an act of conveying intended information and understanding from one person to another is called as communication. The term communication is derived from the Latin word "Communis" which means to share. Effective communication is when the message conveyed by the sender is understood by the receiver in exactly the same way as it was intended.

Importance of communication is explained as follows:

- i. **Acts as a basis of coordination:** Communication acts as a basis of coordination. It provides coordination among departments, activities and persons in the organisation. Such coordination is provided for explaining about organisational goals, the mode to their achievement and inter relationships between different individuals, etc.
- ii. **Acts as a basis of decision-making:** The decisions made in an organisation depends largely on the amount and quality of information available. On the basis of communication of relevant information, one can take the right decisions.
- iii. **Increases managerial efficiency:** The employees must know clearly about their responsibilities and authority, who will report to whom, what part of the total job they are expected to perform and what are their decision-making powers.
- iv. **Helps in the process of motivation and morale:** Motivation and morale of employees largely depend upon the effectiveness of communication.

Sharing of information with employees helps management to secure their willing cooperation.

- v. **Effective leadership:** Communication is the basis of leadership. By developing the skills of communication, a manager can be a real leader of his subordinates. A good system of communication brings them in close contact with each other and removes misunderstandings.

### Chapter – 8 Controlling

1. Which one of the following is not a feature of controlling?  
(a) Continuous process (b) Action-oriented  
(c) Keeping employees busy (d) Pervasive function
2. Which one of the following is not an importance of controlling?  
(a) Better coordination (b) Better use of resources  
(c) Better planning (d) Better grievance handling
3. Which one of the following is a step of controlling?  
(a) Assessing personnel required (b) Taking corrective action  
(c) Assessing environment (d) Taking

disciplinary action  
Ans. 1 – (c), 2 – (d), 3 – (b)

### Fill in the Blanks

1. \_\_\_\_\_ is the process of ensuring that actual results are in accordance with planned results. **Controlling**
2. \_\_\_\_\_ is the focus point for a manager while controlling, as controlling at every step is not possible. **Critical point control**

### True or False

State with reasons whether the following statements are True or False.

1. Controlling helps in achieving organisational objectives. Ans. True;
2. Control by action involves reporting of exceptional deviation between actual performance and standard performance to top management. False;
3. Management by exception is controlling performance in key result areas. False;

1. **What corrective action should be taken in case deviations are caused due to defective machinery?**

ANS Replacement or repairing the machinery can be a corrective action if it is causing deviations in the set targets.

2. **What is important while analyzing deviations in controlling?**

Ans While identifying deviations it is important to focus more on important areas which can affect an organization's main objectives.

1. Name the concept which suggests that only significant deviations which go beyond the permissible limit should be brought to the notice of management.

Ans The concept Management by Exception(MBE) Says that the Managers should focus on Key Areas only.

2. Standards are set in quantitative as well as in qualitative terms. Identify the type of standards when it is set in terms of 'time to be spent'.

ANS In the absence of controlling, actual performance will not be measured and compared. So, how far plans are implemented cannot be known.

3. Why it is said that controlling is blind without planning?

ANS The possible causes for decline in production are-

1. There may be some defect in machinery by which the components are produced.

2. Employees are not performing efficiently.

3. Sometimes employees may become lethargic.

The company can take the following steps to achieve the desired targets-

1. Company can replace the machinery or get repaired, if fault is in machine.

2. If employees are not performing efficiently, the company can give training to employees.

3. If employees are becoming lethargic, the company needs to keep a close supervision on their employees.

1. Explain briefly the relationship between controlling and planning.

Ans Planning is the basis for control in the sense that it provides the entire spectrum on which control function is based. In fact, these two terms are often used together in the designation of the department which carries production, planning and scheduling. Control measures the behaviour and activities in the organisation suggest measures to remove deviations, if any. Control is the result of particular plans, goals and policies. Thus, planning offers and affects control. Also, planning is affected by control in the sense that many of the information provided by control is used for planning. Thus, there is a reciprocal relationship between planning and controlling.

2. "There is a close and reciprocal relationship between planning and controlling." Explain the statement.

Ans Planning and controlling both are necessary to achieve the organizational objectives. Controlling is important because of the following reasons:

- i. **Accomplishing organizational goals:** Controlling plays an important role in the achievement of organizational goals. Organizational goals can be achieved only if all activities are going according to the plan. Through controlling managers ensure that all activities are taking place according to the plan and also measure that an organization is progressing towards its goals. If there is any deviation, they take corrective action. In this way, controlling is helpful in achieving the goals of the organisation.



- ii. **Judging accuracy of standards:** While performing the function of controlling, a manager compares the actual work performance with the standards. He tries to find out whether the laid down standards are not more or less than the general standards. In case of need, they are redefined.
3. If planning is done carefully and accordingly other functions of management are going in the right direction, then there is no need for the controlling function of management". Do you agree with the statement? Give any two reasons in support of your answer.

Ans Controlling is the function which is being mentioned in the statement. Importance of controlling are :

1. **Accomplishing organizational goals:** The process of controlling helps in accomplishing organizational goals or objectives. The controlling guides the activities of subordinates in achieving the goals. It ensures the use of human and material resources in the best possible manner so that there may be predetermined objectives of the organization.
2. **Judging accuracy of the standards:** A manager compares the actual work performance with the standards while performing the function of controlling. He tries to find out whether the accuracy of the standards is not more or less than the general standards. In case of the needs, they are redefined.
3. **Improves efficiency:** The organization sets the goal for future which is not certain. So, controlling is the way which focuses on uncertainty and to attain the goals. Regular control shows the deviation in plan and actual achievement which helps to keep the staffs on the right track.
4. **Improve employee motivation:** Motivation is defined as the process of inspiring someone for doing something. Controlling makes all the employees to work with complete dedication as they know that their work performance will be evaluated. Their identity will be established if the progress report is satisfactory in the organization.
5. **Ensuring order and discipline:** The implementation of controlling help to check all the undesirable activities like theft, corruption, delay in work and uncooperative attitude. Controlling ensures order and discipline, Ensuring order and discipline is also one of the importance of controlling.

"In the absence of a managerial function, planning goes unchecked". Name the function and explain its importance.

**Ans Importance of controlling are:**

- i. **Accomplishing organizational goals:** The controlling process is implemented to take care of the plans. With the help of controlling, deviations are immediately detected and corrective action is taken. Therefore, the difference between the expected results and the actual results is reduced to the minimum. In this way, controlling is helpful in achieving the goals of the organisation.

- ii. **Judging accuracy of standards:** While performing the function of controlling, a manager compares the actual work performance with the standards. He tries to find out whether the laid down standards are not more or less than the general standards. In case of need, they are redefined
  - iii. **Making efficient use of resources:** Controlling plays an important role in reducing the wastage and spoilage of resources and ensures that resources of an organization i.e. Technical, human, financial resources etc., are being used effectively and efficiently for the achievement of predetermined goals.
  - iv. **Improving employee motivation:** A good control system communicates the goals and standards to employees well in advance. An effective control helps in removing the weaknesses of the employees so that they can contribute to the best of their efforts. It motivates them and helps them to give better performance.
  - v. **Ensuring order and discipline:** Controlling ensures order and discipline. With its implementation, all the undesirable activities like theft, corruption, delay in work and uncooperative attitude are checked.
  - vi. **Facilitating coordination in action:** Controlling provides direction to all activities and efforts for achieving organizational goals. It facilitates coordination between different departments by laying down standards of performance. All departments are governed by the pre-determined standards which are well coordinated with one another. This ensures that overall organizational objectives are achieved.
2. Explain the importance of controlling in an organization. What are the problems faced by the organization in implementing an effective control system?

**Ans Problems faced by the organization in implementing an effective control system are :**

- i. **Difficulty in setting quantitative standards:** Controlling fails in setting quantitative standards. The controlling function becomes less effective when standards cannot be defined in quantitative terms.
- ii. **Little control over external factors:** External factors like government policies, technological changes and competition etc., cannot be controlled by controlling.
- iii. **Resistance from employees:** Employees think that control is a restriction on their freedom. For example, they do not like to be observed through CCTV.
- iv. **Costly affair:** Controlling is costly and time-consuming. Managers must ensure that the cost of controlling should not exceed the benefits derived from it.

## Chapter – 9 Financial Management

1. Which one of the following is related to planning, organising, directing and controlling of financial activities?
  - (a) Financial decision
  - (b) Capital structure
  - (c) Investment decision
  - (d) **Financial management**
2. Wealth maximisation depends on
  - a. **market price per share.**
  - (b) market price of finished good.
  - (c) market price of inventory.
  - (d) market price of fixed assets.
3. Investment decision involves
  - i. investment in fixed assets.
  - (b) investment in current assets.
  - (c) **investment in fixed and current assets.**
  - (d) investment in Government securities.
2. If dividend portion of total earnings is high, portion of retained earnings will be
  - (a) high.
  - (b) low.
  - (c) moderate.
  - (d) equal.
4. Financial procedures are determined by
  - (a) financial planning.
  - (b) financial leverage.
  - (c) financial decisions.
  - (d) capital structure.

### Fill in the Blanks

1. \_\_\_\_\_ is concerned with optimum procurement as well as usage of finance.  
**Financial Management**
2. represents investment in current assets required for day-to-day operations of the business. **Working capital**
3. \_\_\_\_\_ involves increasing the proportion of debt and preference shares in total capital.  
**Trading on equity**
4. \_\_\_\_\_ is the time span between acquisition of goods and realization of sale proceeds.  
**Operating Cycle**
5. Gross working capital represents the total investment in \_\_\_\_\_ assets. **Current**
6. \_\_\_\_\_ capital refers to investment in long-term assets. **Fixed**

### True or False

State with reasons whether the following statements are True or False.

1. The primary objective of financial management is to arrange wealth for shareholders. **False**
2. Financing decision is the decision about dividend payment and

retained earnings. False

3. Investment decision is the decision about investment, financing and dividend. False;

4. Return on investment shows analysis of an investment.  
False

1. Canara Bank wants to open a new branch of its bank. What is this decision called?

ANS This decision is termed as Investment decision.

2. Name any two essential ingredients of sound working capital management.

ANS The two essential ingredients of sound working capital management are Inventory and debtors.

5 "Identify the decision taken in financial management which affects the liquidity as well as the profitability of business.

ANS Short-term Investment Decision" or Working Capital Decision

3. State the concept by which increases the return on equity shares with a change in the capital structure of a company?

ANS "Trading on equity or financial leverage" increases the return on equity shares with a change in the capital structure of a company.

4. State any three points of importance of financial planning.

**ANS Financial planning** helps you determine your short and long-term **financial** goals and create a balanced **plan** to meet those goals.**Its importance can be highlighted from the following factors:**

- i. Adequate funds have to be ensured.
- ii. Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.
- iii. Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning.

2. How does working capital affect both the liquidity as well as profitability of a business?

ANS Working capital can be defined as the excess of current assets over current liabilities. Working capital of a business plays important role in the smooth day-to-day operations of the business. Working capital affects both the liquidity as well as the profitability of a business. Increase in working capital will increase the liquidity of the business. For example, when cash in hand or at bank increases, the capacity to make day to day payments also increases. A decrease in working capital will decrease the liquidity and profitability of the business as the firm is not in a position to pay off the day to day expenses and thus utilises the capital for it which further reduces the profitability of the business. Thus, the working capital should be such that a balance is maintained between the profitability and liquidity.

3. What is meant by financial planning?

ANS

- i. Financial planning is essentially preparation of a financial blueprint of an organisation's future operations.
- ii. The process of estimating the fund requirement of a business and specifying the sources of funds is called financial planning.
- iii. The objective of financial planning is to ensure that enough funds are available at right time.

6. Explain briefly any four factors affecting the fixed capital requirements of an organisation. (4)

**ANS** The main factors affecting the requirement of fixed capital are discussed below:

- i. **Nature of Business:** The type of business Co. is involved in is the first factor which helps in deciding the requirement of fixed capital. A manufacturing company needs more fixed capital as compared to a trading company, as trading company does not need plant, machinery, etc.
  - ii. **Scale of Operation:** The companies which are operating at large scale require more fixed capital as they need more machineries and other assets whereas small scale enterprises need less amount of fixed capital.
  - iii. **Technique of Production:** Companies using capital-intensive techniques require more fixed capital whereas companies using labour-intensive techniques require less capital because capital-intensive techniques make use of plant and machinery and company needs more fixed capital to buy plants and machinery.
  - iv. **Technology Up-gradation:** Industries in which technology up-gradation is fast need more amount of fixed capital as when new technology is invented old machines become obsolete and they need to buy new plants and machinery whereas companies where technological up-gradation is slow they require less fixed capital as they can manage with old machines.
4. Explain any four points that highlight the importance of financial planning. (4)

**ANS** Financial planning helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise. Various importance of financial planning:

- i. **Helps to face the eventualities** It forecasts the future business situations which helps in preparing alternative financial plans to face the eventual situations.
- ii. **Helps in avoiding business shocks and surprises** Proper provision regarding shortage or surplus of funds is made by anticipating future receipts and payments. Hence, it helps in avoiding business shocks and surprises.
- iii. **Helps in coordination** It helps in coordinating various business activities, such as sales, purchase, production, finance, etc.
- iv. **Helps in avoiding wastage of finance** In the absence of financial planning, wastage of financial resources may take place. This arises due to the complex nature of business operations such as, excessively over or

under estimation of finance for a particular business operation. Such type of wastages can be avoided through financial planning.

2 Explain the following as factors affecting dividend decision

ANS Dividend decision relates to how much of the company's net profit is to be distributed to the shareholders and how much of it is to be retained in the business. Factors affecting dividend decision are:

- i. **Stability of earnings-** Stability of earnings of a business unit affects the dividend decision. Stability of Earnings is when the company is able to earn reasonable amount of profits every year. A company having stable earnings can declare a higher dividend whereas a company having unstable earnings is likely to pay smaller dividend.
- ii. **Growth opportunity-** Companies which are intended to grow and diversify its operations in new lines of business, generally pay less dividend and retain more money out of profits to invest in profitable projects. On the contrary, companies which are not intended to grow and continue with the same line of business having enough earnings and cash can pay higher dividends.
- iii. **Cash Flow position-** Dividend involves an outflow of cash. Availability of enough cash is necessary for payment of declaration of dividends. If the cash flow position is strong dividends can be paid. If cash flow position is weak it is difficult to pay dividends.
- iv. **Taxation policy-** The decision is affected by the tax treatment of dividends and capital gains. For a company, It is better to pay less by dividends when the tax rate on the dividend is higher and pay more as dividends when the tax rate is lower. This is because dividends are tax-free in the hands of shareholders, dividends distribution tax is levied on the company. Payment of tax on the dividend is an added expense for the company to be paid apart from the dividends that are distributed.

