

# **GUIDELINE ANSWERS**

## **FOUNDATION PROGRAMME**

**DECEMBER 2011**



**THE INSTITUTE OF  
Company Secretaries of India**  
**IN PURSUIT OF PROFESSIONAL EXCELLENCE**  
Statutory body under an Act of Parliament

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**FOUNDATION PROGRAMME EXAMINATION**  
**DECEMBER 2011**  
**ENGLISH AND BUSINESS COMMUNICATION**

Time allowed : 3 hours

Maximum marks : 100

**NOTE :** Answer **ALL** questions.

**PART A**

**Question 1**

(a) Write an essay of about 300 words on **any one** of the following :

(i) Women entrepreneurs

(ii) e-Banking

(iii) Public Private Partnership.

(10 marks)

(b) Make a précis of the following passage in about **one-third** of its length and suggest a suitable title (Use précis-sheet given at the end of the answer book) :

*The business cycle or trade cycle is a permanent feature of market economies. Gross Domestic Product (GDP) fluctuates as booms and recessions succeed each other. During a boom, an economy expands to the point where it is working to its full capacity so that production, employment, prices, profits and investment rates all tend to rise. During a recession, the demand for goods and services decline and economy begins to work below its potential. Output, profits, commodities and share prices generally fall. A long-lasting recession is called a slump or depression.*

*The highest point in a business cycle is called a peak which is followed by a downturn, downswing or a period of attrition. The lowest point is called a trough which is followed by a recovery, upturn or upswing.*

*There are internal and external theories to explain the business cycle. Internal theories consider it to be self-generating, regular and infinitely repeating. When economic times are good, people spend more, run up debts, take loans. When interest rates are high, people start consuming less, save more and do not borrow. This results in the demand becoming less, production slowing down and the downturn beginning.*

*External theories suggest that scientific advancements, natural disasters, economic and political changes trigger an upswing or downswing. These theories look for explanation outside of economic activity. Over regular periods of time, the business cycle changes in keeping with ambient circumstances. Sooner or later at every point of economic growth, when demand is high, prices can be easily put up and profits are increasing – employees will begin to demand higher wages and salaries. As a result, employers will either reduce investment or start to downsize employees and a downturn will begin.*

*As far back as the nineteenth century, people believed that business cycle resulted from people infecting one another with optimistic or pessimistic*

*expectations. When the times are good they invest and spend, when times are bad they save. Another practical theory of business cycle suggests that it is caused by business oriented governments beginning their periods of office with a couple of years of austerity programmes followed by tax cuts and monetary expansion in two years before the next election.*

*(363 words)*

*(8+2 marks)*

**Answer 1(a)(i)**

**Women Entrepreneurs**

Entrepreneur, in the corporate world, is not a new entity. Their existence dates back to the commencement of business itself from time immemorial, when women were confined to the house and hearth.

In the twentieth century, women have ventured into many male dominated areas and business is one of those. Her transition from cloistered joint family environments to cut-throat business world has had its trauma.

While some of the women started with the conventional mediums of conducting sewing and cookery classes at home, running beauty parlours, etc. to supplement the household income, others ventured into more challenging fields like real estate, construction of weighbridges, running restaurants, establishing textile mills, making television serials, founding multicore ceramic chip capacitors and so on. In all these fields women have proved themselves admirably as entrepreneurs.

The Government has done its bit too. The Entrepreneurship Development Institute organizes special programs not only to cater to the requirements of existing women entrepreneurs but also to identify new entrepreneurs and provide them with assistance to start new ventures. There are also special schemes for women who set up their own units. A number of prizes and awards have been instituted by the Government like "Outstanding International Personality of the Decade"; "Woman of the year"; "Udyog Ratna"; "Best Women Entrepreneur"; "Woman of the Decade" just to encourage women entrepreneurship.

What is needed, under circumstances, is a wider publicity of the schemes offered to enable many more talented aspirants to avail the benefits thereof. The recommendation of the UNICEF is apt in this regard. "Advocate a broad perception of women in society and in the development process taking the view that women are not limited to motherhood or domestic roles but should be seen in the totality of women's role".

It is envisaged that with the changing times and change in the socio cultural norms, urbanization, industrialization, emergence of nuclear families, women will enter comparatively new fields of entrepreneurship in larger number and prove themselves credibly.

*(326 Words)*

**Answer 1(a)(ii)**

**e-Banking**

e- Banking (or Internet banking) means that any user with a personal computer and a browser can get connected to his bank(s) website to perform any of the virtual banking functions. In e-banking system the bank has a centralized database that is web-enabled.

All the services that the bank has permitted on the internet are displayed in menu. Any service can be selected and further interaction is dictated by the nature of service. Once the branch offices of bank are interconnected through terrestrial or satellite links, there would be no physical identity for any branch. It would be a borderless entity permitting anytime, anywhere and anyhow banking.

The RBI constituted a working group on e-Banking and divided it into three types based on the levels of access granted. They are: information only system; electronic information transfer system and fully electronic transactional system. These provide information and services like interest rates, branch location, bank products and their features, loan and deposit calculations on the banks website; customer- specific information in the form of account balances, transaction details, and statement of accounts and bi-directional capabilities i.e. transactions can be submitted by the customer for online update respectively.

The services that can be availed through e-banking are bill payment service, fund transfer, railway pass, shopping, investing etc. However, those using these facilities should never share personal information like PIN numbers, passwords etc with anyone, including employees of the bank. It is also important to safeguard documents containing confidential information. Further they should not provide sensitive account-related information over unsecured e-mails or over the phone.

Through e-banking, one can check the transactions at any time of the day, and as many times as desired whereas in a traditional method, quarterly statements from the bank are received. If the fund transfer has to be made outstation, where the bank does not have a branch, the bank would demand outstation charges whereas with the help of e-banking, it will be absolutely free. (326 Words)

### **Answer 1(a)(iii)**

#### **Public Private Partnership**

Public-private partnership (PPP) is a funding model between a government entity on one side and a private sector entity on the other. The partnership can be for a public infrastructure project such as a new telecommunication system, airport or power plant. The public partner is represented by the government at a local, state and/or national level. The private partner can be a privately-owned business, public corporation or consortium of businesses with a specific area of expertise.

Public Private Partnership (PPP) includes dual ownership and management and it involves such arrangements whereby work, risk and rewards are shared. In other words, it can be stated that PPP is a contract of shared ownership, whereby a public agency and private agency pool resources and share risks and rewards to create efficiency in the production.

PPP is a broad term that can be applied to anything from a simple, short term management contract (with or without investment requirements) to a long-term contract that includes funding, planning, building, operation, maintenance and divestiture.

A typical example of PPP is the toll expressway project financed and constructed by a private developer. The PPP is operationalised through a contractual relationship between a public body and a private body. This type of partnership could take many

contractual forms like-service contract, management contract or lease, Joint Venture etc. The private partner could be a private company, a consortium or an NGO.

Experts say that the PPP is one successful vehicle for attracting Foreign Direct Investment (FDI) in the infrastructural and the utilities sector. PPP is a strong possibility to fund large projects since it combines accountability with efficiency and helps in augmenting resources. Various models of PPP can be explored depending upon the size of urban/local bodies.

In short, it can be stated that PPP projects can help the economy to move from the 'vicious circle' to 'virtuous cycle'. (310 words)

### Answer 1(b)

#### Suggested Title : The Business Cycle

The business cycle or a trade cycle consists of a period of boom followed by a period of recession. The boom period sees the economy growing with the highest point called the 'peak' reached at a point. The peak is followed by a downward swing which has a lowest point called 'trough'.

There are two main types of theories to explain the business cycle-the internal and external theories. Internal theories propagate that the business cycle is a self generating continuous cycle. A period of boom is naturally followed by a downtrend. External theories propagate the fact that business cycles are dependent on natural disasters, inventions and political changes. These factors cause the economy to grow or slow down. Some theorists suggest deliberate government measures foretell a boom or recession. (129 words)

### Question 2

(a) Attempt the following as directed against each :

- (i) *I am tired he replied however I will complete the work. (Punctuate the sentence.)*
- (ii) *You must abide \_\_\_\_\_ the rules. (Fill-in the blank space using appropriate preposition.)*
- (iii) *Both the brothers, Ketan and Chetan are intelligent but the later is highly educated. (Replace the underlined word with the correct word.)*
- (iv) *His speech was broadcasted yesterday. (Correct the sentence.)*
- (v) *After the accident, Bhanu remained in a state of \_\_\_\_\_ for five days. (Fill-in the blank space using correct word — comma/coma.)*
- (vi) *It is a great house however it is very far from the town. (Punctuate the sentence.)*
- (vii) *The candidates will be interviewed between 11 a.m. to 1 p.m. (Replace the underlined word with the correct word.)*
- (viii) *He is very good \_\_\_\_\_ Tennis. (Use a suitable preposition.)*



- (ix) Please do not make adverse \_\_\_\_\_. (Fill-in the blank space using correct word — comments/remarks.)
- (x) After sometime Charu stopped to work. (Correct the sentence.)  
(1 mark each)
- (b) Write the most appropriate answer from the given options in respect of the following :
- (i) One who calculates insurance and annuity premium —  
(a) Investor  
(b) Insurer  
(c) Actuary  
(d) Atheist.
- (ii) The process by which green plants prepare their own food is known as—  
(a) Photosynthesis  
(b) Symbiosis  
(c) Perspiration  
(d) Biochemistry.
- (iii) Putting to death painlessly especially to end suffering is called —  
(a) Genocide  
(b) Euthanasia  
(c) Megalomania  
(d) Dilemma.
- (iv) The term topography means —  
(a) Nature of settlements  
(b) Nature of land  
(c) Nature of water bodies  
(d) Nature of mines.
- (v) A thing that is fit to be eaten is known as —  
(a) Versatile  
(b) Popular  
(c) Edible  
(d) Inedible. (1 mark each)

**Answer 2(a)**

- (i) "I am tired," he replied, "however I will complete the work".
- (ii) by
- (iii) latter
- (iv) His speech was broadcast yesterday.
- (v) coma

- (vi) It is a great house; however, it is very far from town.
- (vii) from
- (viii) at
- (ix) remarks
- (x) After sometime Charu stopped working.

**Answer 2(b)(i)**

- (c) Actuary

**Answer 2(b)(ii)**

- (a) Photosynthesis

**Answer 2(b)(iii)**

- (b) Euthanasia

**Answer 2(b)(iv)**

- (b) Nature of land

**Answer 2(b)(v)**

- (c) Edible.

**Question 3**

- (a) *Make sentences of your own using the following pair of words to bring out their meanings :*

- (i) *Suit — Suite*
- (ii) *Umpire — Empire*
- (iii) *Peace — Piece.* (2 marks each)

- (b) *Make sentences of your own using the following words/phrases/idioms to bring out their meanings :*

- (i) *Look into*
- (ii) *To lose the day*
- (iii) *In the nick of time.* (1 mark each)

- (c) *Words have different meanings in different contexts/situations. Make sentences of your own using the following words to bring out their two different meanings:*

- (i) *Table*
- (ii) *Light*
- (iii) *Mind.* (2 mark each)

**Answer 3(a)**

- (i) **Suit** : His wedding suit was beautiful.  
**Suite** : The hotel had various luxurious suites.
- (ii) **Umpire** (A referee): The umpire is impartial.  
**Empire** (Domination): The British Empire still has a queen.
- (ii) **Peace** (Freedom from disturbance): Social peace is very essential for a country.  
**Piece** (Portion): A piece of land is lying vacant in our street.

**Answer 3(b)**

- (i) **Look into** (to examine) : We shall look into the matter very carefully.
- (ii) **To lose the day** (to be defeated) : If they had failed to attack at the crucial moment, they would surely have lost the day.
- (iii) **In the nick of time** (at the last possible moment) : We arrived at the airport and boarded our plane in the nick of time.

**Answer 3(c)**

- (i) **Table** : We have ordered two tables and three chairs.  
His article was missing from the table of contents.
- (ii) **Light** : Nita was asked to switch off the lights immediately and go to sleep.  
Tina has rosy cheeks and light brown hair.
- (iii) **Mind** : Geeta has a sharp mind (great mental ability).  
He changed his mind (opinion) at the last moment.

