

ISC Solved Paper-2020

Class-XII

COMMERCE

(Maximum Marks 80)

(Time allowed: Three hours)

(Candidates are allowed additional 15 minutes for **only** reading the paper
They must NOT start writing during this time)

Answer **Question 1** from **Part I** and **any five** questions from **Part II**

The intended marks for questions or parts of questions are given in brackets []

PART I (20 Marks)

Answer **all** questions

Question 1

[10×2]

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

- (i) What is meant by *Micro-Environment* ?
- (ii) State any *two* features of a Credit Card.
- (iii) What is *Net Working Capital* ?
- (iv) Give *two* advantages of Trade Credit, as a source of short-term finance.
- (v) Define *Management* as an activity.
- (vi) Moon Ltd. imported new machinery from Germany. However, the productivity of the business did not improve with the use of this machinery. On investigation, it was found that the workers were not able to operate the high-tech machinery effectively, causing poor performance and wastages.
What can be done by Moon Ltd. to overcome the above problem?
- (vii) What is meant by *Span of Control*?
- (viii) Name *two* types of Markets on the basis of subject of exchange.
- (ix) State *any two* points of difference between *Marketing* and *Selling*.
- (x) What is meant by *Physical Distribution*?

PART II (60 Marks)

Answer **any five** questions

Question 2

- (a) Explain *any three* advantages of Debentures from the Debenture holder's point of view. [3]
- (b) With reference to the various dimensions of Business Environment, state what is meant by *Political Environment*.
Mention *any three* components of Political Environment. [4]
- (c) Enumerate *any five* points of importance of *staffing* as a function of management. [5]

Question 3

- (a) Distinguish between a *Formal Organisation* and an *Informal Organisation*. [3]
- (b) Explain *any four* objectives of Communication. [4]
- (c) Define *Advertising*. Explain *any four* features of Advertising. [5]

Question 4

- (a) Explain *any three* sources of External Recruitment. [3]
- (b) Give *four* differences between Taylor's and Fayol's Principles of Management. [4]
- (c) What is meant by RTGS? Give *any three* features of RTGS. [5]

Question 5

- (a) Explain *any three* factors that you will consider while determining the Working Capital requirement for a business enterprise. [3]
- (b) Explain *four* advantages of raising funds from Commercial Banks. [4]
- (c) Explain the *first five steps* involved in the process of *Planning*, as a function of Management. [5]

Question 6

- (a) Explain *any three* methods of Consumer Protection. [3]
 (b) What are *Retained Earnings* ? Explain *any three* demerits of Retained Earnings. [4]
 (c) Define *Marketing*. Briefly explain *any three* features of Marketing. [5]

Question 7

- (a) Explain *any three* objectives of Publicity, as an element of Promotion Mix. [3]
 (b) What are the various Channels of Distribution available to a Manufacturer in the process of distribution? [4]
 (c) Give *five* differences between *Preference Shares* and *Equity Shares*. [5]

Question 8

- (a) Explain *any three* features of Industrial Products. [3]
 (b) Define *Management*. Briefly explain *any three* objectives of Management. [4]
 (c) Explain *any five* qualities that a good leader should possess. [5]

Question 9

Write short notes on the following:

- (a) Instalment Credit as a source of short-term funds for business. [4]
 (b) Line and Staff Organisation. [4]
 (c) Marketing Research. [4]