## Chapter – 10 Financial Markets

### MCQs

1. Which one of the following is not a function of financial market?
  - (a) Mobilisation of savings
  - (b) Price determination of securities
  - (c) Floating of companies
  - (d) Lowering transaction cost
2. Which one of the following is a money market instrument?
  - (a) Unit of mutual fund
  - (b) Debenture
  - (c) Bond
  - (d) Treasury bill
3. Primary and secondary markets develop simultaneously because they
  - (a) complement each other.
  - (b) compete with each other.

- (c) control each other. (d) function independently.
4. Secondary market is in the form of  
 (a) stock exchange. (b) money market.  
 (c) new issue market. (d) commercial exchange.
5. SEBI is a regulator of  
 (a) capital market. (b) money market.  
 (c) commodity market. (d) overseas market.
- Ans. 1 – (c), 2 – (d), 3 – (a), 4 – (a), 5 – (a)

### Fill in the Blanks

- \_\_\_\_\_ is a short-term unsecured promissory note issued by reputed business organisations at a price lower than its face value and redeemable at par. **Commercial paper**
- \_\_\_\_\_ is a source of financing to meet very short-term fund requirements of commercial banks with a provision of renewal. **Call Money**
- \_\_\_\_\_ is the market which helps existing investors to sell their securities. **Secondary market**
- \_\_\_\_\_ is the institution which provides a platform for trading of existing securities having long-term maturity. **Stock exchange**

### True or False

State with reasons whether the following statements are True or False.

- Providing liquidity is an important function of stock exchange. True
- Money Market is the market in which financial instruments having long-term maturity are dealt with. False
- Stock exchange regulates the capital market. False;

### What is meant by 'primary market'?

ANS Primary market is the market in which firms sell (float) new stocks and bonds to the public for the first time. Therefore, it is also known as 'New Issue Market' (NIM).

**SEBI recently called for information and issued a show cause notice to NSE and its 14 officials seeking explanation on the Preferential Access allegations at the Exchange's Co-location facility. State the function that SEBI performed by doing so.**

ANS Keeping in mind the emerging nature of the securities market in India, SEBI was entrusted with the twin task of both regulation and development of the securities market. **Regulatory Function** was performed by SEBI as called for information and issued a show cause notice to NSE and its 14 officials

seeking explanation on the Preferential Access allegations at the Exchange's Co-location facility.

1. It is an institution which provides a platform for buying and selling of existing securities. Mention it.

ANS

Basis	Capital market	Money market
<b>Meaning</b>	It refers to the whole network of organisations, institutions and instruments that deal in medium and long-term funds.	Money market is a market for short-term funds which deals in monetary assets whose period of maturity is upto one year.
<b>Liquidity</b>	Only actively traded securities have ready market.	In this market, there is a formal arrangement of creating liquidity.
<b>Duration</b>	Period of maturity is more than one year.	Period of maturity ranges from one day to one year.
<b>Expected return</b>	The expected returns are high as there is scope of earning capital gains and long-term prosperity is also shared by the company in form of high dividends and bonus issues.	The expected return is less due to short duration and lower risk.
<b>Investment outlay</b>	Investment outlay does not necessarily require huge investment outlay. The unit prices is low, i.e. Rs10, Rs100 and so even the trading lots are small, i.e. 5, 50, 100 etc.	Money market transactions entail huge sums of money as instruments are quite expensive.
<b>Participants</b>	Individual investors, as well as institutional investors like financial institutions, banks, corporate houses and foreign investors, participate in the capital market transactions.	The participants are RBI, Commercial Banks financial institutions, mutual funds and corporate houses. Individual investors do not participate in money market.

2. Stock exchange- Organized and regulated financial market where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply.

Explain the various money market instruments.

ANS Money market instruments are:

- i. **Commercial Bill:** A Commercial bill is also known as a bill of exchange. A Commercial bill is mainly used to provide sufficient working capital to a business firm. It is mainly suitable where goods are sold on credit. A seller may face the problem of working capital because his customers will pay the amount on a specified date. The seller could wait until the specified date or make use of a bill of exchange. If a seller needs funds quickly



before the maturity date of the bill than this bill can be discounted with the bank. When a bill is accepted by the buyer, it is known as a trade bill and when this trade bill is accepted by the commercial bank, it is known as the commercial bill.

- ii. **Commercial Paper:** Commercial Paper is a short term unsecured instrument. It is negotiable and transferable by endorsement and delivery with a fixed maturity period. Commercial papers are usually issued by large and creditworthy companies with the purpose of raising short term funds. Commercial papers are sold at a discount and redeemed at par. The Maturity period of commercial paper is 15 days to one year. Funds arranged through commercial paper are used for Bridge Financing i.e. to meet the floatation costs.
- iii. **Call Money:** Call money refers to the short term finance with the maturity period of one day to fifteen days. It is mainly used for inter-bank transactions. It is compulsory for all commercial banks to maintain a minimum cash balance known as Cash Reserve Ratio. Call money is the amount borrowed by a bank from another bank to maintain the cash reserve ratio. The interest rate paid on call money is known as Call Rate. This rate is not fixed. It varies from hour-to-hour and day-to-day. When call rate is higher than other market instruments i.e. commercial paper and certificates of deposit etc. become relatively cheaper.
- iv. **Certificate of Deposit:** Certificates of deposit are short term instruments issued by commercial banks and development financial institutions against the deposits. It is a bearer document. Mainly time period involved in the certificate of deposit is 91 days to one year. It is an unsecured and negotiable instrument. Certificate of deposit can be issued to individuals, corporations and companies. It is helpful in arranging large amount when companies/individuals are facing the problem of tight liquidity.
- v. **Treasury Bill:** Treasury bills (T-bills) offer short-term investment opportunities, generally up to one year. They are thus useful in managing short-term liquidity. At present, the Government of India issues three types of treasury bills through auctions, namely, 91-day, 182-day and 364-day. There are no treasury bills issued by State Governments. Treasury Bills are available for a minimum amount of Rs.25,000 and in multiples of Rs. 25,000. Treasury bills are issued at a discount and are redeemed at par. Treasury bills are also issued under the Market Stabilization Scheme (MSS).

## 2. Describe the trading and settlement procedure of stock exchange.

ANS

### i. Selection of a Broker

The first step is to select a broker, who will buy/sell securities on behalf of the speculator/investor. This is necessary because trading of securities can only be done through SEBI registered brokers, who are members of stock

exchange. Brokers may be individuals, partnership firms and corporate bodies.

ii. **Opening Demat Account with Depository**

The next step is to open a demat account. Demat (Dematerialised) account refers to an account which an Indian citizen must open with the depository participant (banks and stock brokers) to trade in listed securities in "electronic form.

The securities are held in the electronic form by a depository. 'Depository' is an institution/organisation which holds securities (e.g. shares, debentures, bonds, mutual funds, etc) in electronic form, in which trading is done.

iii. **Placing the Order**

The next step is to place the order with the broker. The order can be communicated to the broker either personally or through telephone, cell phone, e-mail, etc.

The instructions should specify the securities to be bought or sold and the price range within which the order is to be executed. Only the securities of listed companies can be traded on the stock exchange.

iv. **Executing the Order**

According to the instructions of the investor, the broker buys or sells securities. The broker, then issues a contract note. A copy of the contract note contains the name and the price of securities, names of the parties, brokerage charges, etc. It is duly signed by the broker.

v. **Settlement**

This is the last stage in the trading of securities done by the brokers on behalf of their clients. The mode of settlement depends upon the nature of the contract. Equity spot markets follow a T + 2 rolling settlement. This means that any trade taking place on Monday gets settled by Wednesday. Stock, exchange operates from Monday to Friday between 9:55am and 3:30pm. Each exchange has its own clearing house, which assumes all settlement risk.

## Chapter – 11 Marketing Management

### MCQs

1. With which element is exchange mechanism related?  
(a) Publicity (b) Marketing  
(c) Advertising (d) Branding
2. Which one of the following is a marketing management philosophy?  
(a) Societal marketing concept (b) Distribution concept  
(c) Direct marketing concept (d) Channel concept
3. Which one of the following is not a marketing mix?  
(a) Product (b) Physical distribution

- (c) Product pricing (d) Production process
4. Which one of the following factors is not relevant to price fixation?  
 (a) Obtaining market leadership (b) Age of an organisation  
 (c) Value for money (d) Product differentiation
5. For heavy equipment, which of the following channels is more relevant?  
 (a) Zero-level (b) One-level  
 (c) Two-level (d) Three-level
6. Which one of the following promotion tools has mass reach?  
 (a) Advertising (b) Personal selling  
 (c) Sales promotion (d) Public relations
- Ans. 1 – (b), 2 – (a), 3 – (d), 4 – (b),  
 5 – (a), 6 – (a)

### Fill in the Blanks

1. Mail order selling is a \_\_\_\_\_ channel of distribution. **Direct**
2. \_\_\_\_\_ is the deliberate action of an organisation for promoting goodwill between itself and the society. **Public relations**
3. \_\_\_\_\_ ensures that products reach the ultimate customers from the manufacturers. **Physical distribution**
4. \_\_\_\_\_ involves designing and producing container or wrapper of the product. **Packaging**
5. Registering a trademark gives \_\_\_\_\_ to the users. **Protection**

### True or False

State with reasons whether the following statements are True or False.

- Advertising is the function of marketing which is concerned with the cost and location of target market. **False;**
- There is personal communication in case of advertising. **Ans. False**
- There is no personal contact in personal selling. **Ans. False**
- Labelling involves putting identification marks on the package. **True**
- Marketing mix is a blend of multiple financial decisions. **False**
- The main focus of selling concept is production volume. **False**

1, **Distinguish between 'Selling Concept' and 'Marketing Concept' of Marketing Management Philosophies on the basis of 'main focus'.**

Ans Main focus of selling concept is to sell the product while marketing concept focus on consumer needs and satisfaction.

### 1. Why is marketing called a social process?

Ans Marketing is called a social process because marketers attempt to match products or services with customer needs and wants for satisfying them at a profit.

**Name the two methods of marketing adopted by them.  
Define the term marketing.**

Ans

- a. The two methods of marketing adopted by them are both direct and indirect marketing.
- b. According to JF Pyle. "Marketing is that phase of business activity through which the human wants are satisfied by the exchange of goods and services."

**State the meaning of 'Product Promotion' function of packaging.**

Ans Packaging simplifies the work of sales promotion. Packing material in the house reminds the consumers constantly about the product. In this way, the packaging performs the role of a passive salesman. Consequently, it increases the sales.

### 1. What is meant by advertising? State the role of advertising in marketing.

Ans Advertising is an impersonal form of communication, which is paid for by the marketers (sponsors) to promote some goods or services. It is the most commonly used tool of promotion. Most common modes of advertising are newspaper, television, and radio. Advantages to manufacturers are as follows

- i. **Provides economies of scale:** Large and steady demand enables a manufacturer to sell more and to produce goods on large scale. Mass production on regular basis helps to reduce the costs of production and distribution. Because of its wide reach, the overall cost of advertising gets spread over numerous communication link established.
- ii. **Reduces dependence on middlemen:** Advertising helps to establish direct contact between manufacturers and consumers. It is easy to find consumers, as they are made aware of the availability and utility of goods. It is medium through which a large number of people can be reached over a vast geographical area.

### 2. Define the mean of 'Marketing'?

Ans Marketing management is the art and science of choosing target market and getting keeping and growing customers through creation delivering and communicating superior customer values managements. Marketing management refers to planning, organising, directing and control of the activities which facilitate exchange of goods and services between producers and consumers or users of products and services.

### 3. Explain any three elements of marketing mix.

Ans Marketing mix refers to the set of marketing tools that a firm uses to pursue its marketing objectives in a target market. The four basic elements are known as four P's-product, price, promotion and place. These are used by the management while formulating marketing plans. The various components of the marketing mix are:The elements of marketing mix must work together and support each other to create the total effect i.e. create the desired market position.

- i. **Product mix:** The product mix refers to important decisions related to the product or services which are offered in the market to satisfy a want or need. Product mix involves decisions regarding developing and producing the right type of products or services for the consumers. Decisions are taken regarding product, range, quality, size, features, packaging, after sale services, branding, warranties etc. Production must satisfy consumer needs and expectations. These decisions play an important role in attracting customers to the product.
  - ii. **Price mix:** It refers to important decisions related to price levels, pricing strategy and price policies of an organisation. Price is the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service. It plays an important role in the marketing of goods. It is often used as a regulator of product's demand and act as an effective tool during stiff competition. Price affects the revenue and profits of a firm. It is a very crucial element of the marketing mix as customers are highly price-sensitive and the level of price affects the level of demand.
  - iii. **Place mix:** It includes activities that make firm's products available to the target customers. It includes decisions about channels of distribution, means of transportation, warehousing, inventory control, etc. Place mix is concerned with linking the sellers and buyers. The choice of channels of distribution depends on the nature of the product, competition, willingness of middlemen and producer's financial resources.
  - iv. **Promotion mix:** It refers to informing the customers about the product and persuading them to purchase these products. This job is done by the company through the medium of advertisement, personal selling, sales promotion and public relations. Decisions with regard to all these factors directly influence the sale of the product.
4. Briefly explain the various elements of the marketing mix being pursued
- i. **Product:** "his business is not only restricted to designing web sites according to the specifications of the clients but also providing continuous online assistance to them and handling their grievances' effectively."  
A product is anything of value i.e. a product or service offered to a market to satisfy needs or wants. A product includes physical product,

after sale service, handling grievances etc. Every marketer needs to constantly review and revise his products in order to enhance customer's satisfaction and have a competitive edge.

- ii. **Price:** "doing all this at a profit. He provides these services at competitive prices."

Price is the monetary value paid in consideration for the purchase of a product or service by a buyer to its seller. It is a very crucial decision for the marketers as consumers are very sensitive to the pricing. The factors affecting price determination are the cost of the product, the utility and demand, the extent of competition in the market, government and legal regulations, pricing objectives and marketing methods used.

- iii. **Place:** "Anybody interested in getting web solutions can contact him through his website. "

It is considered an important element of the marketing mix because it includes all those activities that help in making the goods and services available to the prospective buyers in the right quantity, at the right time and in the right condition. Two main decisions involved in physical distribution are physical movement of goods from producers to consumers and choice of channels of distribution.

- iv. **Promotion:** "Moreover, whenever the market is sluggish he tries to create demand by offering short-term incentives to the buyers."

Promotion refers to the set of activities undertaken by a marketer to inform the prospective buyers about the product and persuading them to make a purchase. The various components of the promotion mix are advertising, sales promotion, personal selling and public relation.

## 2. Explain the following functions of marketing:

- a. Gathering and analysing market information;
- b. Marketing planning;
- c. Customer support services; and
- d. Physical distribution.

