

ISC Class 12 Commerce Specimen Paper 2

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Maximum Marks: 80 | Time Allowed: Three hours | Reading Time: 15 minutes

Part I is compulsory. Attempt any five questions from Part II.

General Instructions

Write your answers on the separate answer paper provided. The first 15 minutes are for reading the paper, and you may not write during that time. Part I is compulsory and carries 20 marks. From Part II you must attempt any five of the seven questions, each of which carries 12 marks. Marks for each question, or part of a question, are shown in brackets. Where a question asks for a stated number of points, write that number and no more, since only the first points offered will be marked. All working for numerical questions must be shown, and every money figure must be written with its unit. No tables, charts or organisation charts are printed in this paper, and where a question asks for one you are expected to draw it yourself in pencil and label it. This written paper carries 80 of the 100 marks for the subject, the remaining 20 being for the project work.

PART I (20 Marks)

Attempt all parts of Question 1 and all parts of Question 2.

Question 1 [12]

Each part carries 1 mark. For the parts that offer four choices, write only the option you choose. For the rest, answer in a single sentence or give the single term asked for.

- (i) State one reason why a firm should study its business environment before fixing its plans for the coming year.
- (ii) The practice by which a firm hands over a part of its work, such as its payroll or its telephone support, to an outside agency that specialises in it is called:
 - (a) disinvestment (b) outsourcing
 - (c) diversification (d) merging
- (iii) Name the quality in an entrepreneur that shows itself in a readiness to bear the loss if the venture fails.
- (iv) Venture capital is best described as:
 - (a) a secured loan given by a commercial bank against stock (b) a deposit accepted from the public for a fixed term
 - (c) money invested in the equity of a young and risky business in the hope of a large gain (d) a subsidy given by the state to an exporter
- (v) State what is meant by the induction of a newly appointed employee.
- (vi) Giving a subordinate the authority to decide a matter himself, while the superior remains answerable for the outcome, is:
 - (a) delegation (b) departmentation
 - (c) decentralisation (d) supervision
- (vii) Name the step of the controlling process that follows the measurement of actual performance.
- (viii) A firm selling bottled drinking water paints its name, its logo and its brand colours on the side of its delivery vans. This is an example of:
 - (a) a channel of distribution (b) market segmentation
 - (c) a sales promotion scheme (d) advertising
- (ix) Give one reason why the goods of a cement manufacturer are usually sold through dealers rather than directly to the householder who builds a house.

(x) Working capital is correctly described as:

- (a) the total of the fixed assets of a firm (b) the paid up share capital of a company
(c) the excess of current assets over current liabilities (d) the reserve set aside for the replacement of plant

(xi) State what is meant by job rotation as a method of training.

(xii) Give one reason why a firm should disclose the ingredients of a packaged food article on its label even where no authority has yet asked it to.

Question 2 [8]

Each part carries 2 marks.

- (i) Explain, with one example of each, what is meant by the social environment and what is meant by the legal environment of a firm. [2]
(ii) Distinguish between a trade mark and a brand name. [2]
(iii) A dealer buys 900 bags of cement at Rs 340 a bag and pays Rs 7,200 in freight. He sells 800 bags at Rs 395 a bag and the remaining bags, which have hardened, at Rs 120 a bag. Calculate his total profit or loss. [2]
(iv) Explain why a firm with a large and steady cash flow may safely use more borrowed capital than a firm whose receipts are seasonal. [2]

PART II (60 Marks)

Attempt any five questions from this Part. Each question carries 12 marks.

Question 3 [12]

- (a) Explain any four ways in which the study of its environment is of use to a firm. [4]
(b) Explain what is meant by the economic environment of a firm, and name any three elements of which it is made up, stating for each how it may affect a manufacturer of refrigerators. [4]
(c) Explain any two emerging trends in the way business is carried on, and for each state one difficulty it has brought with it. [4]

Question 4 [12]

- (a) Explain any four qualities you would look for in a person who proposes to start a business of his own. [4]
(b) Explain any four methods by which an entrepreneur may generate ideas for a new venture. [4]
(c) Aarav, who has worked for nine years as a fitter in a bus depot, wishes to open a workshop of his own that services light commercial vehicles. Explain the four heads under which he should test the idea before he commits his savings to it, stating in each case the question he must answer. [4]

Question 5 [12]

- (a) Explain the meaning of organising, and explain any three benefits a firm gains from a sound organisation structure. [4]
(b) Explain any four ways in which directing differs from controlling. [4]
(c) Explain any four elements of supervision and of leadership that a works manager must attend to in directing his subordinates. [4]

Question 6 [12]

- (a) Explain what is meant by the marketing mix, and name and briefly explain each of its four elements. [4]
(b) Explain any four factors a firm should weigh before fixing the price of a new article. [4]
(c) A firm that has until now sold hand tools only to hardware shops wishes to reach the householder directly as well. Explain two channels it might use, and for each state one advantage and one difficulty.