ANSWERS

PART I

Question 1

- (i) Micro Environment refers to those internal and external factors which exercise a direct influence on the working and performance of an individual business organisation.
- (ii) **The features of a Credit Card are as follows:**
 (a) Issued by finance company or a bank.
 (b) Issued at the discretion of issuer after satisfying himself of the credit worthiness of applicant.
- (iii) **Net Working Capital** refers to the excess of current assets over current liabilities. In other words, when we subtract the current liabilities from the current assets, what remains is the amount of net working capital.
- (iv) **The advantages of trade credit are as follows:**
 (a) No interest is payable upon availing trade credit.
 (b) No charge is created in the company's assets.
- (v) Like various other activities performed by human beings, such as writing, playing, eating, cooking etc., management is also an activity because a manager is one who accomplishes the objectives by directing the efforts of others.
- (vi) In order to deal with the issue faced by the employees', various measures can be taken to improve the efficiency of the machine which are as follows:
 (a) to provide training to the current employees to help them to learn how to operate the machine.
 (b) to replace those employees with the ones that possess the necessary know-how.
- (vii) Span of control, a.k.a. span of supervision refers to the optimum number of subordinates that a manager or supervisor can manage or control effectively. In other words, span of control refers to the number of people reporting directly to an authority.
- (viii) **Types of market on the basis of Subject of Exchange are as follows:**
 (a) **Money market** : Short-term finance market, which provides financing to business enterprises through a network of banking system.
 (b) **Capital market** : Specialised market for providing long-term finance through a network of financial institutions, stock exchanges, investment trusts and insurance companies.
- (ix) **Difference between Marketing and Selling are as follows:**

Basis	Marketing	Selling
Objective	Profit maximisation through customer satisfaction.	Profit maximisation with the sales maximisation.
Emphasis	Developing the product as per the customer needs.	Bending the customer according to the product.

- (x) Physical distribution refers to the physical flow of the product from producer to consumers. It is the movement of goods and services between the point of production and the point of consumption through organization that

performs a variety of marketing activities which include customer service, order processing, inventory control, transportation and logistics, packaging and material.

PART II

Question 2

(a) **Advantages of Debentures from the view point of Debenture Holders are as follows:**

- (i) Debentures are paid interest at a fixed rate irrespective of profits.
- (ii) Debentures are secured by a charge on the company's assets.
- (iii) Debenture holders are also entitled to redemption of their capital as per the agreed terms.

(b) Political Environment constitutes all the factors related to government affairs. The political environment has immediate and great impact on business transactions, so businessman must scan the environment very carefully.

Components of the political Environment are as follows:

- (i) Type of government in power
- (ii) Attitude of government towards different groups of societies
- (iii) Policy changes implemented by different levels of government

(c) **Importance of staffing as a function of management:**

- (i) **Obtaining competent personnel :** Proper staffing helps in discovering and obtaining competent personnel for various jobs.
- (ii) **Higher performance :** Proper staffing ensures higher performance by putting right person at the right job.
- (iii) **Continuous growth :** Proper staffing ensures continuous survival and growth of the enterprise through succession planning for managers.
- (iv) **Optimum utilisation of human resources :** Proper staffing helps to ensure optimum utilisation of human resources. By avoiding over-staffing, it prevents under utilisation of personnel and high labour costs. At the same time, it avoids disruption of work by indicating in advance, the shortage of personnel.
- (v) **Key to effectiveness of other function :** Staffing is key to effectiveness of other functions as no other function can be carried out without staffing.

Question 3

(a) **Difference between Formal and Informal Organisation:**

Basis	Formal Organisation	Informal Organisation
Structure	The structure is well-defined as it is on authority and tasks.	There is no clear-cut structure as the emphasis is on people and relationships.
Purpose	It is created to achieve predetermined objectives.	It has no predetermined objectives.
Flow of Authority	Authority flows from top to bottom, i.e. vertically downwards.	Authority flows vertically as well as horizontally.

(b) **Objectives of Communication are as follows:**

- (i) **Conveying the right message:** Communication is meant for conveying the right message to the right person. The message conveyed should be well understood and accepted.
- (ii) **Coordination:** Communication serves as a part to co-ordinate the efforts of all who are involved in running of a business.
- (iii) **Good industrial relations:** Communication aims at such good industrial relations.
- (iv) **Development of managerial skill:** Communication is a learning process. Facts, information, ideas, etc. of the executives need enriches the knowledge.