### i. **Gathering and Analysing Market Information:**

Gathering and analyzing market information is an important function of marketing. Under it, an effort is made to understand the consumer thoroughly in the following ways:

- i. What do the consumers want?
- ii. In what quantity?
- iii. At what price?
- iv. When do they want (it)?
- v. What kind of advertisement do they like?
- vi. Where do they want (it)?

- vii. What kind of distribution system do they like?  
All the relevant information about the consumer is collected and analysed. On the basis of this analysis an effort is made to find out as to which product has the best opportunities in the market.
- ii. **Marketing Planning:**  
In order to achieve the objectives of an organisation with regard to its marketing, the marketer chalks out his marketing plan. For example, a company has a 25% market share of a particular product. The company wants to raise it to 40%. In order to achieve this objective the marketer has to prepare a plan in respect of the level of production and promotion efforts. It will also be decided as to who will do what, when and how. To do this is known as marketing planning.
- iii. **Customer Support Service:**  
Customer is the king of market. Therefore, it is one of the chief functions of marketer to offer every possible help to the customers. A marketer offers primarily the following services to the customers:
  - i. After-sales-services
  - ii. Handling customers' complaints
  - iii. Technical services
  - iv. Credit facilities
  - v. Maintenance services
 Helping the customer in this way offers him satisfaction and in today's competitive age customer's satisfaction happens to be the top-most priority. This encourages a customer's attachment to a particular product and he starts buying that product time and again.
- iv. **Physical Distribution:**  
Under this function of marketing the decision about carrying things from the place of production to the place of consumption is taken into account. To accomplish this task, decision about four factors are taken. They are: (i) Transportation, (ii) Inventory, (iii) Warehousing and (iv) Order Processing. Physical distribution, by taking things, at the right place and at the right time creates time and place utility.

## Chapter – 12 Consumer Protection

### MCQs

1. Which one of the following is not a reason for importance of consumer protection from the point of view of consumers?
 

(a) Consumer ignorance	(b) Consumer apathy
(c) Consumer exploitation	(d) Unorganised consumers
2. From the point of view of business, which one of the following is a reason because of which consumer protection is important?
 

(a) Dynamic environment	(b) Fast technological development
-------------------------	------------------------------------

- (c) Government intervention (d) Competitive market
3. Which one of the following is not a consumer right?  
 (a) Right to safety (b) Right to seek redressal  
 (c) Right to get discount (d) Right to be heard
4. In which year did Consumer Protection Act come into existence?  
 (a) 1986 (b) 1999  
 (c) 1991 (d) 1976
5. A District Forum has jurisdiction to entertain a consumer complaint involving product value:  
 (a) Up to ` 20 lakh (b) Up to ` 10 lakh  
 (c) Between ` 20 lakh and ` 1 crore (d) Above ` 1 crore
- Ans. 1 – (b), 2 – (c), 3 – (c), 4 – (a), 5 – (a)

### Fill in the Blanks

1. \_\_\_\_\_ mark is used for electrical products. **ISI**
2. \_\_\_\_\_ is one of the redressal agencies for redressing consumer grievance. **State Commission**
3. A complaint can be filed against \_\_\_\_\_ who adopt(s) unfair trade practices.  
**Trader and Manufacturer**
4. Right to \_\_\_\_\_ is a right to be protected against products which are hazardous to life or health. **Safety**
5. \_\_\_\_\_ means any person who buys any goods for personal use or hires or avails of any services for a consideration. **Consumer**
6. \_\_\_\_\_ implies safeguard against anti-consumer trade practices of producers and traders. **Consumer Protection**

### True or False

State with reasons whether the following statements are True or False.

1. Right to be informed says that the consumer has the right to acquire knowledge and be well-informed throughout his life.

Ans. False;

The Consumer Protection Act is applicable throughout India.

Ans. False

2. Buying standardised products is a consumer right. Ans. False



3. The Central Government can file a complaint under the Consumer Protection Act. Ans. True;

4. National Commission consists of a president and six other members. Ans. False;

5. Consumer awareness is a campaign for protecting consumer interests. Ans. False;

1. What is meant by right to be heard to a consumer?

ANS Nowadays, with the emphasis on Marketing Concept, almost all the business houses have their consumer grievance cell where the complaints of the consumers can be heard and the consumers can seek justice for their exploitation by the goods or service providers. This is called Right to be heard.

1. What is meant by right to be heard to a consumer?

ANS It takes appeals against Orders passed by the State National commission

2. Which claims can be appealable before the Supreme Court under Consumer Protection Act?

ANS which has value of more than 1 crore rupees.

3. Which consumer right entitles the consumer to get relief in case the product or service falls short of his expectations?

ANS Right to Seek Redressal.

4. State any three points which highlight the importance of consumer protection from consumer's point of view.

Ans Importance of consumer protection from consumer's point of view is:

- i. **Spreading Awareness among the Consumers:** Due to widespread ignorance of consumers about their rights and reliefs available to them, they need to be made aware in this regard Consumer protection provides information to the ignorant consumers regarding their rights and reliefs available to them. With this, even the sellers who try to cheat the ignorant and illiterate consumers, become conscious and mend their ways.
- ii. **Unorganized consumers:** Consumers need to be organized for safeguarding their interests. In developing countries like India, consumers are not organized. In other words, there is a dearth of a National Level Consumer Organization. There are very few consumer organizations which are working to protect the interests of consumers. Consumer protection encourages the establishment of more consumer organizations.
- iii. **Widespread exploitation of consumers:** Consumers are exploited by unscrupulous, exploitative and unfair trade practices of sellers. They might be exploited by unfair trade practices like defective and unsafe products, adulteration, hoarding, black marketing, etc. Consumers need protection

against such unfair trade practices. Consumer protection has been a support system for all such consumers to protect their interests and provide them justice.

1. What roll can you as a student play to contribute to the cause of consumer protection?

Ans A student can play an active role in bringing out an awareness campaign on 'Consumer Protection'.

- i. Special assemblies can organised to show the display of consumer rights and responsibilities e.g. right to satisfaction of basic needs, right to safety, right to be informed and protected, responsibility to be aware of the quality and safety of goods and services before purchasing, responsibility to Think Independently and make choices about well considered needs and wants etc.
- ii. When school organises any exhibition the commerce students can put a stall and give demonstration on responsibilities of a consumer.
- iii. The Biology and Chemistry laboratories can be used for testing adulterated goods, (e.g., milk, paneer, spices etc).
- iv. Essay writing competitions, debate competition and quiz can be organised to promote the awareness on consumer protection.
- v. Encourage students to boycott goods/eatables which are adulterated or defective in school canteen.
- vi. To set up voluntary complaint centre for consumer guidance and counselling.

2. As a well-informed consumer, what kind of quality certification marks you will look for before buying 'products? Specify and 6 points.

Ans Some of the quality certification marks are:

- i. **FPO (Fruit Products Order 1955)** – It contains specification and quality control requirements regarding the production and marketing of processed fruits and vegetables, sweetened aerated water, vinegar and synthetic syrups.
- ii. **ISI**– On consumer durable products. ISI mark is a certification mark for industrial products in India. It is the most popular and recognised certification mark in the Indian subcontinent. This mark ensures that the product conforms to the Indian standards mentioned by the Indian Standard Institute.
- iii. **Hallmark**– BIS certification scheme for gold jewellery items.
- iv. **Earthen Pitcher**- for Labelling Environment-friendly products.
- v. **AGMARK** – It is a grade standard for agricultural commodities and like stock products.
- vi. **Wool mark**– It signifies 100% pure wool.

3. Reena purchased one litre of pure desi ghee from a shopkeeper. After using it, she had a doubt that it is adulterated. She sent it for a laboratory test which

confirmed that the ghee is adulterated. State any six reliefs available to Reena, if she complains and the consumer court is satisfied about the genuineness of the complaint.

Ans In case of genuineness of the complaint, the court can issue one or more directions to the opposite party. Six reliefs available to Reena, if she complains are

- i. **To remove defect from goods or services:** If there is defect in the goods or services then the court can pass the order to remove defect from goods or services. For example, if there is defect in TV then court can pass the order to remove the defect from TV.
- ii. **To refund the price:** If the seller is failed to remove defect from the product, order can be passed to refund the customer. In above example if seller fails to remove defect from TV then court can pass order to refund the price paid by the customer.
- iii. **To replace the defective good with a new one:** If the seller is failed to remove defect from the product, order can be passed to replace the product immediately. In above example if seller fails to remove defect from TV then court can pass order to replace the TV immediately.
- iv. **To pay a reasonable amount of compensation for any loss or injury suffered:** Seller is liable to pay appropriate compensation if Loss or injury suffered from defective product.
- v. **To pay punitive damages:** Punitive damages may be recovered from seller in some cases.
- vi. **To discontinue the unfair/restrictive trade practices:** Unfair or restrictive trade practices should be stopped immediately to save consumers.

# **FUNDAMENTALS OF E-BUSINESS**

## Chapter - 1

### CONCEPT AND SCOPE OF INFORMATION TECHNOLOGY

#### One marks question:

##### Q.1. Define IT

Ans. Information technology (IT) is the use of computers and software to manage and process information. It encompasses a wide range of technologies and tools, including hardware, software, and networks, that are used to collect, store, process, and analyze data.

##### Q.2. Write an advantage of IT.

Ans. IT improves efficiency by automating repetitive tasks and allowing for faster communication and data storage.

##### Q.3. How IT is used in the field of recreation?

IT is used in the field of recreation for online gaming, virtual reality experiences, and streaming of movies and shows.

##### Q.4. How IT assist in the field of health?

IT assists in the field of health through electronic health records, telemedicine, and medical imaging technology.

##### Q.5. List 3-4 areas where IT is extensively used?

Ans. 1. Business and finance    2. Healthcare    3. Education    4. Entertainment and media.

#### Fill in the blanks:

1. .... includes words, numbers, pictures, symbols or codes etc. (Information / Education)
2. Government uses ..... control systems to manage traffic. (Computerised / Media)
3. Internet has opened up ..... direct communication in different parts of world. (Face to Face / Mouth)
4. Using ..... one can e-mail, chat or video calling to anyone anywhere. (Finance / Internet)
5. Payment of purchased products can also be made ..... ( Off-line / On-line,)

Ans. 1. Information,    2. Computerised,    3. Face to Face,    4. Internet,    5. On-line,

#### True or False

1. Animation is still image. True /False
2. Mailing using computers is time consuming process. True /False
3. In the field of railways computers are used to keep records of all trains running daily. True /False
4. Corel Draw, Photoshop and Photo Paint are not graphic Software. True /False
5. New Products are designed using Computer Aided Manufacturing. True /False

Ans. 1. False,    2. False,    3. True,    4. False,    5. False.

#### MCQ

1. Information Technology refers to  
(a) Processing information (b) Transferring information    (c) Storing information (d) All of the above.
2. Information Technology has helped in increasing .....  
(a) Privacy    (b) Unemployment    (c) Globalization    (d) Lack of job security
3. People use PC's for .....  
(a) Entertainment    (b) Internet    (c) E-mail    (d) All of the above.

4. Computers are helpful in  
(a) teaching                      (b) learning                      (c) business                      (d) all of the above.

5. Full form of CAM  
(a) Computer Aided Manufacturing                      (b) Computer Animation Manufacturing  
(c) Computer Aided Maintenance                      (d) None of the above.

Ans. 1. (d)      2. (c)                      3. (d)                      4. (d)                      5. (a)

### Two Marks Questions:

#### Q.1. Describe any two advantages of IT?

Ans. 1. **Improved Efficiency:** The use of IT tools and systems, such as automation and software, can significantly improve the efficiency of various tasks and processes within an organization or individual.  
2. **Increased Access to Information:** With the widespread use of the internet and digital technologies, it is now easier than ever to access and share information. This can be beneficial in many areas, such as education, research, and business, as it allows for more informed decision-making and improved communication.

#### Q.2. What is the importance of computers in banking industry?

Ans. Computers play a vital role in the banking industry as they automate and streamline many of the processes involved in banking operations. This includes tasks such as maintaining customer records, processing transactions, and analyzing financial data.

#### Q.3. What is the importance of computers for students?

Ans. Computers play an important role in the education of students by providing access to a vast array of information and resources, allowing for interactive learning and collaboration with classmates, and facilitating the use of educational software and programs.

#### Q.4. Write the role of IT in the field of education.

Ans. The role of IT in the field of education is to enhance the teaching and learning process by providing access to vast amounts of information and resources, enabling remote learning, facilitating communication and collaboration among students and teachers, and improving overall educational outcomes.

### Four Marks Question:

#### 1. Explain any four advantages of I.T?

Ans. Information technology (IT) refers to the use of computers and software to manage, process, store, and transmit information. IT has become an integral part of modern society and has drastically changed the way we live and work.

**Improved Efficiency:** IT has greatly increased the efficiency of various tasks and processes by automating repetitive and time-consuming tasks. This has led to faster completion of work, improved accuracy, and reduced costs for organizations.

**Increased Connectivity:** IT has made it easier for people to connect and communicate with each other, regardless of their location. This has led to greater collaboration, improved productivity and better access to information.

**Improved Quality:** IT has enabled the use of advanced techniques and tools for data analysis and decision-making, which has led to improved quality and effectiveness of products and services. This also helps in better customer service and also in providing more accurate and timely information.

In terms of the scope of IT, it is used in a wide range of industries and sectors, including:

**Education:** IT is used in the field of education for online learning, virtual classrooms, and educational software.

Overall, IT has brought about many advancements and improvements in different areas of our lives, making it an important and essential aspect of modern society.

## 2. What are the four limitations of information Technology?

Ans. Information technology has several limitations, including:

**Cost:** The cost of acquiring and maintaining IT equipment and infrastructure can be high, particularly for small and medium-sized businesses.

**Cybersecurity:** The increased use of technology has led to a rise in cybersecurity threats, such as hacking, malware, and phishing attacks.

**Lack of Privacy:** The use of technology can lead to a loss of privacy, as personal information is often stored and processed by third-party companies.

**Digital Divide:** Not everyone has equal access to technology, which can create a digital divide between those who have access to technology and those who do not.

## Chapter - 2

### ELEMENTS OF A COMPUTER SYSTEM

#### One Mark Question

##### Q. 1. Define a computer.

Ans. We can define a computer as : An electronic device which takes input from the user, stores the data, processes data and generates the output according to the instructions.

##### Q. 2. What is meant by Hardware ?

Ans. Hardware means all interconnected electronic devices that you can use to control the computer's operation, input and output.

##### Q. 3. Define Software.

Ans. Software is a set of instructions that makes the computer perform tasks.

##### Q. 4. What is the working principle of digital computer ?

Ans. Digital Computers work on the working principle of counting. They operate on discrete data and mainly use binary numbers.

##### Q. 5. What are output devices ?

Ans. Output devices are those which present the processed data to the user. The most common output devices are the monitor and the printer.