[4]

Question 7 [12]

- (a) Explain the meaning of business finance, and explain any three reasons why a firm needs finance. [4]
- (b) Explain the difference between an equity share and a preference share on any four counts. [4]
- (c) A company wishes to raise Rs 50,00,000. If it issues equity shares the existing holders will be diluted, and if it issues debentures at 11 per cent a year the interest will fall due whether the company earns or not. Calculate the annual interest on the debentures, state the profit before interest at which the company would just cover that interest, and advise the company on its choice if its profit before interest has moved between Rs 4,00,000 and Rs 20,00,000 over the last few years. [4]

Question 8 [12]

- (a) Explain the meaning of human resource management, and explain any three functions it performs in a manufacturing company. [4]
- (b) Explain any four steps of the selection process, in their proper order. [4]
- (c) Explain the difference between a wage and a salary, and explain any two components, besides basic pay, that may make up the compensation of an employee. [4]

Question 9 [12]

- (a) Explain the meaning of business ethics, and explain any three factors that decide whether a firm will in practice behave ethically. [4]
- (b) A manufacturer of a floor cleaning liquid advertises that it kills every germ in a house within one minute, a claim his own laboratory has never tested. Explain the ethical objections to the claim, and state two parties who are injured by it and how. [4]
- (c) Explain the argument in favour of a firm accepting social responsibility, and state any two arguments that have been urged against it. [4]

ANSWER KEY AND MARKING SCHEME

Full working is given for every numerical answer. Marks shown in italics are the step marks an examiner would award. No mark is deducted for a wrong option in Question 1. Where a question asks for a number of points, award the marks for the first points offered up to that number, and accept any other correct point of the same weight. In the questions set in a particular firm's circumstances, the marks for application are to be awarded only where the answer uses the facts given and not merely the textbook rule.

Question 1 [12]

- (i) A plan is a statement of what the firm intends to do in surroundings it does not control, so unless those surroundings are examined first the plan rests on nothing. The study brings to light the openings the firm can take and the threats it must guard against, so that the targets set are within reach and the resources are directed where they will tell.

One sound reason 1.

- (ii) (b) outsourcing. The work continues to be done for the firm but is no longer done by the firm, the advantage being that a specialist agency does it more cheaply and the firm is free to attend to the work it does best.

Correct option 1.

- (iii) Risk bearing, that is the willingness to take a calculated risk. The entrepreneur commits his money, his time and his standing to an outcome nobody can guarantee, and accepts that the loss will fall on him.

Quality correctly named 1.

- (iv) (c) money invested in the equity of a young and risky business in the hope of a large gain. The venture capitalist takes a share in the business rather than a charge on its assets, expects no interest, and looks to be repaid by selling his holding at a profit once the business has grown.

Correct option 1.

- (v) Induction, or orientation, is the process by which a newly appointed employee is introduced to the firm he has joined: he is told about its work, its rules, its hours and its scales of pay, is shown the premises, is presented to his superior and to the colleagues he will work with, and is handed over to the post assigned to him. Its purpose is to remove the strangeness of the first days and to give the new man the information he needs before he can begin work usefully.

Correct meaning, the introducing of the new employee to the firm and his post 1.

- (vi) (a) delegation. Authority can be passed down but responsibility cannot be passed away, so the superior continues to answer for what his subordinate does with the authority given him.

Correct option 1.

- (vii) Comparing the actual performance with the standard that was set, so as to find the deviation and its size.

Step correctly named 1.

- (viii) (d) advertising. The van is a paid medium carrying the firm's message to whoever sees it in the street, and the firm controls what the message says. The van is also a part of the firm's distribution, but the painting of the name and the logo upon it is advertising.

Correct option 1.

- (ix) Cement is bought by a very large number of buyers scattered over a wide area, each taking a small quantity at long intervals and each wanting it at short notice on the day the mason is ready. No manufacturer could keep a sales office, a stock and a delivery service in every locality at a cost the article would bear, whereas the dealer already keeps a shop there, knows the masons and the contractors, holds the stock, breaks the bulk and gives credit, so the manufacturer reaches the market far more cheaply through him.