**PART B****Question 4**

- (a) *State, with reasons in brief, whether the following statements are true or false. Attempt **any five** :*
  - (i) *Silence is not a means of communication.*
  - (ii) *Verbal communication can be either oral or written.*
  - (iii) *Group decisions are always good.*
  - (iv) *Only one standard format is there in which a business letter can be written.*
  - (v) *Written communication is not a creative activity.*
  - (vi) *It is the sole responsibility of the sender of the message to overcome external barriers to communication.*
  - (vii) *Communication is a one way process.*

*(2 marks each)*

(b) Explain the following with reference to the essentials of an effective business letter :

- (i) Conversational style
- (ii) 'You' attitude
- (iii) Persuasion
- (iv) Positive language
- (v) Care for culture.

(2 marks each)

**OR**

Write a letter to the Managing Director of a company, which is engaged in supply of cooking gas for domestic use through pipeline laid by the company, pointing out deficiency in service.  
(10 marks)

**Answer 4(a)(i)**

**Incorrect** : Silence can be an effective means of communicating varied emotions like shyness, discomfort, respect, indifference, fear, suspense, communication gap, sense of anticipation etc.

**Answer 4(a)(ii)**

**Correct** : Verbal means connected with words and use of words. Words are accurate and powerful means of communication which could be either spoken/oral or written.

**Answer 4(a)(iii)**

**Incorrect** : Group decision-making suffers from a number of limitations like domination by few members, long unproductive discussions, high expense and difficulties of responsibility fixation.

**Answer 4(a)(iv)**

**Incorrect** : A business letter can be written in any of the three standard formats-full block, modified block and semi block.

**Answer 4(a)(v)**

**Incorrect** : Written communication is based on conscious efforts that require a lot of imagination and creativity. Therefore it is a creative activity.

**Answer 4(a)(vi)**

**Incorrect** : It is not the sender's sole responsibility and he cannot always remove barriers to communication. He can try to overcome them for better communication. The external barriers are many a time not under his control.

**Answer 4(a)(vii)**

**Incorrect** : Communication is a two way process as both the sender and the receiver of the message are involved in communication.

**Answer 4(b)(i)**

**Conversational Style** : An effective letter is one that gives the impression of face

to face communication and is interactive in essence. Thus, a letter should be drafted on the basis of friendly and conversational style in place of the dull and stiff style.

**Answer 4(b)(ii)**

**‘You’ attitude** : The most effective business letters are those that show the writer’s interest in the receiver. It means, therefore, that one cultivates the habit of viewing things from the point of the reader/receiver of letters.

**Answer 4(b)(iii)**

**Persuasion** : Persuasion is the main function of business communication, and nothing persuades more effectively than a well written letter. Persuasive letters are written in a variety of circumstances and for a variety of reasons.

**Answer 4(b)(iv)**

**Positive Language** : As far as possible positive language should be used in business letters. Negative words like, damage, failure, refuse etc. should be avoided in any case.

**Answer 4(b)(v)**

**Care for culture** : One has to be especially careful in choice of words so as not to offend the receiver who may be having a different cultural background. The best way is to avoid use of culturally derived words, idioms and phrases.

**Answer to Alternate Question 4(b)**

December 28, 2011

To

The Managing Director  
Rupreka Gas Services Ltd.  
Indraprastha Estate  
New Delhi – 110091

*Sub. : Deficiency in Service –Piped Domestic Gas Consumer No.121-456789-2011*

Sir,

This is to bring to your kind notice that I am a consumer of piped cooking gas supplied for domestic use, through the pipelines laid by your company. The above mentioned company assured consumers that there will be a continuous supply of high pressure gas. The reality however, is different from assurances. The pipelines are leaking and posing threat to life and assets.

The meters installed to levy charges from consumers are also faulty.

In view of the above, you are requested to take urgent remedial actions to rectify the deficiencies soon and oblige.

Thanking you

Yours faithfully

(Mrs. A K. Sen)  
(R – 153/2A, Royal Nagar,  
Sector 53, Eiten Nagar)

**Question 5**

Attempt **any three** of the following :

- (i) Draft a public notice to the effect that Rahul is no longer associated with the company. (Assume facts.)
- (ii) Draft an advertisement for recruitment of 'Assistant Company Secretary'.
- (iii) Draft a reply to a shareholder who complained about non-receipt of balance sheet.
- (iv) Draft a message on behalf of all officers and staff (Sales Department) wishing the Managing Director of the company for success on his business tour. (5 marks each)

**Answer 5(i)**

Softel Electronics Pvt. Ltd.  
Udyog Vihar, Gurgaon  
Haryana

**Public Notice**

Softel Electronics Pvt. Ltd wishes to announce that Mr. Rahul Dutt a resident of 97/2, Hazara Road, Kolkata, and employed with Softel as a Sales Representative is no longer in their employment.

Anyone dealing with him shall do so at his own risk and Softel Electronics Pvt. Ltd. shall not be liable in this regard.

Sd/-

Area Manager

Softel Electronics Pvt. Ltd

Date : 28.12.2011

**Answer 5(ii)**

**VERMA LTD.**  
**NEEDS**  
**ASSISTANT COMPANY SECRETARY**

(₹25,000-400-45,000)

The candidate should be a Graduate with Membership of the Institute of Company Secretaries of India (ACS/FCS). Experience in administrative work and a Degree in Law would be an added advantage.

Age: Around 35 years

**EMOLUMENTS**

Minimum scale of pay is ₹25,000 p.m. Other benefits include medical reimbursement, accident insurance, leave encashment, LTC, PF, bonus etc.

Application on plain paper with complete bio-data, details of experience, present salary and pay-scale should be sent to reach the Manager (Verma Ltd., 15/48, Maha Mandir Road, Jodhpur) within 15 days of the publication of this advertisement.

**Answer 5(iii)****SPG COMPUTERS LTD.**

*Regd. Office : 14, MGR Avenue, Chennai - 600 101*

*Phones : 4218112, 4231181 Fax : (040) 8715213*

Folio No. 38001/B/2011

*Dated : 28.12.2011*

Shri Vipul G. Bhatia  
28, Longdrive  
Ooty (Tamil Nadu)

Dear Sir,

We refer to your letter of complaint dated 20th December 2011 regarding non-receipt of Balance Sheet of the company for the year ended 31st March, 2011.

We find from our dispatch register that a copy of Balance Sheet was sent to you on 20th November, 2011 by post. It seems that the same has been lost in transit. Anyway we are enclosing herewith another copy of the Balance Sheet for the year ended 31st March, 2011 for your records.

Your reply in confirmation, by return of post, is solicited.

Thanking you,

Yours faithfully,

Sd/-  
Gracy Graffe  
Company Secretary

**Answer 5(iv)****SHRINATH LTD.**

Indore

*From :*

*Date : 01.12.2011*

All Officers and Staff  
(Sales Department)

To:

Managing Director

All officers and staff members of the Sales Department of the company hereby convey their best wishes to Shri B. L. Dhoka, (Managing Director) on the happy occasion of his leaving for European countries on business tour. It is hoped that his visit will bring grand success and will give a big boost to company's efforts to achieve higher export performance.

**Question 6**

Attempt **any three** of the following :

- (i) Draft a letter (body only) requesting the postal authorities for allotment of a Post Box No.
- (ii) Draft a letter (body only) complaining excessive telephone billing.
- (iii) Write a letter to the Manager of Be-Happy bank seeking confirmation of a letter of credit bearing No.SBL0120-75569-89-2011 so as to enable your banker to discount the bill under bill purchase scheme.
- (iv) Anurag has requested the management of your company to sanction him two years' study leave for joining IIM, Lucknow for pursuing MBA in Human Resource Management on full time basis. Draft a suitable reply as a Manager (HR). (5 marks each)

**Answer 6(i)**

Dear Sir,

We are interested in availing of the Post Box facility with your post office. A Demand Draft of ₹500.00 (Rupees Five hundred only) is enclosed towards the annual charges for the period 2011-2012.

Please allot a Post Box number and oblige.

We thank you in anticipation.

Yours faithfully

**Answer 6(ii)**

Dear Sir,

We are surprised to learn from the latest telephone bill that we have been overcharged, particularly in respect of the trunk calls. We are at pains to know that the billing has been done in excess by at least 5 times than the charges that our calls would have actually attracted. We have remitted the amount as per the Bill, but would request you to please check your records/readings once again and make necessary adjustments in the Telephone Bill(s) to be issued in future.

**Answer 6(iii)**

**The National Bank Ltd.**  
16/23, Moreflow Building  
KOLKATA

Ref.No.NBL/L/C/2011-132.

December 28, 2011

To

The Manager  
Be-Happy Bank  
Ahmedabad.

Sub : Urgent confirmation of letter of Credit No. SBL 0120-75569-89-2011 for ₹20,00,000/-



Sir,

One of our constituent has requested to have the above mentioned letter of credit purported to have been issued by your branch.

Please confirm in writing as to whether letter of credit has been issued by your branch.

Thanking you

Yours faithfully

For National Bank Ltd.

(S P Singh )  
Manager

**Answer 6(iv)**

**BHARAT INDUSTRIAL ENGINEERING LIMITED**

29/41, Industrial Marol  
Andheri (East)  
MUMBAI – 401 002

Ref.No.CS/BIEL/2011-23

December 28, 2011

To

Mr. Anurag Bose  
Administrative Officer  
Administrative Wing

*Through: Admin. Department Head*

Dear Anurag

*Sub : Leave Approval*

Your request for two years leave for pursuing MBA in Human Resource Management from IIM, Lucknow, has been accepted by the management.

You are granted two years leave with effect from January, 2012.

Thanking You

Yours faithfully

For Bharat Industrial Engineering Ltd.

( M P Sengupta )  
Manager (HR)

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## ECONOMICS AND STATISTICS

Time allowed : 3 hours

Maximum marks : 100

### PART A

(Answer Question No. 1 which is **COMPULSORY**  
and **any two** of the rest from this part)

#### Question 1

- (a) State, with reasons in brief, whether the following statements are true or false :
- (i) Price elasticity of demand of a commodity is affected by the number of its substitutes.
  - (ii) The law of variable proportions is a long-term phenomenon.
  - (iii) Price discrimination is possible in monopoly only.
  - (iv) Primary sector in India no longer provides employment to majority of the work force.
  - (v) Monetary policy is formulated and implemented by Government of India. (2 marks each)
- (b) Write the most appropriate answer from the given options in respect of the following :
- (i) Which of the following is not one of the basic micro economics questions —
    - (a) What to produce
    - (b) For whom to produce for
    - (c) How to make use of labour or machinery
    - (d) How to maximise social welfare.
  - (ii) Utility means —
    - (a) Power to satisfy a want
    - (b) Quality of a service
    - (c) Willingness of a person to purchase
    - (d) Desire to have a good.
  - (iii) In which market an individual firm cannot influence price —
    - (a) Perfect competition
    - (b) Monopoly
    - (c) Monopolistic competition
    - (d) Oligopoly.
  - (iv) The biggest source of domestic savings in India has been —
    - (a) Household savings

- (b) *Public sector savings*
  - (c) *Government revenue surpluses*
  - (d) *Corporate savings.*
- (v) *Fiscal policy is connected with —*
  - (a) *Issue of currency*
  - (b) *Exports and imports*
  - (c) *Public revenue and expenditure*
  - (d) *All of the above.*
- (vi) *Bank rate means —*
  - (a) *Interest rate payable by RBI on deposits of commercial banks*
  - (b) *Interest rate charged by banks on loans and advances*
  - (c) *Interest rate payable on bonds*
  - (d) *The rate at which RBI discounts the bills of exchange.*
- (vii) *If marginal utility derived from the consumption of a commodity by the consumer is zero, the total utility will be —*
  - (a) *Minimum*
  - (b) *Maximum*
  - (c) *Zero*
  - (d) *None of the above.*
- (viii) *Which one of the following cost curves always slopes downwards —*
  - (a) *Total fixed cost curve*
  - (b) *Short-run average cost curve*
  - (c) *Average variable cost curve*
  - (d) *Average fixed cost curve.*
- (ix) *Which theory is generally studied in micro economics —*
  - (a) *Price theory*
  - (b) *Income theory*
  - (c) *Employment theory*
  - (d) *None of the above.*
- (x) *The headquarters of World Trade Organisation (WTO) is located at –*
  - (a) *New York*
  - (b) *Doha*
  - (c) *New Delhi*
  - (d) *Geneva.*

(1 mark each)

**Answer 1(a)(i)****Correct**

*Reason :* A consumer can choose between several goods for satisfying a given want. The demand for a good is affected not only by its own price but also by the prices of its substitutes. If a good has close substitutes, the consumer finds it easier to switch from it to its substitutes and vice versa and its demand tends to be more elastic. It also follows that price elasticity of good increases if it has a larger number of substitutes. A good which has a close substitute tends to have an elastic demand compared with the one which cannot be substituted.