#### Fill in the blanks

1. A computer can .....huge amount of data.
2. The speed of the computer is basically measured in ..... and .....seconds.
3. .... computer permits several individuals to use the same computer at the same time.
4. Computer ..... learn by experience.
5. In second generation ..... were used.

Ans. 1. store,            2. nano & pico,            3. Multi User,            4. do not,            5. transistors,

#### True or False

1. Hardware is any part of the computer that you can touch.
2. Small size computers are known as Main Frame Computers. .
3. ROM is non-volatile in nature.
4. Speakers and head phones are input devices.
5. CPU is known as the brain of the computer.

Ans. 1. True,            2. False,            3. True,            4. False,            5. True,

### MCQ

1. Pocket size computers are also known as  
(a) Workstations            (b) Main Frame Computers            (c) Hand held Computers            (d) none of the above.
2. Scanner is a type of  
(a) Input device            (b) Output device            (c) Both a & b            (d) None of the above
3. Full form of CPU is  
(a) Control Processing Unit            (b) Central Processing Unit  
(c) Controlling Processed Unit            (d) None of the above
4. Computers may be used in  
(a) Homes            (b) Offices            (c) Moving Car            (d) Everywhere
5. Transistors are used in  
(a) First Generation Computers            (b) Second Generation Computers  
(c) Third Generation Computers            (d) Fourth Generation Computers

Ans. 1. (c)            2. (a)            3. (b)            4. (d)            5. (b)

### Two Marks Questions:

#### Q.1. What do you mean by output devices?

Ans. Output devices are components of a computer system that display or play the results of the computer's processing, such as a monitor, speakers, or printer.

#### Q.2. What are the important characteristics of computer?

Ans. The important characteristics of a computer include speed, accuracy, storage capacity, versatility, and automation. Other important characteristics include reliability, ease of use, and connectivity. Additionally, computers are able to process and manipulate large amounts of data quickly and accurately, making them essential tools for a wide range of tasks and industries.

#### Q.3. Explain mainframe computers?

Ans. Mainframe computers are large, powerful and expensive computers that are typically used by large organizations such as governments, banks, and major corporations. They are designed to handle the processing of large amounts of data and are capable of supporting hundreds or thousands of users simultaneously. They are typically used for tasks such as data processing, database management, and large-scale scientific and engineering calculations.

#### Q.4. What do you mean by input?

Ans Input refers to the process of entering data or information into a computer system. It can be done through various devices such as a keyboard, mouse, scanner, microphone, etc. The input is then processed by the computer's central processing unit (CPU) and stored in the memory for further use or used to produce output.

### Four Marks Question:

#### Q.1. What are the important characteristics of computers?

Ans **Speed:** Computers can process large amounts of data quickly and efficiently.

**Accuracy:** Computers are able to perform calculations and process data with a high degree of accuracy.

**Diligence:** Computers can perform repetitive tasks without getting tired or making errors.

**Automation:** Computers can automate repetitive tasks, reducing the need for human intervention.

#### Q.2. What are the various types of computer?



Ans. There are several types of computers, including:

**Personal computers (PCs)** - These are designed for individual use and include desktop computers, laptops, and tablets.

**Workstations** - These are powerful computers designed for technical or scientific applications and are commonly used by engineers, architects, and animators.

**Servers** - These are specialized computers that store, manage, and distribute data and resources over a network.

**Mainframe computers** - These are large, powerful computers that can process massive amounts of data and are typically used by large organizations and government agencies.

**Supercomputers** - These are the most powerful computers in the world and are used for complex scientific, engineering, and research tasks.

**Analog computers** - These computers use continuous physical phenomena such as mechanical, hydraulic or electrical to model the problem being solved.

**Hybrid computers** - These are a combination of analog and digital computers.

### Chapter - 3

### HARDWARE CONCEPTS

#### One marks question:

#### Q. 1. What is meant by memory ?

Ans. Memory is the storage area where all inputs are stored and all outputs are stored.

#### Q. 2. What is Primary Memory ?

Ans. Primary memory is that memory which holds the data and instructions while these are being used by the computer system. It is a direct access storage.

#### Q. 3. What do you mean by Secondary Memory ?

Ans. Secondary memory is supplement to primary memory, it holds data and instructions on permanent basis.

#### Q. 4. Which memory is volatile in nature ?

Ans. RAM is volatile in nature.

#### Q. 5. Which port is used for attaching a pen drive to your computer ?

Ans. USB port is used for attaching a pen drive.

#### Fill in the blanks

1. CD can generally store ..... MB of data.
2. .... memory can be erased and re-written a limited number of times.
3. .... devices enable user to enter information into computer.
4. .... input device is used in playing games.
5. .... is an output device that produce soft-copy output.

Ans. 1. 700, 2. Flash, 3. Input devices, 4. Joystick, 5. Monitor,

#### True or False

1. Floppy disk is portable device.
2. Harddisk is basically used to take data from one computer to another.
3. Optical storage technology use the concept of laser beam to store huge amount of data.
4. Tab key, Caps key, Enter key are generally known as cursor movement key.
5. Web cameras cannot be used for teleconferencing.

Ans. 1. True, 2. False, 3. True, 4. False, 5. False,

### Multiple Choice

- Physical components of the Computer system are known as  
(a) Hardware (b) Software (c) Firmware (d) None of these.
- Which storage device can be easily carried out  
(a) Main memory (b) Floppy Diskette (c) System Cabinet (d) Hard disk.
- IC stands for  
(a) Integration Chip (b) Integrated Chip (c) Inter chip (d) None of these.
- Full Form of RAM is  
(a) Random Access Memory (b) Read Always Memory  
(c) Ready to access memory (d) Readily available memory.
- Which device is commonly used portable storage device ?  
(a) Pen drive (b) Hard disk (c) RAM (d) None of these.

Ans. 1. (a) 2. (b) 3. (b) 4. (a) 5. (a)

### Two Marks Questions:

#### Q.1. What do you mean by hardware?

Ans Hardware refers to the physical components of a computer system, such as the processor, memory, storage, and input/output devices. It is the tangible and visible parts of a computer system that can be touched and seen.

#### Q.2. What is the function of input unit in the computer?

Ans. The input unit, also known as input devices, are used to input data and instructions into a computer. Examples of input devices include keyboard, mouse, scanner, microphone, and digital camera. The input data is then processed by the computer's central processing unit (CPU) and the results are output through output devices, such as a monitor or printer.

#### Q.3. What are the functions of output devices?

Ans. Output devices are used to display, print, or otherwise present the results of data processing. They can include monitors, printers, speakers, and projectors, among others. The main function of output devices is to convert the electronic signals from the computer into a format that is easily understandable by the user, such as text, images, or sound. They also allow the user to interact with the computer and provide feedback to the user. Additionally, output devices also help to store the processed data for future reference.

#### Q.4. Write the names of any six output devices?

1. Monitor
2. Printer
3. Speakers
4. Headphones
5. Projector
6. Plotter

### Four Marks Question:

#### Q.1. What are the functions of input devices? What are various input devices?

Ans. The main function of input devices is to allow users to enter data into a computer. This data can include text, images, or commands that the computer will use to perform specific tasks. Input devices are

an essential part of any computer system, as they allow users to interact with the computer and give it instructions.

**There are several types of input devices, including:**

**Keyboard:** a standard input device that is used to type text. It is a rectangular device with several keys that are arranged in a specific layout.

**Mouse:** an input device that is used to control the movement of a cursor on the screen. It is a small, hand-held device that is moved over a flat surface to control the cursor's movement.

**Touchpad:** an input device that is built into laptops and some desktops. It is a flat surface that is sensitive to finger movement. It is used to control the cursor's movement, and it can also be used to select and drag objects on the screen.

**Scanner:** an input device that is used to convert a physical document or image into a digital format. It uses a moving light or a camera to capture an image and then converts it into a digital format that can be stored on a computer.

**Microphone:** an input device that is used to convert sound into a digital format. It is commonly used for voice recognition and speech-to-text applications.

**Digital Camera:** An input device that captures images and videos in digital format.

**Joystick:** an input device that is used to control the movement of a cursor or object on the screen. It is typically used for gaming or other applications that require precise movement control.

**Barcode scanner:** an input device that is used to read barcodes, which are a series of lines and spaces that represent a specific product or item.

### **Q.2. What are the functions of processing devices? Write about any two processing device?**

Ans. The main function of processing devices is to process data and instructions given by the user or the computer's operating system. They perform mathematical and logical operations on the data, and provide the results in the form of output.

**Central Processing Unit (CPU):** The CPU is the brain of the computer and is responsible for executing all instructions given to the computer. It is made up of two main components: the control unit, which fetches and decodes instructions, and the arithmetic logic unit, which performs mathematical and logical operations.

**Graphics Processing Unit (GPU):** A GPU is a specialized processing device that is specifically designed to handle the complex calculations required for rendering images and videos. It is often used in gaming and other graphics-intensive applications to offload some of the workload from the CPU and improve performance. It is also used in some applications like scientific computing, machine learning and artificial intelligence, etc.

### **Q.3. What are printers? What are different types of printers?**

Ans. Printers are output devices that produce a hard copy of computer-generated documents. They are used to print text, images, and graphics on paper, film, or other mediums.

**There are several types of printers, including:**

**Inkjet printers:** These printers use tiny droplets of ink to produce high-quality text and images. They are often used for home and small office use.

**Laser printers:** These printers use a laser beam to produce text and images on paper. They are fast, efficient, and produce high-quality output, making them suitable for large office use.

**Dot-matrix printers:** These printers use a print head that moves back and forth across the page, striking an ink-soaked ribbon to produce text and images. They are relatively slow and produce lower quality output than inkjet and laser printers.

**3D printers:** These printers create three-dimensional objects by building up layers of material, such as plastic or metal. They are increasingly used in manufacturing, prototyping and product development.

## **Chapter - 4**

### **SOFTWARE CONCEPTS**

#### **One marks question:**

#### **Q. 1. What is meant by software ?**

Ans. Software is a group of programs that solve a specific problem or solves a specific type

of job.

**Q. 2. Name the broad categories of software.**

Ans. Broad categories of software are : (a) Application software (b) System software (c) Utility software.

**Q. 3. Name two system software.**

Ans. Two system softwares are : Language Translators, Operating System.

**Q. 4. Name the most widely used Presentation software.**

Ans. MS-Power Point is the most widely used presentation software.

**Q. 5. What is MS-Word ?**

Ans. Application Software.

**Fill in the blanks**

1. C language is generally called ..... level language.
2. ....programs are platform independent and portable.
3. Interpreters, compiler and ..... are three types of translators.
4. Device drivers serve as a link between ..... and ..... of a computer.
5. Virus checkers, firewalls are considered as ..... software.

Ans. 1. Middle,      2. Java,      3. Assemblers,      4. Device, Operating System,      5. Service

**True or False**

1. Compiler is used to convert assembly language to machine level language.
2. Interpreter converts code line by line.
3. Backup utility prevents computer system from data loss.
4. Anti virus is used to prevent system from virus.
5. Compressed file takes less space for its storage.

Ans. 1. False,      2. True,      3. True,      4. True,      5. True,

**MCQ**

1. Software is .....  
(a) A group of programs which help in performing operations on the computer  
(b) A group of rules given to the computer to do a function  
(c) A group of instructions which solve a problem  
(d) All of these.
2. Software can be :  
(a) Application software      (b) System software      (c) Utility software      (d) All of the above.
3. Operating system is :  
(a) An interface between computer and user      (b) A communication channel between computer and user  
(c) A control for the execution of programs      (d) All of above.
4. Which of these is a category of system software :  
(a) Operating system      (b) Word processor      (c) Language Processor      (d) Device driver.
5. .... is required for the proper functioning of a computer system.  
(a) Hardware      (b) Software      (c) Both Hardware and Software      (d) None of these.

Ans. 1. (d)      2. (d)      3. (d)      4. (b)      5. (c)

## Two Marks Questions:

### Q.1. What is software?

Ans. Software refers to a set of computer programs and related data that provide the instructions for telling a computer what to do and how to do it. It is a non-physical component of a computer system that performs various functions and tasks to make hardware work as intended.

### Q.2. What is meant by D.O.S?

Ans. DOS stands for Disk Operating System, which is an operating system that was popular in the 1980s and early 1990s. It was used primarily as the primary operating system on personal computers and was known for its simple user interface and command-line interface. Today, it is largely obsolete and has been replaced by newer operating systems such as Windows and Linux.

### Q.3. How many users can use DOS operating system?

Ans. DOS operating system is single-user, single-tasking, meaning only one user can use the system at a time and can only perform one task at a time.

### Q.4. How many users can use UNIX operating system?

Ans. UNIX is a multi-user operating system, which means multiple users can access and work on the system at the same time.

## Four Marks Question:

### Q.1. What is an operating system? What are its functions? What are the types of operating system?

Ans. An operating system (OS) is a system software that controls and manages the hardware and software resources of a computer and acts as an interface between the computer user and the hardware.

#### The main functions of an operating system are:

**Resource Management:** It manages and allocates the various resources like memory, CPU time, and disk space.

**Memory Management:** It manages the primary and secondary storage and ensures that the memory is used optimally.

**Process Management:** It creates and manages the processes that run on the computer and coordinates their execution.

**Security:** It provides security by controlling access to the system, files and other resources.

#### The types of operating systems are:

**Single-user operating systems:** These are designed to support only one user at a time.

**Multi-user operating systems:** These are designed to support multiple users simultaneously, sharing the computer's resources among them.

**Real-time operating systems:** These are designed to process data and respond to inputs in real-time, without any delay.

**Embedded operating systems:** These are designed for specific devices and are integrated into the hardware.

**Mobile operating systems:** These are designed for mobile devices such as smartphones and tablets.

### Q.2. What do you mean by application software? Write any four application software?

Ans. Application software, also known as end-user programs, are computer programs designed to help users perform specific tasks such as word processing, spreadsheet management, database management, and so on. They differ from system software, which is responsible for managing and operating the computer system itself. Four examples of application software are:

1. Microsoft Word - a word processing program
2. Microsoft Excel - a spread sheet program
3. Microsoft Access - a database management program
4. Adobe Photoshop - a graphics editing program

**Chapter - 5**  
**MULTIMEDIA CONCEPT AND DEVICES**

**One marks question:**

**Q. 1. What is Multimedia ?**

Ans. Multimedia is combination of computer based system having more than one type of media. It is a blend of graphics, text, audio, video etc.

**Q. 2. Name five multimedia software.**

Ans. Multimedia software are : 3D studio, Master Blaster, Photo Paint, Photo Magic, Windows Media Player etc.

**Q. 3. What is Multimedia used for ?**

Ans. Multimedia used in Entertainment, Education, Communication and Office etc.

**Q. 4. Name five devices used for multimedia.**

Ans. Five devices used for multimedia are : Headphone, Webcam, Video card, Sound card, Microphones etc.