One sound reason, resting on the scattered market or the dealer's local functions 1.

- (x) (c) the excess of current assets over current liabilities. This is net working capital, the part of the current assets that is financed from long term sources and is therefore available to carry on the day to day trade.

Correct option 1.

- (xi) Job rotation is a method of training in which the trainee is moved in turn through several different posts or departments, spending a period in each, so that he learns the work of each at first hand, sees how they fit

together and can later be put wherever he is needed.

Correct meaning 1.

- (xii) A buyer may be allergic to an ingredient, or may avoid one on medical or religious grounds, and he cannot find out for himself what is in a sealed packet. Disclosure lets him choose with his eyes open, which is his right, and it protects the firm as well, since a buyer harmed by something he was not told of will hold the firm to account and others will hear of it.

One sound reason, resting on the buyer's right to know 1.

Question 2 [8]

- (i) The social environment consists of the customs, the traditions, the values, the beliefs, the levels of literacy and the composition of the population among which the firm works, all of which shape what people will buy and how they expect to be dealt with. The growth in the number of households in which both husband and wife go out to work is an example, since it has enlarged the market for ready to cook food and for domestic appliances. The legal environment consists of the statutes, the rules and the decisions of the courts that bind the firm, together with the authorities that administer them. The requirement that a packaged commodity bear its net quantity, the name of the packer and the maximum retail price is an example, since it settles what the firm must print on every pack it sells.

Social environment explained with a relevant example 1. Legal environment explained with a relevant example 1.

- (ii) A brand name is that part of a brand which can be spoken, the word or the set of words by which buyers ask for the article and distinguish it from others of its kind. A trade mark is a brand, or a part of one, that has been registered under the law relating to trade marks, which gives its owner the exclusive right to use it on the goods for which it is registered and the right to sue anyone who uses it or anything deceptively like it. Every trade mark is therefore a brand name or mark, but a brand name becomes a trade mark only on registration, and until then its owner has far weaker protection.

Brand name correctly explained 1. Trade mark distinguished by the fact of registration and the legal protection it gives 1.

- (iii) Cost of the cement = $900 \times 340 = \text{Rs } 3,06,000$. Adding freight, total cost = $3,06,000 + 7,200 = \text{Rs } 3,13,200$. Sale of the good bags = $800 \times 395 = \text{Rs } 3,16,000$. Bags hardened = $900 - 800 = 100$, and their sale = $100 \times 120 = \text{Rs } 12,000$. Total sales = $3,16,000 + 12,000 = \text{Rs } 3,28,000$. Profit = $3,28,000 - 3,13,200 = \text{Rs } 14,800$.

Total cost Rs 3,13,200 1. Total sales Rs 3,28,000 and profit Rs 14,800 1.

- (iv) Borrowed capital carries interest and instalments that fall due on fixed dates and must be met out of cash, not out of book profit. A firm whose receipts come in steadily month by month can be fairly sure of having the money in hand on each of those dates, so it can carry a larger burden of debt without danger. Where the receipts are seasonal, the firm may be perfectly profitable over the year and still be short of cash in the months before the season, and in those months it must find the interest from somewhere, so a failure to pay, and the default and the loss of credit that follow, can overtake a sound business. Such a firm must therefore keep its fixed charges low in relation to its earnings and lean more upon owned capital, on which nothing need be paid in a bad month.

Fixed obligation of interest and instalments, payable out of cash on fixed dates 1. Risk of default in the lean months of a seasonal trade, and the consequent need to lean on owned capital 1.

Question 3 [12]

- (a) First, the study brings the firm the first warning of an opening it can take. A firm that noticed early the growing wish of buyers for food with less sugar in it could put such a line on the shelves before its rivals thought of it. Second, it gives the same early warning of a threat, whether a rival's new plant, a change of duty on an imported component or a shift of taste away from what the firm makes, and the earlier the warning the more room the firm has to act. Third, it supplies the material on which plans and policies must be built, since the targets a firm sets, the capital it commits and the markets it enters all rest on an estimate of what the surroundings will be, and that estimate can only come from a study of them. Fourth, it helps the firm to make better use of its resources, because knowing where demand is growing and where it is falling away keeps the firm from sinking money in a line that is dying. A fifth acceptable use is that the study keeps the firm abreast of

the technology being adopted elsewhere, so that it is not left with obsolete plant, and a sixth that it improves the firm's standing with government and with the public, because a firm that understands the concerns of society meets them before it is compelled to.