**Answer 1(a)(ii)****Incorrect**

*Reason :* The law of variable proportion is a short-term phenomenon. It explains the behaviour of a production function when a firm has some fixed factors and can only change the rest. An input, the quantity of which can be varied by the firm, is termed as 'variable' factor, while an input, the quantity of which cannot change, is termed as 'fixed' factor. For this reason, the law of variable proportions is a short term phenomenon. Short run is defined as that time period during which a firm cannot vary the quantities of all inputs. It is tied with some 'fixed' inputs like buildings, machines, permanent employees and the like which give it a fixed plant size with a predefined range of output.

**Answer 1(a)(iii)****Correct**

*Reason :* In a monopoly market form, since monopolist is the single producer or seller of goods, therefore, he can fix any price for his product. It is possible that he may find it profitable not to charge a uniform price for his entire output but sell it at varying prices. It is possible that a monopolist charges different prices for even a homogenous product from different customers. The term used to denote this phenomenon is 'price discrimination' and the monopoly practicing it known as 'discriminating monopoly'.

**Answer 1(a)(iv)****Incorrect**

*Reason :* Agriculture has been and is a major source of livelihood for majority of population in India. The occupational structure of the country has shown lack of flexibility and in the absence of any alternate employment opportunity, a large section of increasing labour force has still been absorbed in primary sector i.e., agriculture and other primary activities.

**Answer 1(a)(v)****Incorrect**

*Reason :* Monetary policy is formulated and implemented by, the Central Bank of the country i.e., Reserve Bank of India, keeping in view the objectives of the general economy policy and planned scheme of economic development. Monetary policy is, therefore, basically concerned with measures undertaken by the Central Bank i.e., RBI

to control the money supply in circulation with a view to stabilise the working of the economy.

**Answer 1(b)(i)**

- (d) How to maximise social welfare

**Answer 1(b)(ii)**

- (a) Power to satisfy a want

**Answer 1(b)(iii)**

- (a) Perfect competition

**Answer 1(b)(iv)**

- (a) Household savings

**Answer 1(b)(v)**

- (c) Public revenue and expenditure

**Answer 1(b)(vi)**

- (d) The rate at which RBI discounts the bills of exchange

**Answer 1(b)(vii)**

- (b) Maximum

**Answer 1(b)(viii)**

- (d) Average fixed cost curve

**Answer 1(b)(ix)**

- (a) Price theory

**Answer 1(b)(x)**

- (d) Geneva

**Question 2**

- (a) Distinguish between any three of the following :

- (i) 'Change in supply' and 'change in quantity supplied' with the help of diagram(s).
- (ii) 'Internal economies of scale' and 'external economies of scale'.
- (iii) 'Balance of trade' and 'balance of payments'.
- (iv) 'Monopoly' and 'monopolistic competition'. (3 marks each)

- (b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

- (i) Production function is defined as the \_\_\_\_\_ relationship between input and output.

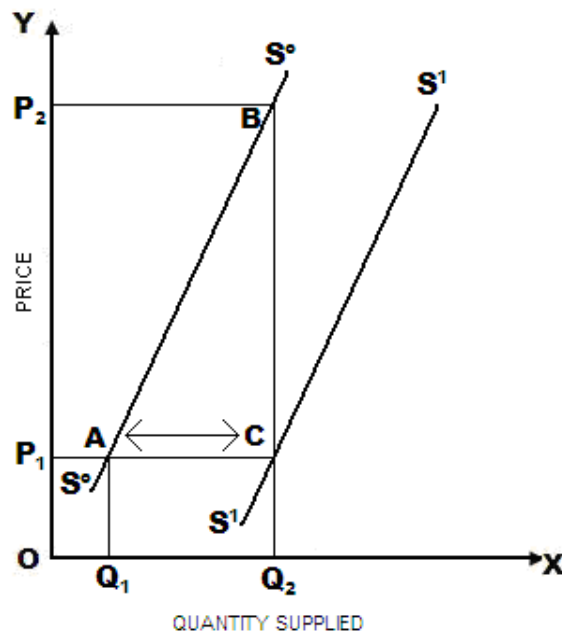
- (ii) A firm is a \_\_\_\_\_ unit engaged in the task of producing or selling of some specified goods or services.
- (iii) The concept of socialist economy has its origin in the drawbacks of \_\_\_\_\_.
- (iv) India has \_\_\_\_\_ reserves of high quality iron ore.
- (v) The National Rural Employment Guarantee Scheme was implemented from February, 2006 in \_\_\_\_\_ identified districts of the country.
- (vi) \_\_\_\_\_ is the apex institution of Indian financial system.

(1 mark each)

**Answer 2(a)(i)****‘Change in Supply’ and ‘Change in Quantity Supplied’**

Change in supply means an increase or decrease in supply of a commodity due to changes in the conditions of supply such as technology or input costs etc. These changes result in a different level of supply at any price and are not caused by changes in the price itself.

A change in quantity supplied refers to a change in the quantity supplied of a commodity as a result of a change in price, other things remaining same. This will result in a movement along the supply curve whereas changes in supply results into a shift in the supply curve either to left or to the right.

**Fig. 1 : ‘Change in Supply’ and ‘Change in Quantity Supplied’**

In Fig 1, X axis shows Quantity Supplied, Y axis shows Prices.

The distinction between changes in price and changes in the conditions of supply are shown in Fig 1 where,

- $S^0$  = Original supply curve
- $S^1$  = New supply curve
- $P_1$  = Original price
- $P_2$  = New price
- $Q_1$  = Original quantity supplied
- $Q_2$  = New quantity supplied

When the movement is from supply curve  $S^0S^0$  to supply curve  $S^1S^1$ , it is called change in supply caused due changes in condition of supply, whereas the movement from point 'A' to point 'B' on supply curve  $S^0S^0$  is known as change in quantity supplied caused due to changes in prices of the good from  $P_1$  to  $P_2$

#### **Answer 2(a)(ii)**

##### **'Internal Economies' and 'External Economies of Scale'**

Internal economies of scale mean advantages accruing to a firm or reduction in the average cost of production on account of some actions of the firm itself. The major sources of internal economies of scale to a firm include economies of production, economies in marketing, managerial economies, economies in transport and storage.

External economies of scale mean advantages accruing to a firm on reduction in the average cost of production due to factors which are not directly connected with the activities of the firm. These economies are available to all other firms located in that area or belong to a particular industry. The major sources of external economies of scale include economies of information, Research and Development, government policies etc.

#### **Answer 2(a)(iii)**

##### **'Balance of Trade' and 'Balance of Payments'**

Balance of trade refers to the difference between the value of tangibles or visible imports and exports i.e., items only. It is a narrow term.

Balance of payment is broader term and covers the total debits and credits of all items, visible as well as invisible. Balance of payment is a statistical record of a country's all economic transactions with rest of the world over given period of time usually one year. Balance of payments includes in its structure the notion of balance of trade.

Balance of trade, being a partial study of international transactions, therefore, has a little analytical and economic significance when compared with balance of payment.

#### **Answer 2(a)(iv)**

##### **'Monopoly' and 'Monopolistic Competition'**

Monopoly is a market situation characterized by a single seller or producer, selling

or producing a commodity which has no close substitutes. It is a single firm industry and entry of new firms is restricted for various reasons. There are no selling expenses.

Monopolistic competition on the other hand, is a market structure where there are many sellers/firms, selling or producing a differentiated product. In this sense, each seller is a monopolist of his differentiated product. However, the products offered by different sellers are close substitutes of each other hence there is an intense competition. Product differentiation necessitates incurring of selling expenses.

### Answer 2(b)

- (i) Production function is defined as the **physical** relationship between input and output.
- (ii) A firm is a **business** unit engaged in the task of producing or selling of some specified goods or services.
- (iii) The concept of socialist economy has its origin in the drawbacks of **Capitalism**.
- (iv) India has **abundant** reserves of high quality iron ore.
- (v) The National Rural Employment Guarantee Scheme was implemented from February, 2006 in **200** identified districts of the country.
- (vi) **Reserve Bank of India (RBI)** is the apex institution of Indian financial system.

### Question 3

*Attempt any three of the following :*

- (i) *"Economics is not an exact science." Comment.*
- (ii) *"Rapid industrialisation is necessary for fast economic development." Comment.*
- (iii) *"Urbanisation is a resource costly phenomenon for an economy like ours." Comment.*
- (iv) *What is 'World Trade Organisation' (WTO) ? Discuss its objectives.*  
(5 marks each)

### Answer 3(i)

Economics is described as a science because it tries to establish cause and effect relationship but it is not an exact science like physical sciences. It is a body of generalizations or laws but their accuracy is less and therefore predictions made on the basis of economic laws can easily go wrong. This is mainly because of the fact that in economics, it is not possible to ensure that only selected conditions apply and there is no modification in them. Moreover, economic decisions are made by human beings and there is no fixed pattern of human responses which may be used to formulate economic laws. Further, economic causes at work are so large that it is not possible to take into account all of them. This very fact reduces the reliability of economic predictions. It is also not possible to ensure that the causes at work do not change in between the



process. Therefore, it can be concluded that economics is a science but not an exact science.

**Answer 3(ii)**

The criteria, that is being used to distinguish a developed economy from an underdeveloped one relate to proportion of work force engaged in industrial activity and the proportion of output from industrial sector. In other words, economic development means shifting the gravity of economy towards industry. Hence, industrialization is considered as a process in which there is a sharp increase in the industrial share of GDP and of the labour force. Empirical evidences suggests that fast economic development everywhere in the world has been made possible because of rapid industrialization. Indian planning commission mentions following two reasons for favoring rapid industrialization.

- (1) The productivity of labour is much higher in industry than in agriculture.
- (2) The surplus created in the industrial sector are likely to be available for investment relatively more easily than surpluses in agriculture sector.

In addition to these two, it is argued that industrial sector lends direct stimulus to the setting up of new activities through linkages effect. Therefore, rapid industrialization is necessary for the fast economic development.

**Answer 3(iii)**

Urbanization is a very resource costly phenomenon because it necessitates additional consumption of productive resources to make the provision or augmentation of several collective services which have to be diverted from other uses. These resources are provided only at marginal resource cost in rural areas. Such collective services are infrastructural framework which includes the provision of urban transport, additional roads, crossings, traffic management, road lighting, treatment of drinking water, disposal of sewage and industrial waste etc. For that reason, only well developed economies can effort to have a high percentage of urbanization.

**Answer 3(iv)**

The World Trade Organization (WTO) is global international organisation which deals with the rules of trade between nations at a global or near-global level. There are a number of ways of looking at the WTO. It may be looked upon as an organization for liberalizing trade; a forum for governments to negotiate trade agreements and settle trade disputes. Above all, it's a negotiating forum. The WTO is essentially a place where member governments try to sort out the trade problems they face with each other. It came into existence on 1 January 1995, but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system.

*Objectives of WTO* : The overriding purpose of WTO is to help trade flow as freely as possible. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. WTO also helps trading members to settle disputes. Trade relations often involve conflicting interests. The dispute settlement process provided under WTO agreements, meets these parameters.

**Question 4**

*Attempt any three of the following :*

- (i) Examine the factors which influence the quality of the labour force.*
- (ii) Explain the basic concepts of costs which a firm considers in short-run.*
- (iii) Explain the different components of money supply in India.*
- (iv) What are the major components of receipts and expenditure that are included in the preparation of budget of Government of India ?*

*(5 marks each)*

**Answer 4(i)****Quality of Labour Force**

Quality of labour manifests in labour productivity. Labour productivity is a complex phenomenon and is a result of several physical and psychological factors. Psychological factor such as willingness to work is influenced by work culture, working conditions, work schedule etc. On the physical side, division of labour and specialization adds to the productivity of labour. Labour productivity increases with the adoption of capital extensive techniques of production.