**Q. 5. Name the different formats in which images can be saved.**

Ans. Images can be saved in .bmp, .gif, .jpg, .jpeg etc. formats.

**Fill in the blanks**

1. A digital Audio Player Organise, stores and plays ..... music files.
2. .... helps you to translate ready made pictures into an electronic form.
3. .... is a technique to translate spoken words into text.
4. Bitmap images are made up of .....

Ans. 1. Digital,      2. Scanner,      3. Speech Recognition,      4. Pixels

**True or False**

1. In India multimedia started around 1990.
2. Articles, Books, encyclopedias are considered as Reference material.
3. Microphone is an output device.
4. A sound card translates analog audio signals from microphone into digital codes.
5. You cannot download music from internet.

Ans. 1. True,      2. True,      3. False,      4. True,      5. False.

**MCQ**

1. Which of the following is not a multimedia device ?  
(a) Microphone      (b) Sound card      (c) CPU      (d) Speakers and web camera
2. Which of the following is not a multimedia category :  
(a) Creative material      (b) Printing material  
(c) Reference material/Reading material      (d) Fun material/Entertainment material.
3. Which of the following is true :  
(a) Multimedia market is not showing any improvements      (b) Interactive multimedia kit improves performance  
(c) Interactive video is not under the category of multimedia      (d) Software is not needed for multimedia.
4. Headphone are used to :

(a) Attaching to speakers (b) Prevent others from hearing (c) To adjust volume of radio (d) None of these.

5. Paint Brush, Photo shop and Corel Draw are :

(a) Multimedia Hardware (b) Multimedia software (c) Operating system (d) All of the above.

Ans. 1. (d) 2. (b) 3. (b) 4. (b) 5. (b)

### Two Marks Questions:

#### Q.1. What is multimedia?

Ans. Multimedia refers to the use of various forms of media, such as text, graphics, audio, and video, to create an interactive and engaging experience for the user. It allows for the integration and manipulation of multiple forms of media to create a more dynamic and engaging presentation.

#### Q.2. Write any two uses of multimedia?

Ans. Multimedia can be used for entertainment and educational purposes. It can also be used for creating and enhancing multimedia projects, such as presentations, videos, and interactive websites.

#### Q.3. What are the categories of multimedia?

Ans. The categories of multimedia include:

1. Audio
2. Video
3. Text
4. Images
5. Animation
6. Interactive media.

#### Q.4. Write names of some multimedia Softwares?

Ans. Some popular multimedia software include Adobe Photoshop, Adobe Premiere Pro, Adobe After Effects, Autodesk Maya, Blender, Apple Final Cut Pro X, etc.

### Four Marks Question:

#### Q.1. What is multimedia? What are its uses?

Ans. Multimedia refers to the use of multiple forms of media, such as text, audio, images, video, and animation, in a single presentation. It is used to create interactive and engaging content that can be presented in a variety of ways, including on websites, in presentations, and in multimedia applications.

#### Multimedia has a variety of uses, including:

**Entertainment:** Multimedia is used to create games, movies, music, and other forms of entertainment.

**Education and Training:** Multimedia is used to create educational and training materials, such as online courses, tutorials, and presentations.

**Advertising and Marketing:** Multimedia is used to create advertisements and marketing materials, such as videos, animations, and interactive presentations.

**Art and Design:** Multimedia is used to create digital art and design, such as digital paintings, illustrations, and animations.

**Communication:** Multimedia is used to create communication tools, such as video conferencing, instant messaging, and multimedia messaging.

#### Q.2. What are the requirements of multimedia? Briefly write about different multimedia devices?

Ans. Multimedia refers to a combination of multiple forms of media such as text, audio, images, video, and animation. To use multimedia, certain hardware and software requirements are necessary.

#### Hardware requirements:

**Processor:** High-end multimedia applications require a fast and powerful processor.



**RAM:** Multimedia requires a large amount of memory to handle graphics and video.

**Hard Disk:** A large hard disk is needed to store multimedia content.

**Graphics Card:** A graphics card is necessary to display high-quality graphics and images.

**Sound Card:** A sound card is necessary for audio processing.

**Display:** A high-resolution display is needed to display multimedia content.

### Multimedia Devices:

**Digital Cameras:** Used for capturing images and videos.

**Microphones:** Used for recording audio.

**Scanner:** Used for scanning images and documents.

**Speakers:** Used for playing audio.

**Headphones:** Used for listening to audio with better quality.

**Graphics Tablets:** Used for creating digital graphics and illustrations.

These devices are used to create, edit, and present multimedia content. They play an important role in making multimedia an effective tool for communication, education, and entertainment.

## Chapter - 6

### INTRODUCTION TO OPERATING SYSTEM

#### One marks question:

#### Q. 1. Why is operating system termed as a mediator ?

Ans. It acts as an interface or mediator between the computer hardware and the users of the computer system. Computer can't be anything without an operating system.

#### Q. 2. What is File Management ?

Ans. File Management means management of files and file related activities such as file organization, storing, naming, sharing and protection of files.

#### Q. 3. Name five examples of Multi user operating system.

Ans. Examples of Multi user O.S are UNIX, Red Hat Linux, Windows 2000, Solaris etc.

#### Q. 4. Which is the latest version of MS-Windows ?

Ans. Latest version of MS-Windows is Windows 7.

#### Q. 5. When was UNIX developed and where ?

Ans. UNIX was developed at AT & T Bell Laboratories in 1970.

#### Fill in the blanks

1. Operating System is an interface between the ..... and ..... of the computer system.

2. Any program in execution is called .....

3. In ..... OS only one program can be executed at a time.

4. .... OS have two or more than two independent CPUs.

5. Examples of operating system are .....

Ans. 1. Hardware, users, 2. process, 3. single user, 4. Multi Processing, 5. Unix/MS-DOS etc.,

#### True or False

1. Operating system is also known as Resource Manager.

2. Time between submission of job and completion of job is Turn Around Time.

3. Multiprocessing allows only one program at a time to run.

4. CPU is divided among different users in single user operating system.

5. MS-DOS is multi user operating system.

Ans. 1. True, 2. True, 3. False, 4. False, 5. False,



## MCQ

1. Which of these is done by the Operating System :  
(a) Process Management      (b) File Management      (c) Device Management      (d) All of the above.
2. Which of the following is a single user OS :  
(a) MS-DOS      (b) Red Hat Linux      (c) UNIX      (d) WINDOWS 2000.
3. Which type of operating system deals in time slices :  
(a) Distributed system      (b) Time sharing system      (c) Real time system      (d) None of these.
4. Which of the following is text based character user interface :  
(a) WINDOWS XP      (b) MS-DOS      (c) UNIX      (d) WINDOWS Vista.

Ans. 1. (d)      2. (a)      3. (b)      4. (b)

## Chapter - 7

### INTRODUCTION TO INTERNET

#### One marks question:

#### Q. 1. What is Internet ?

Ans. The Internet is a computer network made up of thousands of networks worldwide.

#### Q. 2. Expand the acronym IP.

Ans. Internet Protocol.

#### Q. 3. What is E-Mail ?

Ans. E-mail is the ability to send and receive messages with people throughout the world sitting at different geographical locations.

#### Q. 4. What is the most important service available through telnet ?

Ans. Telnet allows users to login to any computer in the world and use its resources as if they are sitting at that terminal.

#### Q. 5. Which option of FTP allows guest users to log on to FTP ?

Ans. The option anonymous allows guest users to log on to FTP.

#### Fill in the blanks

1. The ..... is network of networks.
2. .... means that the standard allows communication across networks.
3. .... is also referred to as a remote login.
4. .... is used to transfer files between computers attached to the Internet.
5. .... News is an electronic bulletin board system.

Ans. 1. Internet,      2. Interoperable,      3. Telnet,      4. FTP,      5. Usenet

#### True or False

1. Internet can carry only voice data/information.
2. You cannot do shopping on internet.
3. IRC developed in Finland in 1988.
4. A computer with atleast 10 MB is required to access the internet.

5. Network Interface Card is one of the hardware requirement for Internet.

Ans. 1. False, 2. False, 3. True, 4. False, 5. True

### MCQ

1. Internet is governed by :

(a) Dishnet (b) BBB (c) Microsoft **(d) None of these.**

2. Internet is used to access information :

(a) within the institute (b) within the country **(c) anywhere from the world** (d) None of these.

3. Internet is used for :

(a) Downloading (b) Uploading (c) Chatting & communication **(d) All the above.**

4. Internet enabled computers are helpful in :

(a) Booking and cancellation of railway tickets (b) Obtaining information regarding time table of trains  
(c) Knowing the distance between two stations **(d) All of the above**

5. Which of the following are the components of Internet :

(a) www & e-mail (b) FTP & Telnet (c) IRC & Chat **(d) All of the above**

Ans. 1. (d) 2. (c) 3. (d) 4. (d) 5. (d)

### Two Marks Questions:

#### Q.1. What do you mean by Router?

Ans. A router is a networking device that forwards data packets between computer networks. It determines the best path for data to travel from its source to its destination through the Internet or other computer networks. Routers also provide network security and help manage network traffic. They are commonly used in homes and businesses to provide Wi-Fi access and connect multiple devices to the Internet.

#### Q.2. What is world wide web?

Ans. The World Wide Web (WWW or Web) is a system of interlinked hypertext documents that are accessed through the Internet. It was invented by Sir Tim Berners-Lee in 1989 and has since become the primary means of accessing information online. The Web is a platform for accessing, sharing, and publishing information and multimedia resources, and it is used by billions of people around the world to communicate, learn, and conduct business. It is a client-server system, where web clients (browsers) request pages or files from web servers, which then respond with the requested content.

#### Q.3. What is the most important information available through telnet?

Ans. Telnet is a protocol that allows users to connect to remote computers and access their resources, such as databases, files, and applications. The most important information available through Telnet is dependent on the resources and applications that are available on the remote computer being accessed. Typically, Telnet can provide access to information such as system logs, network configurations, and other administrative data that is stored on the remote computer. The specific information available through Telnet will vary depending on the system and the user's access level.

#### Q.4. What is the use of FTP?

Ans. FTP (File Transfer Protocol) is a standard network protocol used to transfer files from one host to another over a TCP-based network, such as the Internet. FTP allows users to upload and download files, create and delete directories, and perform other file management operations on a remote server. It is commonly used by software developers, web designers, and other professionals who need to transfer large amounts of data between computers. Additionally, FTP is often used to upload and download files to and from websites, allowing users to share and access files over the internet.

## Four Marks Question:

### Q.1. What is e-mail? Its advantages.

Ans. E-mail (electronic mail) is a digital messaging service that allows users to send text, files, images, and other forms of digital content between computers, mobile devices, and other Internet-enabled devices.

#### Advantages of e-mail include:

**Convenient and fast:** e-mail allows users to send and receive messages instantly, regardless of their location, as long as they have access to the internet.

**Cost-effective:** sending an e-mail is usually free, making it an economical way to communicate with others.

**Easy to use:** e-mails can be created and sent with a few clicks or taps, and most people find it simple to use.

**Archivable:** e-mails can be saved, searched, and retrieved, making it easy to find important information.

**Easy to share information:** e-mails can be forwarded to multiple recipients and can be used to share large files.

### Q.2. Explain in detail requirements of internet?

Ans. The requirements of internet access vary depending on the type of device being used, the desired level of functionality, and the location and accessibility of the device. However, in general, the basic requirements of internet access include:

**A device capable of connecting to the internet:** This can be a computer, smartphone, tablet, or other internet-enabled device.

**A reliable internet connection:** This can be provided by a broadband or dial-up connection, mobile data, or Wi-Fi. The speed and quality of the connection will determine the level of functionality that is possible.

**A web browser:** This is software that allows the user to access and interact with websites, online applications, and other internet-based services. Examples of popular web browsers include Google Chrome, Mozilla Firefox, and Apple Safari.

**An internet service provider (ISP):** This is a company that provides access to the internet by selling internet plans, setting up hardware and software, and providing technical support. ISPs are typically either local phone companies or companies that specialize in providing internet services.

**An email account:** Email is a popular and convenient way to communicate over the internet, and most ISPs offer email services. To send and receive emails, users will need to sign up for an email account with an email provider, such as Google, Yahoo, or Microsoft.

In addition to these basic requirements, there are many other software applications, tools, and services that can enhance the functionality of the internet, including social media platforms, video conferencing software, cloud storage services, and online gaming platforms.

## Chapter - 8

### WORKING OF INTERNET

#### One marks question:

##### Q. 1. What is Browser ?

Ans. A Browser is a software which acts as an interface between the user and the Internet or WWW.

##### Q. 2. What are Internet Domains ?

Ans. Internet Domain is the address of a computer, all computers have a domain name.

##### Q. 3. What are Search Engines ?

Ans. Search Engines are the tools for locating web page, they crawl the web and perform search.

##### Q. 4. What is meant by Web Index ?

Ans. Web index collects and organises resources which are available via WWW.

### Q. 5. What does HTML stands for ?

Ans. Hyper Text Markup language. This language is used for creating web pages.

### Fill in the blanks

1. Web pages are prepared using .....
2. A ..... acts as an interface between the user and the internet.
3. .... is a system based on hyper text transfer protocols.
4. Exploring web is generally called .....
5. A domain name is the ..... of a computer.

Ans. 1. HTML, 2. browser, 3. WWW, 4. Net surfing, 5. Internet address,

### True or False

1. A web site is the collection of web pages.
2. Search engine returns thousand of results for particular search string.
3. You cannot download movie clips from internet.
4. E-mail refers to the way in which messages can be sent over the internet.

Ans. 1. True, 2. True, 3. False, 4. True.

### MCQ

1. A unique numeric identifier between 0 to 255 used to specify the host address is :-  
(a) Web index (b) IP Address (c) Domain name (d) None of these.
2. WWW means :  
(a) World wide worm (b) World wise wan (c) World wide web (d) None of these.
3. URL means :-  
(a) Uniform Resource Locator (b) Uniform Resource Loader (c) Ultimate Resource Locator (d) None of these.
4. Which of the following is not a domain name :-  
(a) .com (b) .wan (c) .gov (d) .net
5. Website is collection of :  
(a) Video files (b) HTML files (c) Audio files (d) All of these.

### Two Marks Questions:

#### Q.1. What is Web?

Ans. The World Wide Web (WWW or Web) is a vast network of information, documents, videos, images, and other resources interconnected through the Internet. It is a system of linked hypertext documents accessed via the Internet, which allows users to access and interact with this information. The Web is based on HTML, which is the standard language used to create and format web pages, and is made possible by web browsers that allow users to access and view these pages.

#### Q.2. What is hypertext?

Ans. Hypertext refers to the text that contains links to other texts or web pages. It allows users to navigate between pages or documents by clicking on hyperlinks. The links can lead to other web pages, images, videos, or any other type of digital content on the internet. Hypertext allows for non-linear navigation of information and provides a more interactive and dynamic user experience on the web.