(c) Advertising is the most commonly used tool of promotion which tells us about various products. In other words, advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

Features of Advertising are as follows:

- (i) **Mass reach:** Advertising can reach a large number of people over a vast geographical area. It is a non-personal form of communication.
- (ii) **Help in introducing new products:** Advertising helps to provide knowledge of new products and this knowledge helps in saving a lot of time and money.
- (iii) **Enhancing customer satisfaction and confidence:** Customer feel more assured about quality and feel more comfortable. It's sponsors claim these benefits in advertising.
- (iv) **Economy:** Advertising is a very economical mode of communication if large number of people are to be reached. Because of its wide reach, the total cost of advertising gets spread over numerous communication links. As a result, per unit cost of reach reduces.

Question 4**(a) Sources of External Recruitment are as follows:**

- (i) **Internet:** Certain websites provide information about both job openings and job seekers like www.naukri.com and www.jobstreet.com are examples of such websites. Internet is becoming a popular source of recruitment.
- (ii) **Advertisements:** Advertising in newspapers and journals and on television is a common method of encouraging people to apply for jobs. Whenever an organisation wants to inform the public about job vacancies, it can issue an advertisement.
- (iii) **Labour Contractors and Jobbers:** Unskilled and semi-skilled labour may be recruited through job contractors. This source is often used for recruiting construction labour.

(b) Differences between Taylor's and Fayol's Principles of Management are as follows:

Basis	F. W. Taylor	Henry Fayol
Unity of Command	He recommended functional foremanship which violates unity of command	He advocated unity of command so that each worker gets order from one boss only.
Applicability	Taylor's scientific management is applicable to industrial organisations only.	Fayol's principles have universal application.
Formation of Principles	His principles are based on observation and experimentation.	His principles were drawn from his personal experience of managing organisations.
Expression of Theory	Taylor put his ideas through 'Scientific Management'.	Fayol advocated his ideas through 'General Theory of Administration'.

- (c) Real Time Gross Settlement are special funds transfer system where the transfer of money or securities takes place from one branch to another on a real time and on a gross. This electronic fund transfer system allows money send by the remitter to immediately reach the payee/ beneficiary as and when the many transfer transaction is initiated. 'Gross settlement' means the transaction is settled on one to one basis without bunching or netting with any other transaction.

Features of R.T.G.S. are as follows:

- (i) Transactions are processed continuously throughout the R.T.G.S. business hours.
- (ii) The minimum amount that can be remitted through it is ₹ 2 lakhs.
- (iii) On any day a maximum transaction of ₹ 10 lakh can be done via RTGS.

Question 5**(a) Factors to be considered while determining the Working Capital requirement for a business enterprise are as follows:**

- (i) **Nature of business :** The business unit which do not keep very high stock of finished goods and which sell goods on cash basis need less working capital while trading concerns need huge amount of working capital.
- (ii) **Scale of operations :** The size of the concern has a direct relation with the working capital requirements. Big enterprises need higher working capital for investment in current assets.
- (iii) **Business cycle fluctuation :** During boom period the market is flourishing, so more demand, more production, more stock.

(b) Advantages of raising funds from Commercial Banks are as follows:

- (i) **Economical:** Short term loans from commercial banks are generally cheaper as compared to other short-term financing. This results in reduced interest burden on the borrowers.
- (ii) **Timely availability of funds:** Often, procedural formalities in case of loans from commercial banks are much less than those of financial institutions. Therefore, borrowers get the fund on time.
- (iii) **Provision for concessional financing:** Commercial banks advance loans to certain sections of the society and priority sectors on concessional rate of interest as per the directives of the Reserve Bank of India.
- (iv) **High flexibility:** There is high flexibility in funds from commercial loans as these are available in different modes and a business organization may choose a mode which suits it the most.