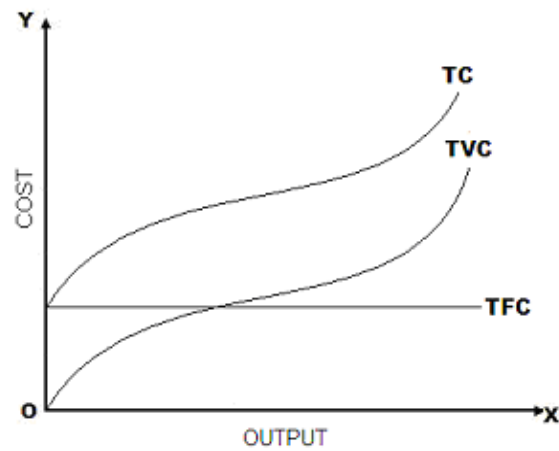
**Answer 4(ii)**

In the decision making process, a firm considers the cost of supply of the product which is determined by the productivity of the inputs and the prices paid to acquire them. Costs of a firm may be analyzed in the context of: (a) short-run, and (b) long-run.

The term short-run is a functional concept and represents that time interval over which the firm is not able to alter its inputs. It is stuck with some fixed inputs also. It means that irrespective of the volume of output the firm must incur a fixed amount of expenditure on these factors. These are, therefore termed as fixed costs. Similarly, expenditure incurred on variable factors is known as variable costs and they change with the level of output. It is obvious that total cost (TC) is the sum of total fixed costs (TFC) and total variable costs (TVC).

The firm also considers the following concepts of costs in decision making.

- (i) Average fixed cost =  $\frac{TFC}{Q}$ , it declines with increase in the level of output
- (ii) Average variable cost =  $\frac{TVC}{Q}$
- (iii) Average cost =  $\frac{TC}{Q}$
- (iv) Marginal cost is addition to total cost on account of increase in the production of an additional unit i.e.  $MC = TC_n - TC_{n-1}$



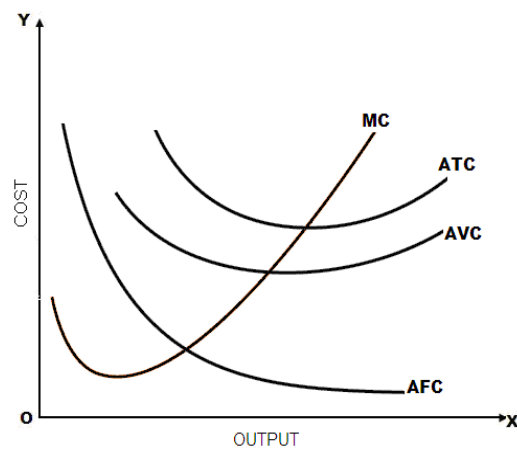
**Fig. 2 : Concepts of Total Costs of a Firm**

In Fig 2, X Axis Shows Output, Y Axis shows Costs.

TVC – Total Variable Cost

TFC – Total Fixed Cost

TC – Total Cost



**Fig. 3 : Concepts of Average and marginal Costs of a Firm**

In Fig 3, X Axis Shows Output, Y Axis shows Costs.

AVC – Average Variable Cost

AFC – Average Fixed Cost

ATC – Average Total Cost

MC – Marginal Cost

#### Answer 4(iii)

#### Major Components of Money Supply in India

Following are the different components of money supply:

- (a) *Currency with the public (C)* : The currency in India is issued by two authorities that is Government of India (all coins and printed notes not exceeding the denomination of one rupee) and Reserve bank of India (all currency notes with denominations exceeding one rupee).

The currency with the public is the total currency issued by RBI and circulating in the economy less amounts held by RBI itself, the Government of India and the Banks.

- (b) *Other deposits with RBI (OD)* : RBI does not undertake banking business except the provision of banking services to Government of India and the State Governments. However, in the course of its various activities, certain deposits are created and which can be encashed by depositors at their discretion. Therefore, RBI includes them into measure of money supply.

- (c) *Demand Deposits and Time Deposits* : Deposit liabilities of banks are an important means of payment available to the public. Deposits can be encashed at the discretion of the deposit holders, withdrawals from time deposits are subject to various conditions including a time notice.

- (d) *Deposits with Post Office saving Bank organization* : Deposits are made with post offices in the form of savings and other deposits.

RBI publishes following four alternative measures of money supply:

- (i)  $M_1 = C + DD + OD$
- (ii)  $M_2 = M_1 + \text{Saving deposits with Post Offices}$
- (iii)  $M_3 = C + DD + TD + OD \text{ or } M_1 + TD$
- (iv)  $M_4 = M_3 + \text{Deposits with Post Offices}$

#### Answer 4(iv)

The major components of receipts and expenditure included in the preparation of budget of Government of India are as under:

*Receipts* : These are revenue receipts and capital receipts. Revenue receipts can be tax revenue receipts (e.g., corporate tax, income tax, wealth tax, gift tax, custom

duty and excise) and non-tax revenue receipts (i.e., interest, dividend, profit from PSUs and external grants). The capital receipts include recoveries of loans, market borrowings, external assistance, disinvestment of PSU shares, receipts in provident funds and small savings.

*Expenditure* : These can be classified as revenue expenditure and capital expenditure. The revenue expenditure includes money spent on items which do not create assets, covers normal activities of departments, service subsidies, interest, staff pensions, bonus, DA, repayment of interests, non-plan support to PSUs and defence subsidies. The capital expenditure includes money spent on items which create assets; financial or otherwise and repayment of principles.

## PART B

*(Answer Question No. 5 which is compulsory  
and **any two** of the rest from this part.)*

### Question 5

- (a) *State, with reasons in brief, whether the following statements are true or false :*
- (i) *A single fact, even though numerically expressed cannot be called statistics.*
  - (ii) *It is safe to take the published statistics at their face value without knowing their meaning and limitations.*
  - (iii) *Median is a positional average.*
  - (iv) *A relative measure of dispersion cannot be used to compare dispersions of two or more distributions.*
  - (v) *The purpose of forecasting is to provide future data with perfect precision.* (2 marks each)
- (b) *Write the most appropriate answer from the given options in respect of the following :*
- (i) *The most acceptable and comprehensive definition of statistics in the sense of numerical data is given by —*
    - (a) *Bowley*
    - (b) *Fisher*
    - (c) *Horace Secrist*
    - (d) *A.K. Sen.*
  - (ii) *Which of the following statistical techniques is useful for economic planning —*
    - (a) *Time series analysis*
    - (b) *Index numbers*
    - (c) *Forecasting techniques*

- (d) *All of the above.*
- (iii) *Which of the following statements is not true about census investigation—*
  - (a) *It is comprehensive*
  - (b) *More time is required*
  - (c) *Accuracy is very low*
  - (d) *Cost is very high.*
- (iv) *Which of the following is a mathematical average —*
  - (a) *Median*
  - (b) *Mode*
  - (c) *Quartiles*
  - (d) *Harmonic mean.*
- (v) *Which of the following measures is suitable to study inequality of income and wealth —*
  - (a) *Inter-quartile range*
  - (b) *Mean deviation*
  - (c) *Range*
  - (d) *Lorenz curve.*
- (vi) *The value of correlation coefficient 'r' is independent of —*
  - (a) *Point of origin*
  - (b) *Unit of measurement*
  - (c) *Both (a) and (b)*
  - (d) *Neither (a) nor (b).*
- (vii) *Secular trend is the tendency of data to —*
  - (a) *Increase over a long period of time*
  - (b) *Decrease over a long period of time*
  - (c) *Stagnate over a long period of time*
  - (d) *Either (a) or (b) or (c).*
- (viii) *Fisher's ideal index number satisfies —*
  - (a) *Unit test*
  - (b) *Time reversal test*
  - (c) *Factor reversal test*
  - (d) *All of the above.*
- (ix) *Tabulation of data is done —*
  - (a) *Before classification*
  - (b) *After classification*

- (c) No restrictions
  - (d) None of the above.
  - (x) Which of the following measures of central tendency can be used for further algebraic treatment —
    - (a) Geometric mean
    - (b) Harmonic mean
    - (c) Arithmetic mean
    - (d) All of the above.
- (1 mark each)

**Answer 5(a)(i)****Correct**

*Reason :* A single fact even though numerically expressed cannot be called statistics because such facts are unrelated and cannot be compared. A single figure relating to, say, height or marks of a student is meaningless. Statistics relates to aggregate of facts that make the comparison possible. Statistics is to draw meaning from numerically expressed data.

**Answer 5(a)(ii)****Incorrect**

*Reason :* All published data is not reliable data. Secondary data needs utmost precaution in their use because they are collected for different purpose and by different agencies. It is, therefore, essential for the users of the secondary data to ensure reliability, adequacy and suitability and limitations of data to the given problem under investigation. Thus, it is not safe to use published statistics at their face value.

**Answer 5(a)(iii)****Correct**

*Reason :* Median is a positional average because its value depends upon the position and not on the magnitude of items. Median divides a distribution of the variable into two equal parts. One part of data comprises all values greater and other, all values lesser than the median. The position of a median in a series is such that the number of items (in the series) below it equals the number of items (in the series) above it.

**Answer 5(a)(iv)****Incorrect**

*Reason :* A relative measure of dispersion, known as coefficient of dispersion, is a pure number and independent of unit of measurement of the variable, is useful for comparisons of dispersions of various distributions.

**Answer 5(a)(v)****Incorrect**

*Reason :* The purpose of forecast is just to bring out a range of possibilities regarding future value of variable under a given set of assumptions and not to provide future data with precision.

**Answer 5(b)(i)**

- (c) Horace Secrist.

**Answer 5(b)(ii)**

- (d) All of the above

**Answer 5(b)(iii)**

- (c) Accuracy is very low

**Answer 5(b)(iv)**

- (d) Harmonic mean

**Answer 5(b)(v)**

- (d) Lorenz Curve

**Answer 5(b)(vi)**

- (c) Both (a) and (b)

**Answer 5(b)(vii)**

- (d) Either (a) or (b) or (c)

**Answer 5(b)(viii)**

- (d) All of the above

**Answer 5(b)(ix)**

- (b) After classification

**Answer 5(b)(x)**

- (d) All of the above

**Question 6**

(a) Distinguish between any three of the following :

- (i) 'Continuous variable' and 'discrete variable'.
- (ii) 'Exclusive series' and 'inclusive series'.
- (iii) 'Frequency polygon' and 'frequency curve'.
- (iv) 'Coefficient of variation' and 'variance'. (3 marks each)

(b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

- (i) Arrangement of data on the basis of certain characteristics is called \_\_\_\_\_ of data.
- (ii) In a statistical enquiry, \_\_\_\_\_ is a person who answers to the set of questions included in the questionnaire.



- (iii) In random sampling, each and every item of universe has \_\_\_\_\_ probability of being selected.
- (iv) \_\_\_\_\_ measures the degree and intensity of relationship between two variables.
- (v) Data which have been collected by somebody else are called \_\_\_\_\_.
- (vi) A diagram having two dimensions is known as \_\_\_\_\_.  
(1 mark each)

#### Answer 6(a)(i)

##### ‘Continuous Variable’ and ‘Discrete Variable’

Variable that assumes a range of values or assumes values in fraction are called continuous variable whereas the discrete variable assumes value in complete/whole numbers.

A continuous variable is one which is capable of manifesting every conceivable fractional value within the range of fractional possibilities whereas a discrete variable is one which does not assume fractional values within the range of numbers.

#### Answer 6(a)(ii)

##### ‘Exclusive Series’ and ‘Inclusive Series’

Exclusive series refer to a series in which class intervals are so determined that upper limit of one class is the lower limit of the next class. For example, in class intervals like 10-15, 15-20, the value 15 would be included in 15-20 and not in 10-15.

Inclusive series, on the other hand, refers to a situation where both the class limits are in the class itself while determining the class interval. For example class intervals like 10-14, 15-19, 20-24 etc. All items between 10-14 are included in that class interval only.

#### Answer 6(a)(iii)

##### ‘Frequency Polygon’ and ‘Frequency Curve’

A frequency polygon is drawn by joining the mid points of the upper widths of adjacent rectangles of the histogram, with straight lines. Frequency polygon may be constructed with or without use of histogram. As against this, when the verticals of a frequency polygon are joined by a smooth freehand curve, the resulting figure is known as a frequency curve. The area is approximately the same as that under frequency polygon or histogram as under the frequency curve.

#### Answer 6(a)(iv)

##### ‘Coefficient of Variation’ and ‘Variance’

Coefficient of variation is a relative measure of dispersion and is given by:

$$\text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

where,  $\sigma$  is standard deviation of distribution and  $\bar{X}$  is mean of the distribution.