Four uses, 1 mark each, each named and briefly explained 4.

- (b) The economic environment of a firm is made up of those features of the economy within which it works that bear upon its costs, its prices and the demand for what it sells, together with the policy of the state in economic matters. First, the level and the distribution of income. A refrigerator is bought out of income left after necessities, so a rise in household incomes, and in particular a growth in the number of households that have reached the level at which such an article comes within reach, enlarges the manufacturer's market directly, while a fall in incomes postpones the purchase since the old refrigerator will serve another year. Second, the availability and the cost of credit. A large part of such sales is made on instalments, so when borrowing is dear or lenders are cautious the monthly instalment rises beyond what the buyer will pay and sales fall, while easy credit brings forward purchases that would otherwise have waited. Third, the policy of the state on duties and on taxes. A change in the duty on imported compressors or in the tax on the finished article alters the manufacturer's cost or his selling price at a stroke, and may decide whether he makes a component himself or buys it from abroad. The rate of inflation, the state of infrastructure such as the reliability of the power supply, and the general state of trade are equally acceptable elements.

Economic environment correctly explained 1. Three elements named, each with a relevant effect on a refrigerator manufacturer, 1 mark each 3.

- (c) First, the carrying on of trade through the internet, by which a firm sells from a website or an application instead of or besides a shop, takes orders and payment electronically and delivers to the buyer's door. It has made it possible for a small firm in a district town to sell across the country without a single branch, and it has put before the buyer a range and a comparison of prices no shop could offer. The difficulty it has brought is that the buyer cannot handle the goods before buying, so returns are heavy and the cost of taking them back falls on the seller, and the ease of comparing prices has driven margins down to a point at which many sellers earn nothing. Second, outsourcing, by which a firm has a part of its work done by an outside agency that specialises in it, from its accounts and its payroll to the manufacture of its components and the handling of its calls. It lets the firm turn a fixed cost into a variable one, get the work done by people better at it and concentrate on what it does best. The difficulty is that the firm loses direct control over the quality and the timing of that work, becomes dependent on an agency that may raise its charges or serve a rival, and must part with information about its customers that it would rather keep. Any two of the recognised trends, such as the use of data in deciding what to stock, the growth of the digital payment, the move towards greener production or the practice of working from home, are acceptable if correctly explained with a difficulty.

First trend explained 1, with a difficulty that genuinely follows from it 1. Second trend explained 1, with a difficulty that genuinely follows from it 1.

Question 4 [12]

- (a) First, a readiness to bear risk with his eyes open. He must be willing to stake his money and his time on an uncertain outcome, but the risk he takes should be one he has measured, not a gamble, and he must be able to live with the loss if it comes. Second, initiative and self reliance. Nobody sets him his task, so he must see what needs doing and do it without being told, and he must be prepared to turn his hand to the accounts, the selling and the repairs alike in the early months when there is nobody else to do them. Third, perseverance. Few ventures succeed at the first attempt, and the man who gives up at the first refused order, the first machine that will not run or the first month of losses will not last, so a stubbornness that survives repeated setbacks is essential. Fourth, the ability to deal with people and to carry them with him, since he must persuade a banker to lend, a landlord to wait, a supplier to deliver on credit, a customer to try him and his own workmen to stay. Decision making ability, honesty, hard work and a willingness to learn from his own mistakes are equally acceptable qualities.

Four qualities, 1 mark each, each named and briefly explained 4.

- (b) First, from his own work and training. The man who has spent years in a trade knows where it is badly served, what the customer complains of and what the existing firms will not do, and this is the commonest and

the soundest source of an idea because it rests on knowledge he already has. Second, from the complaints and the suggestions of customers. Listening to what buyers grumble about, what they ask for and cannot get, and how they alter or make do with an existing article, points directly to a want that is unmet. Third, from a study of what is sold elsewhere. An article or a service established in another city or another country, but not yet seen in his own, can often be introduced with little alteration, and trade fairs, exhibitions and trade journals exist largely to show a man what he has not thought of. Fourth, from the waste and the by products of an existing industry, which can be bought cheaply and turned into something saleable, as rice husk, sawdust, fruit peel and scrap metal are. The scanning of government policy and of the schemes and the fields it is encouraging, discussion with friends and former colleagues in what is sometimes called brainstorming, and a study of the hobbies and the skills he himself possesses are all acceptable methods.

Four methods, 1 mark each, each named and briefly explained 4.