### Q.3. What do you mean by website?

Ans. A website is a collection of related web pages, including multimedia content, typically identified with a common domain name, and published on at least one web server. It can be used for various purposes, such as providing information, conducting business, or offering entertainment. Websites can be accessed via a web browser on a computer, tablet, or smartphone.

### Q.4. What is browser?

Ans. A web browser is a software application that allows users to access, retrieve and view the content of the World Wide Web. It enables users to request and display web pages and other resources available on the internet. Examples of popular web browsers include Google Chrome, Mozilla Firefox, Safari, and Microsoft Edge.

### Four Marks Question:

#### Q.1. What is a search engine? Explain with the help of an example the use of any search engine?

Ans.

A search engine is a tool that enables users to search for information on the Internet. It works by using a database of web pages, images, videos and other online content, which it stores and organizes, and it returns relevant results to the user based on their search query. An example of a popular search engine is Google.

To use a search engine, one simply types a keyword or phrase related to the information they are looking for into the search box. The search engine then uses algorithms to find the most relevant content, such as websites, images, videos, and news articles, and presents them to the user in a list of results. The user can then click on the results to access the information they are looking for. This makes searching for information on the web quick and convenient.

#### Q.2. Explain the procedure of reading and sending e-mails?

Ans. Reading and sending e-mails typically involves the following steps:

**Log in to your e-mail account:** To access your e-mail, you need to log in to your e-mail service provider's website, such as Gmail, Yahoo, or Outlook, using your username and password.

**Viewing Inbox:** Once you have logged in, you will be taken to your Inbox where you will see a list of all the e-mails that you have received.

**Reading an email:** To read an e-mail, simply click on the e-mail to open it. You can then read the e-mail, including the sender's information, subject, and message.

**Replying to an email:** To reply to an email, click the "Reply" button. A new e-mail window will open, and you can type your response in the message field. You can also choose to reply to just the sender or to the entire list of recipients.

**Composing a new email:** To compose a new e-mail, click the "New Message" button. In the new e-mail window, enter the recipient's e-mail address, subject, and message. You can also add attachments if needed.

**Sending an email:** To send an e-mail, click the "Send" button. The e-mail will be sent to the recipient's e-mail address.

**Organizing emails:** Most e-mail services have options for organizing your e-mails, such as moving e-mails to different folders, marking e-mails as read or unread, or deleting e-mails.

## Chapter - 9

### INTRODUCTION TO ELECTRONIC-COMMERCE

#### One marks question:

#### Q. 1. What is meant by E-Commerce ?

Ans. E-commerce is the use of electronic transmission media to engage in buying and selling of goods or services physically or digitally.

#### Q. 2. What are the various components of E-Commerce that go hand in hand ?

Ans. Components of E-Commerce that go hand in hand are—E-Banking, E-Security, ETrading,

E-Marketing etc.

**Q. 3. What are the various types of E-Commerce ?**

Ans. Various types of E-commerce are B2B, B2C, C2C, G2G, G2C, G2E and P2P.

**Q. 4. B2B stands for .....**

Ans. Business to Business.

**Q. 5. C2C stands for .....**

Ans. Consumer to consumer.

**Fill in the blanks**

1. .... is the process of doing business online.
2. .... allows you to approach even those people who are sitting at the other end of the globe.
3. E-commerce means any kind of commerce, where buyers and sellers interact for goods and services through .....
4. E-commerce provides Anytime ..... service.
5. In e-commerce data is not entered at multiple points so it .....the data errors.

Ans. 1. E-commerce, 2. E-commerce, 3. Internet, 4. anywhere, 5. reduces,

**True or False**

1. E-commerce does not help customers to do transaction or shop on 24x30x12x365 basis from any location.
2. Interaction between government and its citizens is called G2G E-commerce.
3. Proxy servers provide packet filtering service.
4. E-commerce cannot deliver goods at lower prices.

Ans. 1. False, 2. False, 3. True, 4. False.

**MCQ**

1. In E-Commerce, mode of information exchange is :  
(a) Via communication network (b) Via physical presence (c) Both of these (d) None of these
2. E-Commerce includes :  
(a) Internet (b) E-mail (c) Electronic data interchange (d) All of these
3. E-commerce includes :  
(a) E-banking (b) E-trading (c) E-marketing (d) All of the above
4. Which of the following is not a requirement of E-Commerce?  
(a) Internet enabled computer (b) A website to show the product  
(c) A method to receive the payment (d) A middleman
5. Which of the following is not a type of E-Commerce model:  
(a) D2C (b) B2B (c) C2C (d) B2C

Ans. 1. (d) 2. (d) 3. (d) 4. (a) 5. (a)

**Two Marks Questions:**

**Q.1. Define E-Commerce?**

Ans. E-commerce refers to the buying and selling of goods and services over the internet, using electronic devices such as computers, smartphones, and tablets. It involves the use of electronic payment systems,

electronic data interchange (EDI), and other electronic technologies to facilitate transactions between businesses and customers.

### Q.2. What are the types of E-Commerce?

Ans. There are four main types of e-commerce:

**B2C (Business-to-Consumer)** - Transactions between businesses and consumers

**B2B (Business-to-Business)** - Transactions between businesses

**C2C (Consumer-to-Consumer)** - Transactions between consumers through platforms like eBay or Amazon

**C2B (Consumer-to-Business)** - Transactions where consumers sell goods or services to businesses.

### Q.3. What is B2B Commerce?

Ans. B2B (Business-to-Business) Commerce refers to electronic transactions between companies, rather than between a company and individual consumer. It involves the sale of goods, services, or information from one company to another company, through various online platforms such as e-marketplaces, electronic data interchange (EDI) systems, or private websites. B2B e-commerce transactions usually involve larger transactions and higher volumes of goods, and are aimed at improving efficiency, reducing costs, and increasing speed in business dealings.

### Q.4. What the meaning of E-Governance?

Ans. E-Governance refers to the use of information and communication technology (ICT) to improve government services and enhance transparency, accountability and citizen engagement in the decision-making process. The goal of e-Governance is to provide citizens with efficient, convenient and accessible public services, as well as to improve the overall effectiveness and efficiency of the government. This is achieved by automating government processes, streamlining communication between citizens and government agencies, and increasing public access to government information and services.

### Four Marks Question:

#### Q.1. Explain four features of e-commerce?

Ans. E-commerce refers to the buying and selling of goods and services through an electronic medium, usually the Internet. The following are the key features of e-commerce:

**Convenience:** E-commerce offers the convenience of shopping from anywhere, at any time, and with just a few clicks.

**Access to a Wider Market:** E-commerce opens up opportunities for businesses to reach customers globally, beyond geographical barriers.

**Personalization:** E-commerce allows businesses to personalize the shopping experience for customers by using data and analytics to suggest products based on their browsing and purchase history.

**Cost-effective:** E-commerce reduces the cost of doing business as it eliminates the need for physical stores and inventory management.

#### Q.2. Explain elements of e-commerce.

Ans. The elements of e-commerce are the components that form the foundation of any e-commerce business. These elements are:

**Website:** The website is the primary channel for an e-commerce business to reach its customers and sell its products or services online.

**Shopping Cart:** A shopping cart is a software application that enables customers to add products or services to a virtual cart, and then make a payment for the items in the cart.

**Payment Gateway:** A payment gateway is a secure platform that enables merchants to process payments from customers. This is a critical component for e-commerce businesses, as it ensures the safe and secure transfer of funds between the customer and the merchant.



**Inventory Management System:** An inventory management system is a software tool that helps e-commerce businesses manage their stock levels and product information. This system helps businesses keep track of products, manage stock levels, and monitor sales trends.

**Delivery and Logistics:** A reliable and efficient delivery and logistics system is crucial for e-commerce businesses, as it enables them to fulfill orders and get products to customers quickly and cost-effectively.

These elements are essential for building an effective e-commerce platform, and they play a key role in driving sales and building customer loyalty.

## Chapter - 10

### E-COMMERCE IN INDIA

#### One marks question:

##### Q. 1. What is I.T. Act of 2000 ?

Ans. I.T. Act 2000 provides a legal frame work for conducting e-commerce, all documents which are used via electronic means are termed as legal.

##### Q. 2. What role do digital signatures play in relation to E-commerce ?

Ans. Digital Signatures are now authenticated. The sender can't deny sending and the receiver can't deny receiving. Integrity must be mentioned.

##### Q. 3. Name two major problems of E-commerce in India.

Ans. (1) Non Availability of Professionals (2) Lack of awareness

##### Q. 4. What is trade mark issue involved in E-commerce ?

Ans. Trademark is the use of a certain label/symbol on a product, once the trademarks are got registered by the manufacturer, no other manufacturer or person can use that.

#### Fill in the blanks

1. .... is the business process of selling various goods and services over internet.
2. Digital signatures are used to ..... the sender of the message.
3. .... converts data into a coded form.
4. A ..... is an agreement made between two or more persons.

Ans. 1. E-commerce,                      2. authenticate,                      3. Encryption,                      4. Contract

#### True or False

1. Anybody can read encrypted information.
2. Security is not an important issue while buying and selling products using internet.
3. Online contracts have been made with the electronic media.
4. Trademark must be registered by the manufacturer.

Ans. 1. False,                      2. False,                      3. True,                      4. True.

#### MCQ

1. Which of the following is true about E-Commerce in India ?

- (a) RBI is not taking any initiative      (b) Government of India has not made any law  
(c) E-Commerce is in its early days-things are not very clear about legal and other aspects  
(d) None of these.

2. Status of E-Commerce in India can best be explained by :

- (a) E-Records                      (b) Encryption                      (c) Security                      (d) All the above.

3. Following comes under the domain of I.T. Act 2000 :



- (a) Cyber laws            (b) Protection of Web            (c) Privacy and Confidentially            (d) All the above.

4. E-Commerce in India has resulted in :

- (a) Inter and Intra business communication            (b) Development of E-content  
(c) Both of these            (d) None of these.

Ans. 1. (c)    2. (d)    3. (d)    4. (c)

### Two Marks Questions:

#### Q.1. Discuss any two problems of e-commerce in India?

Ans. There are several problems that the e-commerce industry faces in India, some of which are as follows:

**Lack of trust:** One of the major problems of e-commerce in India is the lack of trust among customers towards online transactions. Many people are still not comfortable making online payments or sharing their personal and financial information on the internet due to concerns over security and privacy.

**Logistics and infrastructure:** Another challenge for e-commerce in India is the poor logistics and transportation infrastructure. The country's vast geography and inadequate infrastructure can lead to delays in delivery and high costs for logistics, making it difficult for e-commerce companies to provide timely and cost-effective services.

#### Q.2. What are security threats in the field of E-business?

Ans. Security threats are potential risks that can affect the confidentiality, integrity, and availability of data and systems in e-business. Some common security threats in the field of e-business include:

**Malware and viruses:** Malware and viruses can be injected into systems, websites or software to damage, disrupt or steal information.

**Phishing and social engineering:** Phishing attacks involve tricking users into revealing confidential information like passwords, credit card numbers or bank account details. Social engineering techniques can be used to gain access to secure areas or systems.

**Denial-of-service attacks:** These attacks are designed to overload servers, networks or websites to render them unusable.

**Identity theft:** Hackers can steal personal information to gain access to financial accounts, commit fraud or other criminal activities.

#### Q.3. Enlist any two factors which drive e-commerce in India?

Ans. Here are four factors that drive e-commerce in India:

**Increasing internet penetration:** India has a rapidly growing internet user base, which is expected to reach over 900 million users by 2025. This increase in internet users has led to a rise in online shopping.

**Growing smartphone adoption:** India is one of the largest markets for smartphones in the world. The growth of affordable smartphones has made it easier for people to access the internet and shop online.

#### Q.4. What is violation of copy right?

Ans. Violation of copyright refers to the unauthorized use of a creative work protected by copyright law without the permission of the copyright owner. This can include copying, reproducing, distributing, displaying, performing, or creating a derivative work based on the original work without obtaining proper authorization or licensing. Copyright infringement can result in legal action, including lawsuits and fines, and damages can be awarded to the copyright owner for any harm caused by the infringement.

### Four Marks Question:

#### Q.1. Explain four Legal issues involved on e-commerce?

Ans. E-commerce has brought about new business opportunities and expanded the reach of traditional businesses, but it also raises various legal issues that need to be addressed. Some of the legal issues involved in e-commerce are as follows:

**Contract Formation:** E-commerce transactions often involve electronic contracts. The Indian Contract Act, 1872, applies to these transactions, but there are unique challenges to determining when a contract is formed in the digital world. There are also questions about the validity and enforceability of electronic signatures.

**Intellectual Property Rights (IPR):** E-commerce platforms have raised questions about the protection of intellectual property rights, such as patents, trademarks, and copyrights. E-commerce websites must ensure that they are not infringing on the IPR of others, and they must also protect their own IPR.

**Data Protection and Privacy:** E-commerce platforms collect a lot of personal data from users, such as names, addresses, and payment details. There are laws in India, such as the Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011, which require companies to take measures to protect this data.

**Cybersecurity:** E-commerce platforms are vulnerable to cyberattacks, such as hacking, phishing, and malware. These attacks can compromise user data and disrupt business operations. E-commerce companies must take measures to protect their platforms and user data.

## Q.2. Explain four opportunities of E-commerce in India?

Ans. E-commerce in India has grown significantly in recent years due to increasing internet penetration and digitalization.

### Opportunities:

**Large Market:** India has a huge consumer market with a growing middle class population. E-commerce companies can leverage this large market to expand their customer base and grow their business.

**Digitalization:** With the rapid digitalization of India, more people are getting online and using digital services. This presents an excellent opportunity for e-commerce companies to reach out to a wider audience and promote their products and services.

**Innovation:** E-commerce companies can tap into the innovative and entrepreneurial spirit of India to create unique products and services that cater to the needs of the Indian market. This can help them stand out from their competitors and grow their business.

**Cost Effective:** E-commerce is generally more cost-effective than traditional brick-and-mortar retail. This means that e-commerce businesses can offer competitive prices and still maintain a healthy profit margin.

## Chapter - 11 E-PAYMENT

### One marks question:

#### Q. 1. What do you mean by E-Payment?

Ans. E-payment may be defined as the transfer of funds using electronic media like personal computers, servers and mobile phones.

#### Q. 2. What is EFT?

Ans. EFT means Electronic Fund Transfer.

#### Q. 3. Which methods come under the umbrella of Post-Paid-System ?

Ans. The categories of payment like credit cards, cyber cash and internet cheques come under the umbrella of Post Paid Methods.

#### Q. 4. What is Pin ?

Ans. Pin is Personal Identification Number.