This measure is used to compare variability or homogeneity or uniformity of two or more sets of data. As against this, variance however is simply the square of Standard deviation.

#### Answer 6(b)

- (i) Arrangement of data on the basis of certain characteristics is called **classification** of data.
- (ii) In a statistical enquiry, **respondent** is a person who answers to the set of questions included in the questionnaire.
- (iii) In random sampling, each and every item of universe has **equal** probability of being selected.
- (iv) **Correlation** measures the degree and intensity of relationship between two variables.
- (v) Data which have been collected by somebody else are called **secondary data**.
- (vi) A diagram having two dimensions is known as **area diagram**.

#### Question 7

*Attempt any three of the following :*

- (i) *Briefly explain the various stages of statistical enquiry. (5 marks)*
- (ii) *Differentiate between 'census investigation' and 'sample investigation'. State the conditions in which census investigation is suitable. (5 marks)*
- (iii) *Define 'average'. What are the characteristics of a good average ? (5 marks)*
- (iv) *Present the following data in the form of histogram on a graph sheet :*

Weekly Wages ( ₹ )	No. of Workers
10-15	7
15-20	10
20-25	27
25-30	15
30-40	12
40-60	12
60-80	8

(5 marks)

#### Answer 7(i)

##### Various Stages of Statistical Enquiry

The important stages of statistical enquiry include the following:

- Collection of data

- Organization and presentation of numerical data
  - Analysis of numerical data
  - Interpretation of numerical data
1. *Collection of Data* : Collection of data constitutes one of the important aspects of statistical data and thereby one of the important aspects of statistical enquiry. During this stage, the relevant data are collected from various sources. The sources may be primary or secondary.
  2. *Organization and Presentation of Numerical Data* : This is the second stage of statistical enquiry. Generally, secondary data are available in organized form but primary data collected through survey in raw form, needs their organization. Some of the important components of organization of data are editing, classification and tabulation subsequently. The data may be represented and organized in form of a diagram, chart and graph wherever necessary.
  3. *Analysis of Numerical Data* : In this stage, in order to have deep understanding of the subject matter, numerical data is analyzed. In analyzing the data, some of the popular measures such as averages, dispersion, correlation, regression, time series etc may be used.
  4. *Interpretation of Numerical Data* : This refers to drawing inferences and conclusions from the above organized and presented data. This is a most sensitive and difficult task which requires higher degree of skills, experience and balance judgment on the part of the investigator.

**Answer 7(ii)**

Census and sample investigation are the two popular approaches used by the statistician to collect the primary data. Under the census or complete enumeration method, data are collected for each and every unit of the population or universe. On the other hand, sample investigation refers to the process of learning about a population on the basis of sample drawn from it. In other words, in sample method, instead of studying each and every item of the universe, only a part of the universe is studied.

The census method of investigation is generally recommended in those cases where area of investigation is limited and requires intensive examination or study of the population. The data collected under this method are more reliable, representative and accurate. This method is suitable when population is not homogenous. However, this method is costly, time consuming and has possibilities of errors.

**Answer 7(iii)**

An average is defined as a measure of central tendency that represents a distribution. In other words, an average is a single figure that represents the frequency distribution of the large number of items. An average should possess the various characteristics including the following:

- (a) It should be firmly defined.
- (b) It should be easy to understand and simple to compute.

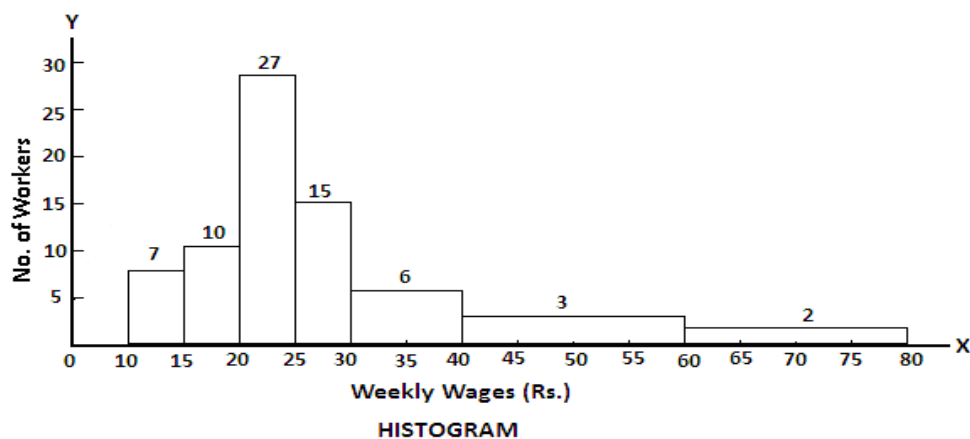
- (c) It should be based on all the items of the series.
- (d) It should be capable of further algebraic treatment.
- (e) It should not be affected by extreme observations.

**Answer 7(iv)****Adjustment of Frequencies of unequal class intervals**

Weekly Wages (₹)	No. of Workers (f)	Adjustment Factor (AF)	Frequency Density $\left(\frac{f}{AC}\right)$
10-15	7	$5/5 = 1$	$7/1 = 7$
15-20	10	$5/5 = 1$	$10/1 = 10$
20-25	27	$5/5 = 1$	$27/1 = 27$
25-30	15	$5/5 = 1$	$15/1 = 15$
30-40	12	$10/5 = 2$	$12/2 = 6$
40-60	12	$20/5 = 4$	$12/4 = 3$
60-80	8	$20/5 = 4$	$8/4 = 2$

when, Adjustment Factor (AF) =  $\frac{\text{Width of the Class Interval}}{\text{Width of the Smallest Class Interval}}$

and Frequency Density =  $\frac{f}{AC}$

**Question 8**

(a) Calculate the mode from the following distribution :

Wages more than (₹)	80	90	100	110	120	130	140
No. of Workers	160	151	134	104	60	29	10

(5 marks)

(b) Calculate coefficient of standard deviation from the following data :

Marks Obtained	0-9	10-19	20-29	30-39	40-49
No. of Students	12	15	40	22	11

(5 marks)

(c) From the information given below, find out the coefficient of correlation :

No. of pairs of observation	10
Assumed mean for X series	82
Assumed mean for Y series	68
Sum of deviations of X from assumed mean	(-) 170
Sum of deviations of Y from assumed mean	(-) 20
Sum of the multiplication of deviations of X and Y	3,044
Total of square of deviations of X	8,288
Total of square of deviations of Y	2,264

(5 marks)

#### Answer 8(a)

Data series is given as cumulative frequency therefore to get mode, first convert into regular classes and frequency.

Class(₹)	Frequency
80-90	9
90-100	17
100-110	30
110-120	44
120-130	31
130-140	19
140-150	10

By simple observation, modal class is 110 – 120

$$\text{Mode } z = l_1 + \frac{f_m - f_1}{2f_m - f_1 - f_2} \times i$$

Where,

$l_1$  = lower limit of the modal class

$f_m$  = frequency of modal class

$f_1$  = frequency of the class preceding the modal class

$f_2$  = frequency of the class succeeding the modal class

$i$  = class interval of modal class

Hence  $l_1 = 110$ ,  $f_m = 44$ ,  $f_1 = 30$ ,  $f_2 = 31$  and  $i = 10$

$$\begin{aligned}\therefore Z &= 110 + \\ &= 110 + \frac{14}{27} \times 10 \\ &= 110 + 5.18 \\ &= 115.18 \sim 115.20\end{aligned}$$

### Answer 8(b)

#### Calculation of Standard Deviation

Marks Obtained	Mid Value (X)	No. of students (f)	$d = \frac{X - 24.5}{10}$	fd	fd <sup>2</sup>
0-9	4.5	12	-2	-24	48
10-19	14.5	15	-1	-15	15
20-29	24.5	40	0	0	0
30-39	34.5	22	1	22	22
40-49	44.5	11	2	22	44
		N = 100	$\Sigma d = 0$	$\Sigma fd = 5$	$\Sigma fd^2 = 129$

#### Standard Deviation

$$\begin{aligned}\sigma &= i \times \sqrt{\frac{\Sigma fd^2}{N} - \left(\frac{\Sigma fd}{N}\right)^2} \\ &= 10 \times \sqrt{\frac{129}{100} - \left(\frac{5}{100}\right)^2} \\ &= 10 \times \sqrt{1.29 - .0025} \\ &= 10 \times 1.134 \\ &= 11.34\end{aligned}$$

#### Mean

$$\begin{aligned}\bar{X} &= A + \frac{\Sigma fd}{N} \times i \\ &= 24.5 + \frac{5 \times 10}{100} \\ &= 24.5 + 0.5 \\ &= 25\end{aligned}$$

$$\text{Coefficient of Standard Deviation} = \frac{\sigma}{\bar{X}} = \frac{11.34}{25} = 0.45$$

**Answer 8(c)****Calculation of coefficient of correlation**

From the given information, it is clear that derivations are calculated from assumed mean.

Therefore, let

$$\Sigma d_x = X - 82$$

$$\Sigma d_y = Y - 68$$

Given information can be written as,

$$N = 10$$

$$\Sigma d_x d_y = 3044$$

$$\Sigma d_x = -170$$

$$\Sigma d_y = -20$$

$$\Sigma d_x^2 = 8288$$

$$\Sigma d_y^2 = 2264$$

$$\begin{aligned} r_{xy} &= \frac{n \Sigma d_x d_y - (\Sigma d_x)(\Sigma d_y)}{\sqrt{[N \Sigma d_x^2 - (\Sigma d_x)^2] \times [N \Sigma d_y^2 - (\Sigma d_y)^2]}} \\ &= \frac{10 \times 3044 - (-170)(-20)}{\sqrt{[10 \times 8288 - (-170)^2] \times [10 \times 2264 - (-20)^2]}} \\ &= \frac{30440 - 3400}{\sqrt{[82880 - 28900] \times [22640 - 400]}} \\ &= \frac{27040}{\sqrt{53980 \times 22240}} \\ &= \frac{27040}{232.34 \times 149.13} \\ &= \frac{27040}{34648.86 \text{ } (\sim 34649)} \\ &= 0.78 \end{aligned}$$


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## FINANCIAL ACCOUNTING

Time allowed : 3 hours

Maximum marks : 100

**NOTE :** Answer SIX question including Question No. 1 which is **COMPULSORY**. All working notes should be shown distinctly.

### Question 1

- (a) Explain any two of the following :
- (i) Accounting policies.
  - (ii) Capital receipts and revenue receipts.
  - (iii) Accrual system of accounting. (5 marks each)
- (b) State, with reasons in brief, whether the following statements are true or false:
- (i) Revaluation account is a real account.
  - (ii) For claiming loss of profit due to fire, it is necessary to take a separate policy.
  - (iii) Fixed assets are stated in the balance sheet at their market value.
  - (iv) Interest on capital is an income of the business.
  - (v) Even if there appears a sports fund in the books of a club, the expenses incurred on sports activities will be debited to income and expenditure account. (2 marks each)

### Answer 1(a)(i)

#### Accounting Policies

Accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements. Policies are based on various accounting concepts, principles and conventions. Specific accounting policies are selected by an enterprise in conformity with generally accepted accounting principles and the accounting standards. For example, as per matching concept, depreciation should be treated as cost of doing business and matched with revenue of the same period. As per Accounting Standard-6 depreciation can be calculated by straight line method, written down value method etc. So, the organization has to make a policy as to which method it wants to follow.

### Answer 1(a)(ii)

#### Capital Receipts and Revenue Receipts

Capital receipts comprise of payments or contributions into the business by the proprietor, partners or other shareholders towards the capital of the firm and any sum received from debenture-holders, any loans and the proceeds of sale of any fixed assets of a business enterprise. Whereas revenue receipts are the outcome of a firm's activity



in the accounting period, it is a part of rewards for offering goods or services to the public e.g. sales, commission, fees received for services, interest on investment, etc. Revenue expenses must be set off against the revenue receipts in order to calculate the profit or loss of the business in an accounting period. Capital receipts and expenses have no bearing on the profit or loss for the accounting period.