- (c) First, the market. He must answer how many light commercial vehicles are in use within the distance from which an owner would bring one to him, how they are being serviced now and at what charge, and how many of those owners he can reasonably expect to win over, since nine years in a bus depot tells him a great deal about the vehicles but nothing about how many customers will come to a new workshop. Second, the technical head. He must answer what space, what pit or lift, what tools, what diagnostic equipment and what supply of power and water the work requires, whether premises of that kind can be had on a road the vehicles can reach, and where he will get the fitters and the helpers, since he cannot work on more than one vehicle himself at a time. Third, the financial head. He must answer what the premises, the equipment and the opening stock of spares and oils will cost, how much of it he can meet from his savings and how much he must borrow, how much he needs besides as working capital to carry the spares and the wages until the customers pay, and whether the charges he can realistically make will cover the wages, the rent, the interest and a living for himself. Fourth, the legal and regulatory head. He must answer in what form he will trade, what registrations, licences and permissions a workshop of this kind requires from the local authority, and how he will dispose of the used oil and the waste the work produces, since these are matters that can close a workshop after it has opened.

Market head with the right question 1. Technical head with the right question 1. Financial head with the right question 1. Legal head with the right question 1. The marks for each head are to be given only where the question asked is tied to a vehicle workshop and not stated in the abstract.

Question 5 [12]

- (a) Organising is the function of management by which the work to be done is divided into manageable tasks, those tasks are grouped into posts and the posts into departments, the authority needed for each is defined, each is placed in its relation to the others, and the people and the resources are assigned so that the plan can be carried out. It answers the questions of who is to do what, with what authority and under whom. First, it brings about a clear division of work, so that every task has an owner, nothing is left undone on the assumption that somebody else will see to it and no two people duplicate each other's effort. Second, it fixes the lines of authority and of responsibility, so that each man knows whose orders he takes and to whom he must answer, which removes much of the friction and the passing of blame that arise where this is vague. Third, it makes for the better use of resources, since the structure places each man where his training fits him and lets plant and material be shared across the work instead of standing idle in one department. A fourth acceptable benefit is that a sound structure lets the firm grow, because new work can be added as a further post or department within a pattern that already exists, and a fifth that it develops managers, since the practice of exercising delegated authority at one level fits a man for the next.

Organising correctly explained 1. Three benefits, 1 mark each 3.

- (b) First, as to what each does, directing is the setting of the work in motion, the manager instructing, guiding, supervising and motivating his subordinates so that they actually do what was planned, while controlling is the checking afterwards of whether what was done matches what was planned. Second, as to the point at which each operates, directing runs throughout the doing of the work, whereas controlling begins with the measurement of a result and so looks back at work already performed. Third, as to the matter each deals in, directing deals chiefly with people, with their willingness, their understanding of the task and their morale,

while controlling deals chiefly with figures and facts, with output, cost, quality and time measured against a standard. Fourth, as to the outcome, directing ends in work performed, whereas controlling ends in a deviation found and a corrective action ordered, which may be a change in the plan, in the standard or in the direction given. A fifth acceptable count is that directing is impossible without the personal presence and attention of the superior, whereas much of controlling can be done from a report.

Four points of difference, 1 mark each, each stated for both functions 4.

- (c) First, supervision in the narrow sense, that is overseeing the work while it is being done. The works manager must be seen on the floor, see for himself how the job is being run, catch a wrong method before a whole batch is spoiled and be available to the man who is held up. Second, communication. He must give his instructions so that they are understood, in the language and the detail his men can follow, tell them the reason for a change and not merely the order, and he must keep the upward channel open so that a difficulty on the floor reaches him before it becomes a stoppage. Third, motivation. He must see what his men actually want from the work, which is partly the wage and the bonus but also security, the recognition of good work, a say in how the job is arranged and a chance of promotion, and he must use what is in his power so that they work willingly rather than because they are watched. Fourth, leadership. He must influence his men by his own conduct and competence rather than by his position alone, be consistent and fair in his dealings, stand by them before his own superiors where they are in the right and decide quickly when they look to him, for men follow a superior they trust and merely obey one they do not. Any four of these, or the proper use of praise and reprimand and the settling of grievances, are acceptable.

Four elements, 1 mark each, each named and explained in terms of what the works manager must actually do 4.