(c) Steps in the process of Planning are as follows:

- (i) **Developing Premises:** Premises refers to making assumptions regarding future. The assumptions are made on the basis of forecasting. Forecast is the technique of gathering information.
- (ii) **Identifying Alternative Courses of Action:** After setting up of objectives, the managers make a list of alternatives through which the organisation can achieve its objectives.
- (iii) **Evaluating Alternative Courses:** After making the list of various alternatives along with the assumptions supporting them, the manager starts evaluating each and every alternative.

- (iv) **Selecting an Alternative:** The best alternative is selected but as such there is no mathematical formula to select the best alternative. Some times instead of selecting one alternative a combination of different alternatives can also be selected.
- (v) **Implementing the Plan:** This is the step where other managerial functions also come in to the picture. The step is concerned with putting the plan into action i.e., doing what is required.

Question 6**(a) Methods of Consumer Protection are as follows:**

- (i) **Business Associations:** The associations of trade, consumer and business like Federation of Indian Chambers of Commerce of India (FICCI) and Confederation of Indian Industries (CII) have laid down their code of conduct which lay down for their members the guidelines in their dealings with the customers.
- (ii) **Consumer Awareness:** A consumer who is well informed about his rights and the reliefs available to him would be in a position to raise his voice against any unfair trade practices or unscrupulous exploitation. In addition to this, an understanding of his responsibilities would also enable a consumer to safeguard his interests.
- (iii) **Consumer Organisations:** Consumer organisations play an important role in educating consumers about their rights and providing protection to them.

These organisations can force business firms to avoid malpractices and exploitation of consumers.

- (b) Retained earnings or ploughing back of profits refers to the process of retaining a part of the net profit every year and reinvesting it in the business. Three of the demerits of retained earnings are as follows:
 - (i) It may cause dissatisfaction among shareholders because excessive retained earning reduces the amount of dividend receivable by them.
 - (ii) Many firms fail to recognise the opportunity cost associated with these funds. Thus result in sub-optimal use of fund.
 - (iii) It may lead to unbalanced industrial growth as undistributed profits remain in the same industry.
- (c) Marketing refers to all activities a company does to promote and sell products or services to consumers. Marketing is the process of getting potential clients or customers interested in your products and services. It is an activity for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large. Three of the features of marketing are as follows:
 - (i) **Marketing is an integrated process :** Marketing is not a single activity. It is rather an integrated process of inter-related activities. Interaction between activities gives a unique character to marketing.
 - (ii) **Marketing is customer-oriented :** Marketing is a customer oriented process as it satisfy the wants of present and potential consumer. Customer is the focus of all marketing activities.
 - (iii) **Marketing is wider than market :** Marketing consists of not only the buyers and sellers but all institutions and activities involved in planning, pricing, promoting and distributing want satisfying products and services.

Question 7**(a) Objectives of Publicity are as follows:**

- (i) **To build corporate image:** To build image and goodwill, companies can contribute money and time social problems. For example upkeep of parks in the city or sponsoring sports will promote their products.
- (ii) **To build interests in established products:** To attract and motivate the customers to buy the products, public relation professionals collect information about public opinion for product and company from various media channels. It helps the company to chalk out its actions which are relevant to the public.
- (iii) **To face adverse publicity:** In many cases publicity is aimed at removing misunderstanding or bad impression. Whatever a publicity conveys is more likely to be believed.

(b) The Channels of Distribution available to a manufacturer in the process of distribution are as follows:

- (i) **Manufacturer-Consumer (zero-level channel):** This is the simplest channel involving direct sale of goods from producer to consumer. No middleman is required between the producer and consumer. The producer can sell its product through salesman, internet and tele-marketing.
- (ii) **Manufacturer-Retailer (one-level channel):** Under this system, the manufacturer sells its product to retailers and retailers sell products to the ultimate users.
- (iii) **Manufacturer-Wholesaler-Retailer-Consumer (two-levels channel):** This is the commonly used channel for distribution of consumer goods. Under this system manufacturer sells in bulk to the wholesaler who in turn sells to a large number of retailers. This channel is used in case of small goods like soap, salt, tea, toothpaste, etc.
- (iv) **Manufacturer-Agent-Wholesaler-Retailer-Consumer (three-levels channel):** This is the longest channel of distribution. Under this system, producer hands over his output to the selling agent who distribute it among a few wholesalers. Every wholesaler sells goods to retailer and retailer sells goods to ultimate consumer.