**Answer 1(a)(iii)**

**Accrual System of Accounting**

This is also known as mercantile system of accounting. It is a system in which transactions are recorded on the basis of amounts having become due for payment or receipt. Accrual basis of accounting, attempts to record the financial effects of the transactions, events, and circumstances of an enterprise in the period in which they occur rather than recording them in period(s) in which cash is received or paid by the enterprise. The purpose of accrual basis of accounting is to relate the revenue earned to cost incurred so that reported net income measures an enterprise's performance during a period instead of merely listing its cash receipts and payments. The following are the essential features of accrual basis:

- Revenue is recognized as it is earned irrespective of whether cash is received or not;
- Costs are matched against revenues on the basis of relevant time period to determine periodic income, and
- Costs which are not charged to income are carried forward and are kept under review. Any cost that appears to have lost its utility or its power to generate future revenue is written off as a loss.

**Answer 1(b)(i)**

**False**

Revaluation account is a nominal account. Revaluation account is prepared to ascertain the profit or loss on revaluation of assets and liabilities i.e due to increase or decrease in the values of assets and liabilities. It is also known as profit and loss adjustment account.

**Answer 1(b)(ii)**

**True**

An ordinary fire insurance policy covers only the risk of loss of property by fire. To cover the loss of profit due to fire, a separate insurance policy known as 'loss of profits insurance policy' or 'consequential loss insurance policy' has to be taken.

**Answer 1(b)(iii)**

**False**

Fixed costs are stated in the balance sheet at their historical costs less depreciation and not at their market value.

**Answer 1(b)(iv)****False**

Interest on capital is income for the owner of the business but an expense for the business. It is because of the separate entity concept of the business.

**Answer 1(b)(v)****False**

In the books of a club, expenses on sports activities are debited to income and expenditure account only if there is no sports fund. However, if there is sports fund, the expenses incurred on sports activities will be debited to "Sports Fund Account".

**Question 2**

(a) *Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :*

- (i) *Accounting records only those events which are of \_\_\_\_\_ character.*
- (ii) *The amount spent on machinery to keep it in working condition is a \_\_\_\_\_ expenditure.*
- (iii) *\_\_\_\_\_ method of depreciation is used to have a uniform charge for depreciation.*
- (iv) *The accounting period mostly consists of \_\_\_\_\_ months.*
- (v) *Noting charges are paid in the event of \_\_\_\_\_ of a bill.*
- (vi) *When cash is withdrawn from the bank, the entries passed in the three columnar cash book are called \_\_\_\_\_ entries.*
- (vii) *A sum of ₹2,000 earlier written off as bad debts, is now received, it will be credited to \_\_\_\_\_ account.*
- (viii) *In final accounts, carriage inwards appears in \_\_\_\_\_ account while carriage outwards appears in profit and loss account.*

*(1 mark each)*

(b) *Distinguish between any two of the following :*

- (i) *'Fixed capital accounts' and 'fluctuating capital accounts' in partnership accounts.*
- (ii) *'Invoice' and 'account sales'.*
- (iii) *'Trial balance by balance method' and 'trial balance by totals method'.*

*(4 marks each)***Answer 2(a)**

- (i) Accounting records only those events which are of **financial** character.
- (ii) The amount spent on machinery to keep it in working condition is a **revenue** expenditure.
- (iii) **Straight Line or Fixed installment** method of depreciation is used to have a uniform charge for depreciation.

- (iv) The accounting period mostly consists of **twelve** months.
- (v) Noting charges are paid in the event of **dishonour** of a bill.
- (vi) When cash is withdrawn from the bank, the entries passed in the three columnar cash book are called **contra** entries.
- (vii) A sum of ₹2,000 earlier written off as bad debts, is now received, it will be credited to **bad debts recovered** account.
- (viii) In final accounts, carriage inwards appears in **trading** account while carriage outwards appears in profit and loss account.

### Answer 2(b)(i)

#### 'Fixed capital accounts' and 'Fluctuating capital accounts' in partnership accounts

<i>Fixed capital accounts</i>	<i>Fluctuating capital accounts</i>
<ol style="list-style-type: none"> <li>Two accounts of every partner are maintained, i.e. capital account and current account</li> <li>Balance in capital account remains the same except when capital is introduced or capital is withdrawn.</li> <li>All adjustments in respect of profit, loss, drawings, interest on capital, interest on drawings, salary, commission, etc. are made in the current account.</li> <li>The capital account will always have credit (positive) balance while the current account may have debit (negative) balance.</li> </ol>	<ol style="list-style-type: none"> <li>Only one account for every partner i.e. capital account is maintained.</li> <li>The balance in capital account changes every year because of profits/ losses, drawings, interest on capital, interest on drawings, etc.</li> <li>All adjustments in respect of profit, loss, drawings, interest on capital, interest on drawings, salary, commission, etc. are made in the capital account.</li> <li>Fluctuating capital account may sometimes show a debit (negative) balance.</li> </ol>

### Answer 2(b)(ii)

#### 'Invoice' and 'account sales'

<i>Invoice</i>	<i>Account Sales</i>
<ol style="list-style-type: none"> <li>A statement forwarded by the consignor to the consignee along with the goods, giving description of the goods consigned, the weight, quantity, price and other relevant details is known as invoice.</li> <li>It is prepared by the consignor (principal) and sent to the consignee (agent).</li> </ol>	<ol style="list-style-type: none"> <li>Account Sales is a statement of accounts showing the gross and net proceeds of the consigned goods sold by the consignee on the account of the consignor.</li> <li>It is prepared by the consignee (principal) and sent to the consignor (agent).</li> </ol>

**Answer 2(b)(iii)****‘Trial balance by balance method’ and ‘Trial balance by totals method’**

<i>Trial balance by balance method</i>	<i>Trial balance by totals method</i>
1. In this method, the balances of ledger accounts are taken to respective debit and credit columns of the trial balance and then the two columns are totalled.	1. In this method, the totals of debit and credit sides of all ledger accounts are shown in the trial balance.
2. The total of balances in the debit column must be equal to the total of balances in the credit column.	2. The total of debit and credit columns of the trial balance must be equal.
3. This method is more popular.	3. This method is less popular.

**Question 3**

(a) Write the most appropriate answer from the given options in respect of the following :

(i) The ruling of a purchases book does not include —

- (a) Ledger folio
- (b) Invoice number
- (c) Details
- (d) Debit and credit columns for amounts.

(ii) The statement showing balance of all the ledger accounts is known as—

- (a) Trial balance
- (b) Balance sheet
- (c) Bank reconciliation statement
- (d) Account sales.

(iii) At the time of admission of a new partner, reserves and undistributed profits are credited to old partners' capital accounts in —

- (a) Old profit-sharing ratio
- (b) New profit-sharing ratio
- (c) The ratio of sacrifice
- (d) The ratio of gain.

(iv) Which of the following item is not financial in nature —

- (a) Purchase of a car on credit
- (b) Dismissing an employee from job

- (c) *Withdrawal of cash by proprietor for his personal use*
- (d) *Purchase of building for cash.*
- (v) *Which of the following will be goods for a business run by a furniture merchant —*
  - (a) *Electrical appliances*
  - (b) *Shoes*
  - (c) *Tables and chairs*
  - (d) *Pens and pencils.*
- (vi) *Balance of a petty cash book denotes —*
  - (a) *An expense*
  - (b) *An asset*
  - (c) *A liability*
  - (d) *Capital.*
- (vii) *Balance sheet discloses —*
  - (a) *Cash position of the business*
  - (b) *Financial position of the business*
  - (c) *Income position of the business*
  - (d) *Profit-earning capacity of the business.*
- (viii) *Capital + liabilities =*
  - (a) *Total assets*
  - (b) *Losses*
  - (c) *Current assets*
  - (d) *Fixed assets.* (1 mark each)
- (b) *Explain any two of the following statements :*
  - (i) *If stock at the end appears in the trial balance, it will be shown only in the balance sheet in final accounts.*
  - (ii) *Joint venture is in the nature of a partnership but without a firm's name.*
  - (iii) *Accounting is a science as well as an art.* (4 marks each)

**Answer 3(a)(i)**

- (d) Debit and credit columns for amounts

**Answer 3(a)(ii)**

- (a) Trial balance

**Answer 3(a)(iii)**

- (a) Old profit sharing ratio

**Answer 3(a)(iv)**

- (b) Dismissing an employee from job

**Answer 3(a)(v)**

- (c) Tables and Chairs

**Answer 3(a)(vi)**

- (b) An asset

**Answer 3(a)(vii)**

- (b) Financial position of the business

**Answer 3(a)(viii)**

- (a) Total assets

**Answer 3(b)(i)**

The unsold stock at the end of the accounting period is termed as closing stock. Generally, when the closing stock is given in adjustments, it appears in trading account and on assets side of the balance sheet. However, if the stock at the end appears in the trial balance, it means that double entry has been completed in the books. Therefore, it will be shown as asset in the balance sheet only.

**Answer 3(b)(ii)**

When two or more parties, normally carrying on business independently of one another, join together to exploit a particular business opportunity where their individual capabilities can be profitably pooled and they share profits resulting from that particular business opportunity in the agreed ratio, it is a joint venture. It is for a very short duration. It may be for one or more transactions. It may be even for a specified period of time. The parties are called co-venturers and generally they share profits and losses equally. Thus, joint venture is in the nature of partnership but without a firm name and only relating to a specified field of activity.

**Answer 3(b)(iii)**

Accounting is a science as well as an art. It is a science because it is organized knowledge based on specific principles which have been developed as a result of research and study. There are defined rules of accounting. However, it is not an exact science, it is a social science based on human behaviour and other social and economic factors. Hence, accounting is also an art as it helps us in attaining our objectives of maintaining proper books of accounts and knowing the profitability and financial position of a business. It includes analysis and interpretation of financial data which also requires special knowledge, experience and judgment. It is definitely an art also which is learnt by experience and constant practice.

**Question 4**

- (a) *The cash book of Giriraj shows a balance of ₹44,000 standing to his credit*

in bank on 30th June, 2011. On comparison of entries in the cash book with those in the pass book, it is found that —

- (i) Cheques amounting to ₹60,000 issued to creditors have not been presented till that date.
- (ii) Cheques amounting to ₹55,000 only were collected by bank upto 30th June, 2011 out of the cheques of ₹1,05,000 paid into bank.
- (iii) A dividend of ₹10,000 received by bank has not been recorded in cash book.
- (iv) Insurance premium (upto 30th June, 2011) paid by the bank ₹2,700 has not been recorded in the cash book.
- (v) A bill receivable for ₹6,000 discounted with bank at a discount of ₹100 has not been recorded in the cash book.

Record in the bank column of the cash book entries not yet recorded, ascertain the amended bank balance as per cash book and then prepare a bank reconciliation statement showing bank balance as per pass book.

(8 marks)

- (b) While preparing final accounts on 31st March, 2011, the trial balance of Suman did not match. Suman transferred the difference to a newly opened suspense account. In the next accounting period, the following errors were discovered in the books of account for the year 2010-11 :

- (i) The total of the sales book for January, 2011 was short by ₹2,500.
- (ii) Entertainment expenses ₹375 incurred on 5th February, 2011 were omitted to be posted from the cash book to the ledger.
- (iii) Discount column on the receipt side of the cash book for February, 2011 was added as ₹5,575 instead of ₹5,325.

Pass the necessary journal entries to rectify the abovementioned errors without affecting the profit for the year ended 31st March, 2011. Also prepare —

- (i) Suspense account; and (ii) Profit and loss adjustment account. Assume that all the errors have been located.