Question 6 [12]

- (a) The marketing mix is the set of controllable variables a firm combines, and keeps adjusting, in order to serve its chosen market and bring about the response it wants from the buyer. They are controllable in that the firm settles them itself, unlike the forces of the environment, and they must be set in relation to one another, since a decision on any one of them limits the others. First, the product, which covers the article or the service itself, its quality, its design, its variety, its packaging, its branding and the service given with it and after the sale. Second, the price, which covers the amount charged and with it the discounts, the allowances and the credit terms, and which decides both what the buyer thinks of the article and what the firm earns on it. Third, place, which covers the getting of the article to the buyer, the channel of dealers or agents used, the transport, the warehousing, the holding of stock and the handling of orders. Fourth, promotion, which covers all that the firm does to inform the buyer and persuade him, through advertising, personal selling, sales promotion and publicity.

Marketing mix correctly explained as a set of controllable variables 1. Product and price named and explained 1. Place named and explained 1. Promotion named and explained 1.

- (b) First, the cost of the article. The price must over the whole run cover the cost of making, selling and delivering it and leave a margin besides, so the cost sets the floor below which the price cannot be allowed to fall for long. Second, the demand for the article and how the buyer responds to a change of price. Where the buyer has no close substitute and the article matters to him he will pay a good deal, so the firm has latitude, while where substitutes abound a small rise loses the sale, and the firm must also judge what the buyer believes the article to be worth. Third, the prices and the likely reaction of competitors. For an article of a familiar kind the firm must price within reach of what rivals charge, and if it undercuts them it must reckon with their reply, which may be a cut of their own that leaves everyone worse off. Fourth, the objective the firm has set itself. A firm that wants to establish the article quickly and capture a share of the market will price it low, while one that wants to recover its development cost from the first buyers will price it high, and one that fears the entry of rivals may price low from the start to discourage them. Government regulation of prices in the trade, the stage the article has reached in its life and the cost of the distribution the firm has chosen are equally acceptable factors.

Four factors, 1 mark each, each named and briefly explained 4.

- (c) First, its own retail counter or a small chain of its own shops in the towns where its tools are best known. The advantage is that the firm meets the householder face to face, can show him how the tool is used, keeps the

whole of the retail margin and learns at first hand what buyers ask for and complain of. The difficulty is that a shop is a heavy fixed cost in rent, staff and stock, and a hand tool is bought too seldom by any one household to fill a shop, so the firm would be paying shopkeeper's charges on a thin stream of customers and would be learning a trade it has never been in. Second, selling online, from its own website or through an established marketplace, with delivery by courier. The advantage is that the firm reaches householders anywhere in the country without a single branch, the cost of setting it up is small beside that of a shop, and the orders tell it exactly which tools and which places are worth pursuing. The difficulty is that the householder cannot feel the weight and the balance of a tool before buying, so returns are heavy and the freight on a heavy article eats the margin, and the firm's existing hardware shops will see the website as a competitor selling over their heads and may take its lines off their shelves. Selling through a general retail chain or a departmental store, and selling by catalogue or by agents who demonstrate at home, are equally acceptable channels if advantage and difficulty are correctly given.

First channel named with one advantage and one difficulty 2. Second channel named with one advantage and one difficulty 2. The conflict with the firm's existing hardware shops, if raised, is to be credited as a difficulty.

Question 7 [12]

- (a) Business finance means the money a business needs, and the activity of raising it and of putting it to use. It covers the estimating of how much will be required and for how long, the choosing of the sources from which it will be drawn, the raising of it on the best terms the firm can get, and its application to the assets and the activities of the firm, together with the watching of the return it earns. First, a firm needs finance for its fixed assets, that is the land, the building, the plant, the machinery, the vehicles and the furniture, which must be bought and paid for before a single article can be made and whose cost is recovered only over many years. Second, it needs working capital to carry on from day to day, since it must buy material, pay wages, rent and power and hold stock for weeks or months before the sale is made, and must then often wait again for the customer to pay. Third, it needs finance to grow, whether to add a second shift, to put up a new line, to enter a new market or to buy another business, and such expansion cannot wait upon the slow accumulation of profit alone. Finance for the replacement of worn out plant, for meeting a sudden loss or contingency and for the cost of promoting the business at the start are equally acceptable reasons.

Business finance correctly explained 1. Three reasons, 1 mark each 3.

- (b) First, as to the return, the equity shareholder is paid a dividend only after the preference dividend has been met, and the rate is whatever the company declares, so it may be large in a good year and nothing at all in a bad one, whereas the preference shareholder is paid at a fixed rate and is paid first. Second, as to the repayment of capital on a winding up, the preference shareholder gets his capital back before the equity shareholder, who comes last of all and receives only what is left after every other claim has been met. Third, as to voting, the equity shareholder votes on every resolution put to a general meeting and so controls the company, while the preference shareholder ordinarily votes only on matters that affect his own class, or where his dividend has been left unpaid for the period the law prescribes. Fourth, as to the risk and the reward together, equity capital is the risk capital of the company, bearing the first loss and taking the whole of the surplus once the fixed claims are satisfied, while preference capital stands between equity and debt, taking less risk and accepting a limited reward. A fifth acceptable count is that preference shares may be redeemable, and in practice usually are, whereas equity capital is not returned during the life of the company.