#### Q. 5. What are E-Cheques ?

Ans. E-cheques are like ordinary cheques, but these are initiated electronically. These use digital signatures for signing and endorsing.

### Fill in the blanks

1. Electronic Payment system may be ..... payment system or .....payment system.
2. .... and ..... are types of E-Payment system.
3. In case of loss of credit card ..... must be lodged.
4. .... is a system where by customers pay by credit card without disclosing the credit card number.
5. The authentication aspects are supported through digital signatures using ..... cryptography.

*Ans. 1. Debit, Credit 2. Post-paid, Instant Paid, Pre-paid system, 3. FIR, 4. Cyber cash, 5. public-key,*

### True or False

1. E-payment system is not required in shopping Malls.
2. EPS is not beneficial to suppliers.
3. There is no need to disclose the credit card number in the case of cybercash.
4. A debit card is a way to make instant payment.
5. E-cash created by one bank is not easily accepted by other bank.

*Ans. 1. False, 2. False, 3. True, 4. True, 5. False,*

### MCQ

1. E-Payment refers to the transfer of funds via internet using electronic means such as :  
(a) Mobile Phone (b) PDA (c) Desktop computer (d) All the above
2. Methods of E-Payments are :  
(a) Post Paid (b) Pre-Paid (c) Both of these (d) None of these
3. With E-Payment systems, we can :  
(a) Pay bills instantly (b) Make purchases (c) Both of the above (d) None of these
4. E-Payment does not involve :  
(a) Cash (b) Cheques (c) Both of these (d) None of these
5. A credit card holder is capable of making purchases :  
(a) On Internet/online (b) Shopping Malls/shops (c) Both of these (d) None of these

*Ans. 1. (d) 2. (c) 3. (c) 4. (c) 5. (c)*

### Two Marks Question:

#### Q.1. What is EPS?

Ans. EPS stands for Electronic Payment System. It is a payment gateway service provided by the Korean government to allow electronic transactions securely and conveniently. EPS enables consumers to use debit and credit cards to make online purchases from local and international merchants in South Korea. The system is regulated by the Financial Supervisory Service (FSS) of Korea and offers features such as real-time payment confirmation, multi-language support, and protection against fraud.

#### Q.2. What is Debit card?

Ans. A debit card is a payment card that is linked to a bank account and is used to make purchases or withdraw cash. When a purchase is made using a debit card, the funds are immediately deducted from the linked bank account. This is different from a credit card where the bank extends a line of credit to the cardholder, and the cardholder incurs debt when using the card. Debit cards can be used at ATMs, in stores, or online, and are a convenient and secure way to access and spend the money in one's bank account.

#### Q.3. What do you understand by e-cheque?

Ans. An e-cheque, also known as an electronic cheque or digital cheque, is an electronic version of the traditional paper cheque. It is a type of digital payment system that allows users to transfer funds between bank accounts online. The e-cheque system works by replacing the paper cheque with an electronic representation of the same information. The sender of the e-cheque enters the recipient's account details and the amount of money to be transferred, and the e-cheque is then processed electronically.

#### Q.4. What do you mean by smart card?

Ans. A smart card is a type of card that contains an embedded microprocessor chip that can store and process data. It looks like a standard plastic credit or debit card and is commonly used for electronic transactions. Smart cards can be used to store various types of information such as personal identification details, medical information, financial information, and more.

#### Four Marks Question:

##### Q.1. What are popular e-wallet options available in India?

Ans: There are several popular e-wallet options available in India. Some of the most popular ones include:

**Paytm:** Paytm is one of the most widely used e-wallets in India, offering users the ability to make payments, recharge their mobile phones, pay utility bills, book movie tickets, and more.

**PhonePe:** PhonePe is another popular e-wallet that enables users to send and receive money, recharge mobile phones, pay utility bills, and book travel tickets, among other things.

**Google Pay:** Google Pay is a widely used e-wallet that enables users to make payments, transfer money, recharge mobile phones, pay utility bills, and more.

**Amazon Pay:** Amazon Pay is a digital wallet offered by Amazon that enables users to make payments, recharge mobile phones, and pay utility bills.

**MobiKwik:** MobiKwik is a popular e-wallet that enables users to make payments, recharge mobile phones, pay utility bills, book travel tickets, and more.

These e-wallet options provide users with a convenient way to make cashless transactions and can be easily linked to bank accounts, credit cards, or debit cards for seamless transactions.

##### Q.2. What are for features of e-cheque ?

Ans. An e-cheque (electronic cheque) is a digital version of a traditional paper cheque that can be used to transfer funds electronically between two parties. It is essentially an electronic payment order that instructs the payer's bank to transfer funds to the payee's bank.

##### Some of the key features of e-cheques include:

**Digital format:** E-cheques are created and transmitted in digital format, eliminating the need for physical paper checks.

**Security:** E-cheques use advanced security features such as digital signatures, encryption, and authentication protocols to ensure the integrity and confidentiality of the transaction data.

**Convenience:** E-cheques offer a convenient and fast way to transfer funds between parties, without the need for physical transportation of the cheque.

**Cost savings:** E-cheques are typically less expensive than paper cheques, as they eliminate the costs associated with printing, mailing, and processing physical cheques.

## Chapter - 12 E-SECURITY

#### One marks question:

##### Q. 1. What is Electronic Security ?

Ans. E-Security is use of adequate methods/precautions to protect user's data and systems.

##### Q. 2. What is Physical risk ?

Ans. Physical risk refers to the physical danger caused to equipments like floods, theft and fire etc.

##### Q. 3. What is Technical risk ?

Ans. Technical risk includes unauthorised access, frauds and virus attacks etc.

#### Q. 4. What is Encryption ?

Ans. Encryption is the process of encoding the data, different algorithms are available to encrypt the message.

#### Q. 5. What are the types of Encryption ?

Ans. Types are Public Key Encryption and Private Encryption.

#### Fill in the blanks

1. Encryption technology ensures that only ..... users can read encrypted message.
2. ....works like a door lock so that only authorized users can enter in the organisations network.
3. .... provide the method by which information cannot be repudiated.
4. .... means giving permission or denying the permission for a particular thing.
- 5 ..... is the solution through which only the authorised persons can view the data.

Ans. 1. authorized, 2. Firewall, 3. Digital signatures, 4. Access Control, 5. Cryptography,

#### True or False

1. Hackers generally have unauthorised access to the computer systems.
2. Firewall is dependent on other Hardware and Software system.
3. Web Filtering is policies are used by universities, colleges and schools etc.
4. Public key is used to encrypt or decrypt the message.
5. Ciphertext is the text into encrypted form.

Ans. 1. True, 2. False, 3. True, 4. False, 5. True

#### MCQ

1. Hackers are those :  
(a) Who have authorised access to data (b) Who have unauthorised access to data  
(c) Who have special access to data (d) None of these.
2. The Potential customer wants his data to be :  
(a) Safe (b) Secure (c) Confidential (d) All of these
3. Main security concerns are :  
(a) Privacy & confidentiality (b) Data integrity (c) Authenticity (d) All of the above
4. Cryptography changes the data in :-  
(a) Readable form (b) Unreadable form (c) Both of these (d) None of these.
5. Cipher text becomes ready after :  
(a) Encryption (b) decryption (c) Digital signature (d) None of these

Ans. 1. (b) 2. (d) 3. (d) 4. (c) 5. (a)

#### Two Marks Questions:

##### Q.1. What do you mean by internet security?

Ans: Internet security refers to the protection of internet-connected systems, including hardware, software, and data, from threats such as cyber-attacks, malware, viruses, and unauthorized access. It involves the use of various security measures, protocols, and technologies to ensure the confidentiality, integrity, and availability of information on the internet. Internet security aims to prevent data breaches, identity theft, and other types of cybercrime by safeguarding the internet infrastructure and protecting users from various online threats.

##### Q.2. What are two main techniques of internet security?

Ans: There are several techniques used in internet security to protect against various threats, some of which include:

**Firewalls:** Firewalls are used to monitor and filter network traffic to prevent unauthorized access to a network or computer system.

**Antivirus and Anti-malware software:** These programs are used to detect and remove viruses, malware, and other malicious software from a computer or network.

### Q.3. What are the two benefits of fire wall?

Ans: A firewall provides several benefits for internet security, including:

**Network security:** Firewall provides network security by preventing unauthorized access to the network, thus protecting against hackers and other cyber threats.

**Access control:** Firewalls can limit access to certain websites, applications, or services, reducing the risk of data theft or damage.

### Q.4. What do you mean by cryptography?

Ans: Cryptography is the practice of secure communication in the presence of third parties. It is the technique of converting original plaintext into coded or ciphered text through the use of encryption algorithms and keys. Cryptography is used to ensure the confidentiality, integrity, and authenticity of data being transmitted or stored. It involves techniques such as encryption, decryption, digital signatures, and key exchange, which help to protect sensitive information from unauthorized access and ensure that it can be transmitted securely over insecure communication channels such as the internet.

### Four Marks Question:

#### Q.1. Define the breach of security. Explain the areas of internet security.

Ans: **Breach of Security:** A breach of security refers to an incident where an unauthorized individual or entity gains access to sensitive information, systems, or networks. This can occur due to a variety of reasons, including human error, system vulnerabilities, or malicious attacks. A breach of security can result in data theft, damage to computer systems, and financial losses.

**Areas of Internet Security:** Internet security involves protecting computer systems, networks, and data from unauthorized access, use, modification, or destruction. The areas of internet security include:

**a. Network Security:** This involves protecting the computer network from unauthorized access, viruses, and other threats. Network security measures may include firewalls, intrusion detection systems, and antivirus software.

**b. Application Security:** This involves securing the applications that run on computer systems, including web applications, email applications, and other software. Application security measures may include access controls, encryption, and authentication.

**c. Information Security:** This involves protecting the confidentiality, integrity, and availability of information stored on computer systems or transmitted over networks. Information security measures may include encryption, access controls, and backup and recovery systems.

**d. Endpoint Security:** This involves securing the devices that access the network, including laptops, desktops, and mobile devices. Endpoint security measures may include antivirus software, encryption, and remote wiping capabilities.

**e. Cloud Security:** This involves securing data and applications that are hosted in the cloud. Cloud security measures may include access controls, encryption, and intrusion detection systems.

**f. Social Engineering:** This involves the use of psychological manipulation to deceive individuals into revealing sensitive information or performing actions that are not in their best interest. Social engineering attacks may include phishing, pretexting, and baiting.

**g. Physical Security:** This involves securing the physical infrastructure of computer systems, including servers, routers, and other network components. Physical security measures may include access controls, video surveillance, and security guards.

All these areas of internet security are interconnected, and a comprehensive approach to internet security is required to protect against security breaches and ensure the safety and security of computer systems, networks, and data.



## Q.2. What are the ways to authenticate a person?

Ans. There are several ways to authenticate a person, including:

**Passwords:** The most common form of authentication, passwords are a string of characters that are known only to the user and the system.

**Biometrics:** This involves using unique physical or behavioral characteristics of an individual, such as fingerprints, facial recognition, voice recognition, and retinal scans.

**Tokens:** These are physical devices, such as smart cards, that a user carries with them and uses to authenticate their identity.

**Multi-factor authentication:** This involves combining two or more forms of authentication to provide greater security. For example, a system might require a password and a fingerprint scan to authenticate a user.

**Certificates:** These are digital certificates issued by trusted third parties that provide proof of identity.

**Security questions:** These are questions that only the user would know the answer to, such as the name of their first pet or their mother's maiden name.

**One-time passwords:** These are passwords that are valid for only one use, typically generated by a token or a mobile app.

The choice of authentication method depends on the level of security required and the user's preferences and convenience.

## Chapter - 13 E-BANKING

### One marks question:

#### Q. 1. Define Electronic Banking.

Ans. E-Banking means use of electronic technology to various banking transactions/ operations such as cash receipts, payments and transfer of funds etc.

#### Q. 2. Expand term EDI.

Ans. Electronic Data Interchange.

#### Q. 3. What does ATM stands for ?

Ans. Automatic Teller Machine.

#### Q. 4. Why is ATM called Any time Money ?

Ans. ATM is called Any time money because we can withdraw money any time  $24 \times 7 \times 30$ .

#### Q. 5. What is Credit Card ?

Ans. Credit card is an online method of payment. Basically it is a plastic card issued by the Banks. it is issued on the basis of creditability of the card holders. The cutomers can make payment from credit card.

### Fill in the blanks

1. Banking on net is known as .....
2. ATM include ....., ..... and ..... etc.
3. Digi Cash was started in .....
4. A ..... is a promise to pay later.
5. .... allow you to on-line bill payments.

Ans. 1. E-Banking, 2. Cash Withdrawl, PIN change, Balance enquiry, 3. 1994, 4. Credit Card, 5. Internet Banking

### True or False

1. ATMs are installed on or off the bank's premises.
2. Various banking services are also provided on the mobile phone.
3. Traditional banking covers large area as compare to E-banking.
4. E-banking provides global coverage.

5. E-banking increases the risk of carrying heavy cash.

Ans. 1. True, 2. True, 3. False, 4. True, 5. False.

### MCQ

1. E-Banking provides banking services :

- (a) During the normal banking hours (b) 24 hours 7 days a week  
(c) Both of the above (d) None of these.

2. E-Banking makes use of :

- (a) ATMs (b) POS (c) Telephone Banking (d) All of these.

3. E-Banking is :-

- (a) Based on cash (b) Cash and cheque both (c) Cash less (d) None of these.

4. ATMs enable the user for :

- (a) Balance Enquiry (b) Mini statement of Accounts (c) Withdrawls (d) All of these.

5. Tele banking is a banking service provided during :

- (a) The normal working hours (b)  $24 \times 7$  days (c) Only on holidays (d) None of these

Ans. 1. (b) 2. (d) 3. (c) 4. (d) 5. (a)

### Two Marks Questions:

#### Q.1. What is the meaning of e-banking?

Ans. E-banking, also known as online banking or internet banking, refers to conducting banking transactions over the internet using a computer or mobile device. E-banking allows customers to perform a variety of financial transactions, such as checking account balances, transferring funds between accounts, paying bills, and applying for loans or credit cards, without having to physically visit a bank branch. It provides convenience, flexibility, and 24/7 accessibility to customers, while also reducing costs for banks. E-banking is an important aspect of the digital revolution in the banking industry.

#### Q.2. What is traditional banking ?

Ans. Traditional banking refers to the traditional way of conducting banking transactions, which primarily involves face-to-face interactions between the customers and the bank staff. This method of banking relies heavily on physical branches, and customers are required to visit the bank in-person to carry out various transactions such as deposits, withdrawals, opening accounts, and applying for loans. Traditional banking also involves the use of paper-based methods for recording and processing transactions. It has been the predominant mode of banking for several decades, but in recent years, with the widespread use of the internet and mobile phones, electronic banking has emerged as a viable alternative to traditional banking.