(8 marks)

#### Answer 4(a)

Dr.		Cash Book (Bank columns only)		Cr.	
Particulars		₹	Particulars	₹	
To Balance b/fd		44,000	By Insurance Premium	2,700	
To Dividend		10,000	By Balance c/fd (balancing figure)	57,200	
To Bills Receivable		5,900			
		<u>59,900</u>			<u>59,900</u>

**Bank Reconciliation Statement of Shri Giriraj  
as on 30th June, 2011**

Particulars	₹
Bank balance as per cash book	57,200
<i>Add :</i>	
Cheques issued but not presented for payment	60,000
	<u>1,17,200</u>
<i>Less:</i>	
Cheques deposited with the bank but not yet credited by bank (₹1,05,000 - 55,000)	50,000
Bank balance as per pass book	<u>67,200</u>

**Answer 4(b)****In the Books of Suman****Journal Entries**

Date	Particulars	L.F	Debit Amount (₹)	Credit Amount (₹)
(i)	Suspense A/c Dr. To Profit and Loss Adjustment A/c (Being total of sales book short last year, error now rectified)		2,500	2,500
(ii)	Profit and Loss Adjustment A/c Dr. To Suspense A/c (Being entertainment expenses omitted last year, error now rectified)		375	375
(iii)	Suspense A/c Dr. To Profit and Loss Adjustment A/c (Being discount allowed column in cash book overcast last year, error now rectified)		250	250

*Dr.* **Suspense Account** *Cr.*

Particulars	₹	Particulars	₹
To Profit and Loss Adjustment A/c	2,500	By Balance b/fd (Balancing figure)	2,375
To Profit and Loss Adjustment A/c	250	By Profit and Loss Adjustment A/c	375
	<u>2,750</u>		<u>2,750</u>



Dr. Profit and Loss Adjustment Account		Cr.	
Particulars	₹	Particulars	₹
To Suspense A/c	375	By Suspense A/c	2,500
To Suman's Capital A/c (transfer)	2,375	By Suspense A/c	250
	<u>2,750</u>		<u>2,750</u>

**Question 5**

On 31st March, 2011, the capital accounts of three partners, namely X, Y and Z stood at ₹8,00,000, ₹6,00,000 and ₹4,00,000 respectively after making adjustments for profit for the year and drawings during the year. Subsequently, it was discovered that interest on capital, and on drawings had been omitted to be charged both being @ 5% per annum. The drawings during the year were X: ₹2,00,000; Y : ₹1,30,000; Z : ₹90,000 and interest on drawings chargeable to partners were X : ₹5,000; Y : ₹3,600; and Z : ₹2,000. The profit for the year amounted to ₹12,00,000 to be distributed among X, Y and Z in the ratio of 3:2:1 respectively. You are required to prepare —

- Statement showing capital as on 1st April, 2010.
- Profit and loss adjustment account.
- Partners' capital accounts, showing the amended closing balances as on 31st March, 2011. (16 marks)

**Answer 5****(i) Statement showing capital as on 1st April, 2010**

Particulars	X (₹)	Y (₹)	Z (₹)
Capitals as on 31st March 2011	8,00,000	6,00,000	4,00,000
Add : Drawings during the year	2,00,000	1,30,000	90,000
	<u>10,00,000</u>	<u>7,30,000</u>	<u>4,90,000</u>
Less : Net Profits credited during the year	6,00,000	4,00,000	2,00,000
Capital as on 1st April, 2010	<u>4,00,000</u>	<u>3,30,000</u>	<u>2,90,000</u>

Dr. Profit and Loss Adjustment A/c		Cr.	
Particulars	₹	Particulars	₹
To Interest on capitals : ₹		By Interest on drawings : ₹	
X   20,000		X   5,000	
Y   16,500		Y   3,600	
Z   14,500	51,000	Z   2,000	10,600

Particulars	₹	Particulars	₹
		By Loss transferred to Capital Accounts:	
		X 20,200	
		Y 13,467	
		Z 6,733	
	<u>51,000</u>		<u>40,400</u>
			<u>51,000</u>

Dr. Capital Accounts				Cr.			
Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Interest on Drawings	5,000	3,600	2,000	By Balance b/fd	8,00,000	6,00,000	4,00,000
To Profit and Loss Adjustment A/c (loss)	20,000	13,467	6,733	By Interest on Capital	20,200	16,500	14,500
To Balance c/d	7,94,800	5,99,433	4,05,767				
	<u>8,20,000</u>	<u>616,500</u>	<u>4,14,500</u>		<u>8,20,000</u>	<u>6,16,500</u>	<u>4,14,500</u>

**Question 6**

- (a) On 1st July, 2011, Sohan sold to Mohan goods for ₹10,00,000. On the same date, Mohan accepted four bills drawn by Sohan on him, the first bill being for ₹1,00,000 at 1 month, the second bill for ₹2,00,000 at 2 months, the third bill for ₹3,00,000 at 3 months and the fourth bill for ₹4,00,000 at 4 months.

Sohan decided to keep the first bill till maturity with himself. On 4th July, 2011, he got the second bill discounted with the bank @ 12% per annum. On 29th July, 2011, he endorsed the third bill for ₹3,00,000 in favour of his creditor Tahir and sent the fourth bill for ₹4,00,000 to his bank for collection on the date of maturity.

All the bills were duly met on due dates.

Pass journal entries for all the transactions in the books of Sohan.

(8 marks)

- (b) A fire broke out on 10th January, 2011 in the premises of Vikrant Ltd. The entire stock was destroyed except to the extent of ₹2,48,000. From the following figures, ascertain the amount of loss suffered by the company :

₹

Book value of opening stock as on 1st April, 2009	14,40,000
Purchases during the accounting year ended 31st March, 2010	58,00,000
Sales less returns during the accounting year ended 31st March, 2010	80,00,000

Book value of closing stock as on 31st March, 2010 9,00,000

Purchases from 1st April, 2010 to 10th January, 2011 58,40,000

Sales from 1st April, 2010 to 10th January, 2011 75,60,000

It is the practice of the company to value stock at 20% less than cost. On 1st April, 2010, the company raised the prices by 10%. (8 marks)

**Answer 6(a)**

**In the Books of Sohan**

**Journal Entries**

Date	Particulars	L.F	Debit Amount (₹)	Credit Amount (₹)
2011 July 1	Mohan Dr. To Sales A/c (Being goods sold on credit to Mohan)		10,00,000	10,00,000
July 1	Bills Receivable A/c Dr. To Mohan A/c (Being four bills accepted by Mohan)		10,00,000	10,00,000
July 4	Bank Dr. Discount A/c Dr. To Bills Receivable A/c (Being second bill discounted with bank @ 12% p.a)		1,96,000 4,000	2,00,000
July 29	Tahir Dr. To Bills Receivable A/c (Being third bill endorsed in favor of creditor Tahir)		3,00,000	3,00,000
July 29	Bills for Collection A/c Dr. To Bills Receivable A/c (Being fourth bill sent to bank for collection)		4,00,000	4,00,000
Aug 4	Bank Dr. To Bills Receivable A/c (Being amount received on maturity of first bill)		1,00,000	1,00,000
Nov 4	Bank Dr. To Bills for collection A/c (Being amount received on maturity of fourth bill)		4,00,000	4,00,000

**Answer 6(b)**

<b>Trading Account</b> <b>for the year ended 31st March, 2010</b>			
<i>Dr.</i>			<i>Cr.</i>
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening Stock:		By Sales less Returns	80,00,000
₹14,40,000 x $\frac{100}{80}$	18,00,000	By Closing stock:	
To Purchases	58,00,000	₹9,00,000 x $\frac{100}{80}$	11,25,000
To Gross Profit	15,25,000		
	<u>91,25,000</u>		<u>91,25,000</u>

$$\text{Gross Profit Ratio in 2009-2010} = \frac{15,25,000 \times 100}{80,00,000} = 19.06\%$$

**Calculation of Gross Profit Ratio for 2010-2011:**

When Sale Prices increased by 10%

Let Sales in 2009-10 be ₹100

Sales in 2010-11 (₹100 + 10%) ₹110.00

Less : Cost (100 – 19.06) ₹80.94

Gross Profit ₹29.06

$$\text{Gross Profit Ratio in 2010-2011} = \frac{29.06 \times 100}{110} = 26.42\%$$

<b>Memorandum Trading Account</b> <b>from 1st April, 2010 to 10th January 2011</b>			
<i>Dr.</i>			<i>Cr.</i>
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening Stock	11,25,000	By Sales	75,60,000
To Purchases	58,40,000	By Closing Stock (Balancing figure)	14,02,350
To Gross Profit (26.42% of ₹75,60,000)	19,97,350		
	<u>89,62,350</u>		<u>89,62,350</u>

Closing stock as on 10th January 2011 ₹14,02,350

Less : Salvage Value ₹2,48,000

Amount of Loss suffered by the Company ₹11,54,350

**Question 7**

*For Roshanara Club, prepare the receipts and payments account for the year ended 31st March, 2011 and the balance sheet as on that date from the following information :*

*Income and Expenditure Account for the year ended 31st March, 2011*

<i>Expenditure</i>	<i>₹</i>	<i>Income</i>	<i>₹</i>
<i>To Drama expenses</i>	<i>68,300</i>	<i>By Subscriptions</i>	<i>1,50,000</i>
<i>To Salaries</i>	<i>1,00,000</i>	<i>By Donations</i>	<i>20,000</i>
<i>To Postage and stationery</i>	<i>4,800</i>	<i>By Surplus from annual meet</i>	<i>26,000</i>
<i>To Printing of souvenirs</i>	<i>56,000</i>	<i>By Sale of souvenirs</i>	<i>1,24,000</i>
<i>To Journals and newspapers</i>	<i>3,500</i>		
<i>To General expenses</i>	<i>19,000</i>		
<i>To Insurance</i>	<i>11,800</i>		
<i>To Depreciation on fixed assets</i>	<i>13,000</i>		
<i>To Surplus, i.e., excess of income over expenditure</i>	<i>43,600</i>		
	<u><u>3,20,000</u></u>		<u><u>3,20,000</u></u>

*Additional information :*

	<i>As on 31st March, 2010 (₹)</i>	<i>As on 31st March, 2011 (₹)</i>
<i>Subscriptions due</i>	<i>8,000</i>	<i>12,000</i>
<i>Subscriptions received in advance</i>	<i>3,000</i>	<i>2,000</i>
<i>Salaries outstanding</i>	<i>7,000</i>	<i>7,500</i>
<i>Prepaid insurance</i>	<i>3,800</i>	<i>4,000</i>

*The club had sports equipments on 1st April, 2010 valued at ₹55,000 and at the end of accounting year 2010-11 after depreciation of ₹11,000, it amounted to ₹60,000. Also, the club had furniture costing ₹20,000 at the beginning of the year and as on 31st March, 2011 after depreciation of ₹2,000, it amounted to ₹30,000. On 31st March, 2011, cash in hand amounted to ₹24,500.*

*(16 marks)*

**Answer 7****Roshanara Club****Receipts and Payments Account  
for the year ended 31st March, 2011***Dr.**Cr.*

<i>Receipts</i>	₹	₹	<i>Payments</i>	₹	₹
To Balance b/fd (Balancing figure)		600	By Drama Expenses		68,300
To Subscription	1,50,000		By Salaries	1,00,000	
Add : Due on 31.3.10	8,000		Add : Outstanding on 31.3.10	7,000	
	1,58,000			1,07,000	
Less : Due on 31.3.11	12,000				
	1,46,000		Less: Outstanding on 31.3.11	7,500	99,500
Less: Advance on 31.3.10	3,000		By Postage and Stationery		4,800
	1,43,000		By Printing of Souvenirs		56,000
Add : Advance on 31.3.11	2,000	1,45,000	By General Expenses		19,000
To Donations		20,000	By Journals and Newspapers		3,500
To Surplus from Annual Meet		26,000	By Insurance	11,800	
To Sale of Souvenirs		1,24,000	Less: Prepaid on 31.3.10	3,800	
				8,000	
			Add : Prepaid on 31.3.11	4,000	12,000
			By Sports Equipment (Working Note No.1)		16,000
			By Furniture (Working Note No.2)		12,000
			By Balance c/fd (given)		24,500
		3,15,600			3,15,600

**Balance sheet as on 31st March, 2010**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Subscriptions received in advance	3,000	Cash in hand	600
Salaries outstanding	7,000	Subscriptions due	8,000
Capital fund (balancing figure)	77,400	Prepaid insurance	3,800
		Sports equipments	55,000
		Furniture	20,000
	87,400		87,400

**Balance sheet as on 31st March, 2011**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Subscriptions received in advance	2,000	Cash in hand	24,500
Salaries outstanding	7,500	Subscriptions due	12,000
Capital fund		Prepaid insurance	4,000
Opening balance ₹ 77,400		Sports equipments	60,000
Add : Surplus for the year ₹ 43,600	1,21,000	Furniture	30,000
	<u>1,30,500</u>		<u>1,30,500</u>

*Working Note 1 :*

<i>Dr.</i>		<b>Sports Equipment Account</b>	<i>Cr.</i>
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Balance b/fd	55,000	By Depreciation	11,000
To Cash / Bank (Purchases, balancing figure)	16,000	By Balance c/fd	60,000
	<u>71,000</u>		<u>71,000</u>

*Working Note 2 :*

<i>Dr.</i>		<b>Furniture Account</b>	<i>Cr.</i>
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Balance b/fd	20,000	By Depreciation	2,000
To Cash / Bank (Purchases, balancing figure)	12,000	By Balance c/fd	30,000
	<u>32,000</u>		<u>32,000</u>

**Question 8**

- (a) A lease is purchased on 1st April, 2006 for 5 years at a cost of ₹5,00,000. The firm decided to depreciate the lease by annuity method charging interest @ 10% per annum. Show the lease account for the entire period of 5 years assuming that accounts are closed every year on 31st March.