Four counts of difference, 1 mark each, each stated for both kinds of share 4.

- (c) Annual interest on the debentures = $50,00,000 \times 11/100 = \text{Rs } 5,50,000$. The company would just cover that interest at a profit before interest of Rs 5,50,000, at which figure the whole of the profit goes to the debenture holders and nothing is left for the shareholders. The advice is to issue equity. The company's profit before interest has ranged between Rs 4,00,000 and Rs 20,00,000, and at the bottom of that range the profit of Rs 4,00,000 would not even meet the interest of Rs 5,50,000, so in such a year the company would have to find Rs 1,50,000 from its reserves or its borrowings merely to pay the interest, and a failure to pay would put it in default. The trading is plainly too uneven to carry a fixed annual charge of this size, and the dilution the existing holders complain of is a far smaller evil than the risk of default, since a dividend on equity can simply be passed in a bad year without any consequence of that kind. If the company is unwilling to issue the whole

amount as equity it may raise a part as equity and a smaller part, say Rs 15,00,000, as debentures, so that the fixed charge of Rs 1,65,000 is comfortably within the profit of even its worst year.

Annual interest Rs 5,50,000 1. Break even profit before interest correctly identified as Rs 5,50,000 1. Equity advised 1. The advice supported by the comparison of the interest with the lowest profit of Rs 4,00,000 1.

Question 8 [12]

- (a) Human resource management is that part of management which is concerned with the people a firm employs: with working out how many and of what kind are needed, with finding them and choosing them, with placing and training them, with judging and rewarding what they do, with their health, their safety and their welfare, with their grievances and their discipline, and with their relations with the firm, so that the firm gets the performance it needs and the employee gets what he came for. First, it staffs the company, estimating the requirement of fitters, operators, supervisors and clerks, recruiting and selecting them, placing each where his training fits him and arranging the induction that settles him in. Second, it trains and develops, finding where skills fall short of what the work now requires, arranging the instruction on the job or off it, and preparing those who are to be promoted to supervise others. Third, it manages performance and compensation, setting the standard for each post, appraising each employee against it, fixing and revising the wage and the salary scales and operating the bonus and the incentive schemes. The maintenance of industrial relations with the union, the attention to safety and welfare, and the handling of grievances and discipline are equally acceptable functions.

Human resource management correctly explained 1. Three functions, 1 mark each 3.

- (b) First, the screening of the applications received, by which those who plainly do not meet the stated requirements of age, qualification or experience are set aside at once, so that the firm spends its time only on the rest. Second, the selection tests, which may test the aptitude the work calls for, the skill the applicant claims to have through a trade test, his intelligence, or his interests and temperament, and which give the firm a measure that does not depend on the applicant's own account of himself. Third, the interview, in which those who have come through the tests are questioned face to face, so that the firm can judge the matters a test cannot reach, his bearing, his manner of speaking, his reasons for applying and his fitness for the particular group he will join, and can answer his questions in turn. Fourth, the checking of references and of the previous record, by which the firm asks the employers and the referees the applicant has named about his work and his conduct, and verifies the certificates he has produced. The preliminary interview or screening interview at the start, the medical examination, the issue of the letter of appointment and the induction of the selected candidate may also be given, and a correct order is the thing to be credited.

Four steps, 1 mark each, each named and briefly explained 4. Where the four steps are correct but given out of order, deduct 1 from the total for the part.

- (c) A wage is a payment reckoned by the hour, the day or the piece and paid for the most part to a worker engaged in manual or operative work, usually weekly or fortnightly, and it varies with the hours actually worked or the output actually produced, so that absence or short time reduces it and overtime adds to it. A salary is a fixed sum settled for a month or a year, paid for the most part to clerical, supervisory and managerial staff at the end of each month, and it does not vary with the hours put in, the holder being expected to see his work done rather than to be present for a counted number of hours. First, the dearness allowance, an addition to basic pay meant to protect its purchasing power as the general level of prices rises, which is revised from time to time and usually calculated as a percentage of the basic pay. Second, a bonus or incentive payment, which is tied to performance rather than to time, whether to the output of the individual, the profit of the firm or the result of the year, and whose purpose is to give the employee a direct interest in how well the firm does. The house rent allowance, the conveyance allowance, the medical benefit, the contribution the firm makes to the provident fund and the gratuity payable on leaving are equally acceptable components.