#### Q.3. Give any two differences between traditional banking and e-banking ?

Ans. Here are two differences between traditional banking and e-banking:

**Accessibility:** Traditional banking requires customers to physically visit a bank branch during working hours, while e-banking allows customers to access banking services and perform transactions anytime and anywhere through the internet or mobile devices.

**Human interaction:** Traditional banking offers personal interaction with bank staff, while e-banking relies on technology and lacks face-to-face interaction.

#### Q.4. Write any two advantages of e-banking?

Ans. Two advantages of e-banking are:

**Convenience:** E-banking provides customers with the convenience of accessing their bank accounts and conducting transactions anytime and anywhere through the internet. Customers do not have to physically visit a bank branch or wait in long queues to perform banking tasks.



**Cost Savings:** E-banking allows banks to reduce their operating costs by minimizing the need for physical infrastructure and human resources. This, in turn, can lead to cost savings for the banks, which they can pass on to their customers in the form of lower fees and charges.

#### Four Marks Question:

##### Q.1. what are main limitations of E-Banking?

Ans. There are several limitations of e-banking, including:

**Limited Access:** E-banking requires a computer or smartphone and internet access, which may not be available to everyone. This limits the reach of e-banking services to only those who have access to the required technology.

**Security concerns:** E-banking involves the transmission of sensitive personal and financial information over the internet, which can make customers vulnerable to cyber attacks and fraud. Security breaches and identity theft can have serious financial consequences.

**Technical glitches:** Technical glitches such as server crashes or system downtime can occur, causing inconvenience to customers and affecting their trust in e-banking services.

**Low level of awareness:** Many people may not be aware of the benefits and risks of e-banking, which can make them hesitant to use such services.

**Lack of personal touch:** E-banking lacks the personal touch that traditional banking provides, which some customers may prefer. They may prefer interacting with a human being rather than a computer screen.

##### Q.2. What are the services offered in e-banking?

Ans. Services offered in e-banking include:

**Account management:** Customers can view account balances, transaction history, and account statements online.

**Fund transfers:** Customers can transfer money between accounts, pay bills, and make online purchases.

**Deposits and withdrawals:** Customers can deposit and withdraw funds using online banking services.

**Loan and credit card applications:** Customers can apply for loans and credit cards online.

**Investment services:** Customers can manage their investments, including buying and selling securities and managing their portfolio.

## Chapter - 14

### E-TRADING

#### One marks question:

##### Q. 1. What is meant by E-Trading ?

Ans. E-trading is the process of trading using Internet and of course computers to place orders for buying and selling with on-line brokerage firms.

##### Q. 2. How many depositories are there in India ?

Ans. There are two depositories in India.

##### Q. 3. What is BOLT ?

Ans. BSE's on-line trading system is called BOLT.

##### Q. 4. What is Dematerialisation ?

Ans. It is the process of conversion of physical form of shares into electronic form.

##### Q. 5. Do you think that securities move physically in E-Trading ?

Ans. No, securities do not move physically in E-Trading.

#### Fill in the blanks

1. .... is the service offered on Internet for the sale and purchase of shares, stocks etc.
2. .... provide comparison shopping.

3. SSL stands for .....
4. BSE developed Online Trading System in .....
5. Encryption is used through .....

Ans. 1. E-Trading, 2. E-brokers, 3. Secure Socket Layer, 4. 1995, 5. SSL,

### True or False

1. E-trading involve B2B trading and B2C trading.
2. E-trading is basically off-line trading.
3. BSE has its own on-line Trading System called BOLT.
4. E-trading does not help in Research support.

Ans. 1. True, 2. False, 3. True, 4. False

### MCO

1. E-Trading is :
 

(a) Trade of stocks/bonds	(b) Trade of Foreign currency
(c) Both of the above	(c) None of the above.
  
2. Online trading is a service offered on the internet for the purchase and sale of:
 

(a) goods	(b) services	(c) securities	(d) None of these.
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3. In E-Trading, Sale and purchase of securities happens on :
 

(a) Internet	(b) The building of stock exchange	(c) Both of these	(d) None of these.
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4. Which is not required in E-Trading :
 

(a) Internet enabled computer	(b) A demat account with a depository
(c) Registration with e-broker	(d) Direct interaction of investor and e-broker.
  
5. Who can deal in E-securities ?
 

(a) A firm	(b) An individual	(c) A corporate house	(d) All the above
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Ans. 1. (c) 2. (c) 3. (a) 4. (d) 5. d

### Two Marks Questions:

#### Q.1. What is meaning of e-trading?

Ans. E-trading refers to the buying and selling of financial instruments such as stocks, bonds, currencies, and commodities through electronic or online platforms. E-trading platforms use advanced technology and software to provide investors with real-time market data, trading tools, and analytics, enabling them to trade from anywhere, at any time, using a computer or mobile device connected to the internet. E-trading has revolutionized the way financial markets operate by making trading more accessible, efficient, and cost-effective.

#### Q.2. What is traditional trading?

Ans. Traditional trading refers to the practice of buying and selling financial instruments, such as stocks, bonds, and commodities, through physical exchanges, such as stock markets, commodity markets, and currency exchanges. In traditional trading, traders have to physically visit the exchange or trading floor to buy or sell financial instruments. The process involves paper-based transactions, long waiting periods, and high transaction costs. It is also known as floor trading or manual trading.

#### Q.3. Write is any two differences between traditional trading and e-trading.

Ans. Here are two differences between traditional trading and e-trading:

**Execution:** In traditional trading, orders are executed through phone calls, emails, or in-person communication with a broker, whereas in e-trading, orders are executed electronically through online platforms.

**Speed:** E-trading offers faster order execution and settlement times compared to traditional trading, which can be slower due to manual processes and physical document handling. E-trading also provides real-time market data and analysis, which can aid traders in making quick decisions.

**Q.4. Write any two benefits of e-trading .**

Ans. Two benefits of e-trading are:

**Convenience:** E-trading allows investors to trade from the comfort of their own home or office at any time of the day. This eliminates the need for physical travel to a traditional broker's office, saving time and money.

**Lower transaction costs:** E-trading often results in lower transaction costs as it eliminates the need for a traditional broker to physically execute trades. This means that investors can save on brokerage fees and other related charges.

**Four Marks Question:**

**Q.1. Write any four benefits of e-trading.**

Ans. Here are four benefits of e-trading:

**Convenience:** One of the most significant benefits of e-trading is its convenience. Investors can access their trading accounts from anywhere, at any time, as long as they have an internet connection. This means they don't have to physically visit a broker or exchange to execute trades.

**Lower costs:** E-trading has lower costs compared to traditional trading because it eliminates the need for middlemen and physical paperwork. Investors can execute trades online with lower transaction fees, reducing the overall cost of trading.

**Increased transparency:** E-trading offers increased transparency as investors can track their investments in real-time. This allows them to make informed decisions about buying or selling shares, and they can view all details of their transactions and holdings at any time.

**Faster transaction speeds:** E-trading offers faster transaction speeds as orders are processed electronically, eliminating the need for manual processing. This means that trades can be executed quickly, reducing the risk of price changes and improving the overall efficiency of trading.

**Q.1.What are the limitations of e-trading?**

Ans. Here are four limitations/features of e-trading:

**Dependence on technology:** E-trading relies heavily on technology, which can sometimes malfunction or be vulnerable to cyber-attacks, leading to financial losses or compromised security.

**Lack of personal interaction:** Unlike traditional trading, e-trading is entirely digital, and there is no personal interaction with brokers or other traders. This can lead to a lack of guidance or support, especially for novice traders.

**Risk of misinformation:** E-trading platforms offer a vast amount of information, but not all of it may be reliable or up-to-date. Traders need to be discerning and have a good understanding of the market to make informed decisions.

**Potential for market volatility:** The speed and efficiency of e-trading can sometimes exacerbate market volatility, leading to sudden price swings and losses for traders. This can be particularly challenging for those who engage in high-frequency trading.

**Chapter - 15**  
**E-MARKETING**

**One marks question:**

**Q. 1. What do you mean by E-Marketing ?**

Ans. ‘E-marketing is marketing that utilises the Interactive Internet as communication, transaction and distribution channel. This also includes e-mail and web.’

**Q. 2. Write the names of various channels of E-Marketing ?**

Ans. Communication channel, Transaction channel and Distribution channel are the various

channels.

**Q 3. Write the names of four P's related to E-Marketing ?**

Ans. Product, Price, Place and Promotion are the four P's.

**Q. 4. What are the types of products related to E-Marketing ?**

Ans. Products related to E-Marketing are Physical Products and Service Products.

**Q. 5. What is meant by Pricing ?**

Ans. Pricing means determining Price to be charged for a product.

**Fill in the blanks**

- 1 ..... is marketing that utilises the interactive internet.
2. .... is referred to as distribution or outbound logistics.
3. Internet marketing follows ..... guidelines.
4. Internet marketing techniques are considered to be ..... if they require visitors to seek out the site.
5. E-marketing follows ..... production technique.

Ans. 1. E-marketing, 2. Place, 3. AIDA, 4. Passive, 5. Just in time,

**True or False**

1. Database marketing is not a feature of E-marketing.
2. E-marketing has only the capacity of multimedia content.
3. E-commerce involves the sale of physical goods as well services.
4. E-marketing is not suitable for consumers.
5. E-marketing provides two way interactive communication.

Ans. 1. False, 2. False, 3. True, 4. False, 5. True.

**MCQ**

1. E-Marketing does not involve :

- (a) Big Malls/outlets (b) Whole sellers (c) Retailers **(d) All the above.**

2. E-Marketing serves as the following :

- (a) Distribution channel (b) Communication channel (c) Information channel **(d) All of the above.**

3. Which of the following is not a part of e-marketing ?

- (a) Product (b) Place **(c) Producer** (d) Price.

4. Which of the following is true about the extent of E-Marketing ?

- (a) Local Coverage (b) National Coverage **(c) Global Coverage** (d) None of these.

5. Which of the following is required for e-marketing deals ?

- (a) Television **(b) Internet** (c) Magazines (d) None of these.

Ans. 1. (d) 2. (d) 3. (c) 4. (c) 5. (b)

**Two Marks Questions:**

**Q.1. Give two features of E-Marketing?**

Ans. Two features of E-Marketing are:

**Global reach:** E-Marketing allows businesses to reach a global audience through various digital channels such as social media, search engines, email, and websites. This helps businesses to expand their customer base beyond geographical boundaries.

**Personalization:** E-Marketing enables businesses to personalize their marketing messages according to the preferences and behaviors of individual customers. This helps to increase customer engagement and loyalty.

### Q.2. Explain the two factors which affect pricing decisions?

Ans. There are several factors that affect pricing decisions. Some of them are:

**Cost of production:** The cost of production is one of the major factors that affects pricing decisions. The price of a product should at least cover the cost of producing it, including the raw materials, labor, and overhead expenses.

**Competition:** The level of competition in the market also affects pricing decisions. If there are several competitors selling similar products, the business may have to price its product competitively to attract customers.

### Q.3. Explain any two advantages of e-marketing?

Ans. Two advantages of e-marketing are:

**Global Reach:** E-marketing allows businesses to reach a global audience with ease. With the internet, businesses can reach consumers in any part of the world, and promote their products and services to a wider audience. This is particularly useful for businesses that offer digital products or services, as they can be easily accessed from anywhere in the world.

**Lower Costs:** E-marketing is generally more cost-effective than traditional marketing methods. Many digital marketing techniques, such as social media marketing, email marketing, and search engine optimization, can be done at a relatively low cost. This is particularly beneficial for small businesses and startups, who may not have a large marketing budget, but still need to reach their target audience effectively.

### Q.8. Explain the packages with regard to e-marketing?

Ans. In the context of e-marketing, packages refer to the combination of different products or services offered by a company as a bundle. These packages are designed to offer customers a convenient and cost-effective way to purchase multiple products or services at once.

There are different types of packages that can be offered in e-marketing, such as:

**Product packages:** This type of package combines different products that are sold as a set. For example, a technology company may offer a package that includes a laptop, a tablet, and a printer.

**Service packages:** This type of package combines different services that are sold as a set. For example, a travel company may offer a package that includes flight tickets, hotel accommodations, and transportation services.

**Hybrid packages:** This type of package combines both products and services that are sold as a set. For example, a fitness company may offer a package that includes gym equipment and personal training services.

### Four Marks Question:

#### Q.1. Explain 5P's of E-Marketing.

Ans. The 5 P's of e-marketing are a set of fundamental marketing principles that are specific to the digital realm. These principles are similar to the traditional marketing mix, also known as the 4 P's (Product, Price, Place, and Promotion), but with the addition of one more P: Personalization.

Here are the 5 P's of e-marketing in more detail:

**Product:** This refers to the digital products or services that a company is offering, such as software, mobile apps, e-books, or online courses. Companies need to ensure that their digital products meet the needs and expectations of their target audience.

**Price:** This refers to the monetary value that a customer pays for a digital product or service. Companies need to consider factors such as production costs, competitive pricing, and the value that their product provides to the customer when setting prices.

**Place:** This refers to the distribution channels used to deliver digital products or services to customers, such as websites, social media, email marketing, or mobile apps. Companies need to ensure that their products are easily accessible to their target audience and are available through various channels.

**Promotion:** This refers to the marketing efforts used to promote digital products or services, such as online advertising, social media marketing, content marketing, or influencer marketing. Companies need to create a marketing strategy that resonates with their target audience and generates interest and engagement with their products.

**Personalization:** This refers to tailoring digital products or services to the specific needs and preferences of individual customers. This can be achieved through personalized content, personalized product recommendations, or personalized marketing messages. Companies need to use customer data and analytics to create a personalized experience for their customers and build long-term relationships.

## **Q.2. What are the disadvantages of E-marketing?**

Ans. While e-marketing offers many advantages over traditional marketing, there are also some disadvantages that businesses need to consider. Here are some of the key disadvantages of e-marketing:

**Competition:** With so many businesses now using digital marketing channels, competition for attention is high. It can be difficult for smaller businesses to stand out and get noticed in a crowded marketplace.

**Technical issues:** E-marketing relies on technology, which can be prone to technical issues such as website downtime or email delivery problems. These issues can disrupt marketing campaigns and lead to lost sales and revenue.

**Data privacy concerns:** E-marketing involves the collection and use of customer data, which can raise privacy concerns. If businesses misuse or mishandle customer data, it can damage their reputation and lead to legal and financial penalties.

**Dependence on technology:** E-marketing relies heavily on technology, which can be vulnerable to hacking, malware, or other security issues. If a business's digital marketing channels are compromised, it can lead to data breaches, financial losses, and reputational damage.

**Customer trust:** Some customers may be wary of e-marketing, particularly if they have concerns about data privacy or the reliability of online transactions. Building trust with customers can be more challenging in a digital environment.