(c) **Difference between Equity and Preferential Shares are as follows:**

Basis	Equity Shares	Preferential Shares
Nominal value	Generally low	Generally high
Degree of risk	Very high risk because dividend is not fixed	Comparatively low risk because of fixed rate of dividend
Right to dividend	After dividend is paid on preference shares	Prior to dividend on equity shares
Refund of capita	Repayment after all other obligations are refunded	Prior to refund of equity capital
Voting rights	Voting rights exists	No voting rights

Question 8

(a) **Features of Industrial Products are as follows:**

- The number of buyers of industrial products is limited as compared to consumer products.
 - The channel of distribution of industrial products is generally shorter than that of consumer products.
 - The industrial products possess derived demand as their demand is derived from the demand of consumer products.
- (b) According to Koontz, "Management is what a manager does". As a process, management denotes the functions that managers perform to get things done. These functions include planning, organising, staffing, directing and controlling.

Three of the main objectives of management are as follows:

- Profitability:** Management must make it sure that the firm is earning sufficient profits to meet its different needs. It is necessary for the survival, growth and expansion of the business.
- Quality goods at fair prices:** Management should provide quality goods at reasonable prices. For this purpose management has to reduce cost by stopping wastage of materials.
- Rightful decision-making:** Right decision at right time is an important part of management for the success of an organisation.

[Note: The question does not specify the perspective from which to define management.]

(c) **Qualities of a Good Leader are as follows:**

- Intelligence:** A leader should be intelligent enough to understand the problems in the right perspective. Only a knowledgeable and competent person can instruct subordinates correctly.
- Sound Physique:** A good leader must have good health and physical fitness. He requires tremendous stamina for hard work.
- Communication Skills:** In order to be a good leader, a good communication skill is must. Communication skills enables the leader to understand the followers and motivate them.
- Social Skills:** A good leader must be able to win the confidence and loyalty of people. He should have capacity to create team spirit among this followers.
- Self-Confidence and Willpower:** A good leader should have self-confidence and strong will power to complete the task and to influence his followers.

Question 9

- (a) **Instalment Credit as a source of Short term Funds for Business :** Instalment credit refers to the facility of buying machinery, equipment and other durable goods on credit. The buyer has to pay a part of the price of the assets at the time of delivery and the balance is payable in a number of instalments. The supplier charges interest on the balance due and the interest is included in the amount of instalment itself. Some suppliers provide instalment credit through finance companies and commercial banks. A business firm may also buy fixed assets on hire purchase basis. Under this arrangement, the ownership of the asset remains with the supplier until all the instalments are paid by the buyer.
- (b) **Line and Staff Organisation :** Line and staff organization is a type of organization that has been developed to achieve the advantages of both the line organization and functional organisation. Here, the structure is basically that line organisation remain at line but staff officers who are functional experts are provided to advise the line authorities in the performance of their duties. A line and staff organisational structure is generally applied when a process becomes too complex and needs to be simplified in order to avoid issues like confusion and inefficiency.
- (c) **Marketing Research :** Marketing research is the systematic gathering, recording and analysing of data about the marketing problems to facilitate decision-making. It is crucial in the decision-making process because it provides the decision-makers with relevant, reliable and up-to-date data. Managers need to be made privy with the latest news as soon as possible so as to enable them to act and react to the changes in the market conditions in time. This provides them with a competitive edge. Some of the common marketing research techniques include surveys, interviews, focus groups, etc.