Wage and salary correctly distinguished 2. First component named and explained 1. Second component named and explained 1.

Question 9 [12]

- (a) Business ethics is the body of standards of right and wrong conduct by which the dealings of a business are judged, applied to its dealings with its customers, its employees, its suppliers, its competitors, its investors and

the public. It goes beyond what the law requires, since a thing may be perfectly lawful and still be wrong, as the taking of an unfair advantage of a buyer's ignorance is, and it rests on the recognition that a business draws its resources and its custom from society and owes it fair dealing in return. First, the conduct of the men at the top. People take their cue from those above them, and a firm whose proprietors and directors are known to deal straight, and known to refuse business that cannot be had honestly, will find its staff doing likewise, while the firm whose owner winks at a short weight will be cheated by his own employees in time. Second, the published code of conduct of the firm and the means by which it is enforced. A code that states plainly what is not to be done, that is brought to the notice of every employee, and that is backed by inquiry and by punishment when it is broken, leaves far less room for the plea that a man did not know, whereas a code that hangs on a wall and is never acted upon does nothing. Third, the system of targets and rewards. A firm that pays its salesmen on volume alone, and asks no questions about how the volume was got, is in effect paying them to mislead the customer, so ethical conduct requires that how a result was reached should count in the reward as well as the result. The alertness of the public, the press and the consumer associations, the vigour of the authorities that enforce the law, and the training and the example given to new recruits are equally acceptable factors.

Business ethics correctly explained, with the point that it goes beyond law 1. Three factors, 1 mark each 3.

- (b) The claim is unethical, first, because it is a statement of fact made without any ground for believing it. The manufacturer does not know that the liquid kills every germ in a house in one minute, because he has never had it tested, so he is asserting as proved something he has not troubled to find out, and the fact that it may conceivably be true does not excuse him. Second, the claim is of a kind the buyer cannot check. He has no means of counting the germs on his floor before and after, so he must take the maker's word, and a claim made in such a case carries a greater duty of care, not a smaller one. Third, the claim touches health and so may do real harm. A household that believes its floors are now free of every germ may relax the other precautions it was taking, and in a house with a small child or a sick person that is a serious matter. Two parties injured by it are, first, the buyer, who parts with his money for a benefit he is not getting, is misled about something that bears on the health of his family and may drop the precautions that were actually protecting them, and second, the honest competitor, who has had his own product tested, makes only the modest claim his results support and therefore looks the weaker article on the shelf, so that he loses sales to a claim he cannot match without lying himself. The authorities and the trade at large are also acceptable as an injured party, since such claims bring the whole trade under suspicion and invite regulation of everyone.

Two or more ethical objections, correctly explained with reference to the untested claim 2. First injured party with the injury explained 1. Second injured party with the injury explained 1.

- (c) The argument in favour is that a business is not a thing apart from the society it works in. It takes its land, its water, its power, its material, its workmen and its customers from that society, and it is protected in its property and its contracts by the state society maintains, so it owes society a return beyond the goods it sells and the tax it pays. Its decisions fall on people who had no voice in them, the man who breathes its smoke or the locality that loses its water, and because it has the power to do that harm it has the duty to prevent it. Discharging the responsibility is also in the firm's own long term interest, since a firm that fouls the place it works in, uses its workmen hard and misleads its buyers will sooner or later face a hostile public, a difficulty in finding staff and a law passed against it, and the cost of all three exceeds what it would have cost to behave well. Two arguments urged against it are, first, that the business of a business is business. Its managers are entrusted with other people's money for the purpose of earning a return on it, and money spent on objects of a social kind is money given away out of the shareholders' pockets without their consent, while the proper agency for social objects is the state, which has the mandate and the machinery for them. Second, that a business lacks the competence for such work. Its managers are trained to make and sell, not to run schools or clinics or to decide which of the claims upon them deserves the money, so their efforts are likely to be wasteful and misdirected. A third acceptable argument is that the cost of such activity is in the end passed on to the consumer in the price, and a fourth that it draws the firm into matters where it ends by acquiring an influence over the community that no private body should have.

Argument in favour explained, on the ground of what the firm takes from society or of the effect of its decisions on others 2. First argument against 1. Second argument against 1.