A reference to the annuity table shows that to depreciate ₹1 by annuity method over 5 years, charging interest @ 10% per annum, one must write off a sum of ₹0.263797 every year. (8 marks)

- (b) A trader does not maintain proper books of account as required under the double entry system. However, he prepares a statement of affairs at the end of every

accounting year on 31st March and maintains a proper cash book. An analysis of his cash book for the accounting year ended 31st March, 2011 reveals the following figures for the year :

	₹
Cash received from sundry debtors	4,01,150
Discount allowed to sundry debtors	3,960
Cash paid to sundry creditors	2,08,460
Discount received from sundry creditors	3,010
Amount received on maturity of bills receivable	35,000
Amount paid for bills payable	67,000
Cash purchases	97,500
Cash sales	1,65,000

Statements of affairs reveal the following :

	As on 31st March, 2010 (₹)	As on 31st March, 2011 (₹)
Sundry debtors	44,250	59,490
Sundry creditors	26,910	38,000
Bills receivable	5,000	6,000
Bills payable	11,000	13,000

Ascertain total sales and total purchases for the year. (8 marks)

**Answer 8(a)**

Dr.			Lease Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2006 April 1	To Bank	5,00,000	2007 Mar.31	By Depreciation (₹ 5,00,000 x 0.263797)	1,31,899			
2007 Mar.31	To Interest (10% of ₹5,00,000)	50,000	Mar.31	By Balance c/d	4,18,101			
		5,50,000			5,50,000			
2007 April 1	To Balance b/d	4,18,101	2008 Mar.31	By Depreciation (₹ 5,00,000 x 0.263797)	1,31,899			
2008 Mar. 31	To Interest (10% of ₹4,18,101)	41,810	Mar. 31	By Balance c/d	3,28,012			
		4,59,911			4,59,911			
2008 April 1	To Balance b/d	3,28,012	2009 Mar.31	By Depreciation (₹ 5,00,000 x 0.263797)	1,31,899			



<i>Date</i>	<i>Particulars</i>	<i>₹</i>	<i>Date</i>	<i>Particulars</i>	<i>₹</i>
2009 Mar. 31	To Interest (10% of ₹3,28,012)	32,801	2009 Mar. 31	By Balance c/d	2,28,914
		<u>3,60,813</u>			<u>3,60,813</u>
2009 April 1	To Balance b/d	2,28,914	2010 Mar.31	By Depreciation (₹5,00,000 x 0.263797)	1,31,899
2010 Mar. 31	To Interest (10% of ₹2,28,914)	22,891	Mar. 31	By Balance c/d	1,19,906
		<u>3,51,805</u>			<u>3,51,805</u>
2010 April 1	To Balance b/d	1,19,906	2011 Mar.31	By Depreciation (Balancing figure)	1,31,897
2011 Mar. 31	To Interest (10% of ₹1,19,906)	11,991			
		<u>1,31,897</u>			<u>1,31,897</u>

**Answer 8(b)***Dr.***Bills Receivable Account***Cr.*

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Balance b/fd	5,000	By Cash	35,000
To Sundry Debtors (balancing figure)	36,000	By Balance c/fd	6,000
	<u>41,000</u>		<u>41,000</u>

*Dr.***Bills Payable Account***Cr.*

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Cash	67,000	By Balance b/fd	11,000
To Balance c/fd	13,000	By Sundry Creditors (balancing figure)	69,000
	<u>80,000</u>		<u>80,000</u>

<i>Dr.</i>		<b>Sundry Debtors Account</b>		<i>Cr.</i>	
<i>Particulars</i>	₹	<i>Particulars</i>	₹		
To Balance b/fd	44,250	By Cash	4,01,150		
To Credit Sales (balancing figure)	4,56,350	By Discount Allowed	3,960		
		By Bills Receivable	36,000		
		By Balance c/fd	59,490		
	<u>5,00,600</u>		<u>5,00,600</u>		

<i>Dr.</i>		<b>Sundry Creditors Account</b>		<i>Cr.</i>	
<i>Particulars</i>	₹	<i>Particulars</i>	₹		
To Cash	2,08,460	By Balance b/d	26,910		
To Discount	3,010	By Credit Purchases			
To Bills Payable	69,000	(Balancing figure)	2,91,560		
To Balance c/fd	38,000				
	<u>3,18,470</u>		<u>3,18,470</u>		

Credit Sales	₹ 4,56,350	Credit Purchases	₹ 2,91,560
Add : Cash Sales	₹ 1,65,000	Add : Cash Purchases	₹ 97,500
Total Sales	<u>₹ 6,21,350</u>	Total Purchases	<u>₹ 3,89,060</u>

## ELEMENTS OF BUSINESS LAWS AND MANAGEMENT

Time allowed : 3 hours

Maximum marks : 100

### PART A

(Answer Question No. 1 which is compulsory  
and any two of the rest from this part.)

#### Question 1

- (a) State, with reasons in brief, whether the following statements are true or false.  
Attempt **any five** :

- (i) In a contract of sale, the property in the goods sold passes to the buyer at the time of contract.
- (ii) The company cannot sue a third party in its own name.
- (iii) Mercantile law is related to the commercial activities of the people of the society.
- (iv) Damages paid for direct consequences of breach of contract are known as special damages.
- (v) An incoming partner is always liable to the third parties for any debt of the firm taken before he becomes a partner.
- (vi) A public company must have minimum five directors.

(2 marks each)

- (b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

- (i) As a general rule, an agreement without consideration is \_\_\_\_\_.
- (ii) A negotiable instrument must be payable either to order or to \_\_\_\_\_.
- (iii) A person of unsound mind \_\_\_\_\_ enter into a valid contract.
- (iv) The auditor of a government company is appointed by the \_\_\_\_\_ of India.
- (v) A cheque is said to be crossed when two parallel \_\_\_\_\_ lines are drawn on the left-hand side top corner of the cheque.

(1 mark each)

- (c) Aman and Ashish are working under a trade partnership. They execute a deed declaring that the partnership is dissolved with effect from 20th December, 2010. However, a public notice to this effect is not given. They continued the business. In January, 2011, Aman endorses a bill of exchange in the firm's name to Amit who is not aware of the dissolution. Is the firm liable on the bill ? Give reasons.

(5 marks)

**Answer 1(a)(i)****True**

A sale is an executed contract. In a contract of sale, the property in the goods sold passes to the buyer at the time of contract so that he becomes the owner of the goods [Section 4(3) of the Sale of Goods Act, 1930].

**Answer 1(a)(ii)****False**

In the eyes of law, a company is a body corporate and is an independent legal entity separate from its members. Therefore, it can sue a third party in its own name.

**Answer 1(a)(iii)****True**

Mercantile law is that branch of law which is concerned with trade and commerce in connection with various business transactions. Thus, it is basically concerned with sale and purchase of goods and services.

**Answer 1(a)(iv)****False**

Damages paid for direct or proximate consequences of breach of contract are known as ordinary damages. Such damages are calculated on the basis of the difference between contract price and market price of the goods at the time of breach.

**Answer 1(a)(v)****False**

As a general rule, an incoming partner is not liable to third parties for the debts of the firm incurred before he joined as a partner. [(Section 31 (2) of the Indian Partnership Act, 1932].

**Answer 1(a)(vi)****False**

As per section 252 of the Companies Act, 1956, every public company must have atleast three directors.

**Answer 1(b)**

- (i) As a general rule, an agreement without consideration is **Void**.
- (ii) A negotiable instrument must be payable either to order or to **Bearer**.
- (iii) A person of unsound mind **Cannot** enter into a valid contract.
- (iv) The auditor of a government company is appointed by the **Comptroller and Auditor General (CAG)** of India.
- (v) A cheque is said to be crossed when two parallel **Transverse** lines are drawn on the left-hand side top corner of the cheque.

**Answer 1(c)**

The firm is liable on the bill because public notice of dissolution has not been given. Section 45 of the Indian Partnership Act, 1932, states that even after dissolution of the firm, all the partners continue to be liable to third parties for any act done by any of them in the usual course of the business of the firm until public notice has been given of the dissolution.

**Question 2**

*Distinguish between **any three** of the following :*

- (i) 'Sale' and 'agreement to sell'.
- (ii) 'Void agreement' and 'illegal agreement'.
- (iii) 'Offer' and 'an invitation to offer'.
- (iv) 'Contract of indemnity' and 'contract of guarantee'. (5 marks each)

**Answer 2(i)****Distinction between 'sale' and 'agreement to sell'**

The following points will bring out the distinction between 'sale' and an 'agreement to sell':

- (a) In a 'sale', the property in the goods sold passes to the buyer at the time of contract so that he becomes the owner of the goods. In an 'agreement to sell', the ownership does not pass to the buyer at the time of the contract, but it passes only when it becomes sale on the expiry of certain time or the fulfillment of some conditions subject to which the property in the goods is to be transferred.
- (b) An 'agreement to sell' is an executory contract; a 'sale' is an executed contract.
- (c) An 'agreement to sell' is a contract pure and simple, but a 'sale' is contract plus conveyance.
- (d) If there is an 'agreement to sell' and the goods are destroyed by accident, the loss falls on the seller. In a 'sale', the loss falls on the buyer, even though the goods are with the seller.
- (e) If there is an 'agreement to sell' and the seller commits a breach, the buyer has only a personal remedy against the seller, namely, a claim for damages. But if there has been a 'sale', and the seller commits a breach by refusing to deliver the goods, the buyer has not only a personal remedy against him but also the other remedies which an owner has in respect of goods themselves such as a suit for conversion or detinue, etc.

**Answer 2(ii)****Distinction between 'void agreement' and 'illegal agreement'**

According to section 2(g) of the Indian Contract Act, 1872, an agreement not enforceable by law is void. The Act has specified various factors due to which an agreement may be considered as 'void agreement'. One of these factors is unlawfulness of object and consideration of the contract i.e. illegality of the contract which makes it

void. Despite the similarity between an illegal and a 'void agreement' that in either case the agreement is void and cannot be enforced by law, the two differ from each other in the following respects:

1. *Scope* : An 'illegal agreement' is always void while a 'void agreement' may not be illegal; being void due to some other factor e.g. an agreement the terms of which are not certain is void but not illegal.
2. *Effect on collateral transaction* : If an agreement is merely void and not illegal, the collateral transaction to the agreement may be enforced for execution but it cannot be executed in case of 'illegal agreement'.
3. *Punishment* : Unlike 'illegal agreement', there is no punishment to the parties to a 'void agreement'.

### **Answer 2(iii)**

#### **Distinction between 'Offer' and 'an invitation to offer'**

In the case of an 'offer' a person expresses his willingness to enter into a contract, whereas in the case of an 'invitation to offer' a person simply proposes certain terms and invites the other party to make an offer on those proposed terms. Such 'invitation to offer' is not an offer in the eyes of law and it does not become agreement by its acceptance. For example, an auctioneers request for bids (which are offered by the bidders), the display of goods in a shop window with prices marked upon them, or the display of priced goods in a self- service store or a shopkeepers catalogue of prices are 'invitations to an offer' and not 'offer'.

In case of an 'offer', the intention of the offerer is to enter into contract if terms and conditions contained in the 'offer' are absolutely acceptable to the acceptor, whereas, in the case of an 'invitation to offer', the person who invites offer would like to give himself one more chance to decide to enter into contract or not.

An 'offer' if acted upon results into a contract, whereas an 'invitation to offer', if acted upon only results in making an offer.

### **Answer 2(iv)**

#### **Distinction between 'contract of indemnity' and 'contract of guarantee'**

A 'contract of indemnity' differs from a 'contract of guarantee' in the following ways:

- (1) In a 'contract of indemnity' there are only two parties - the indemnifier and the indemnity-holder. In a 'contract of guarantee', there are three parties - the surety, the principal debtor and the creditor.
- (2) In a 'contract of indemnity', the liability of the indemnifier is primary. In a 'contract of guarantee', the liability of the surety is secondary. The surety is liable only if the principal debtor makes a default, the primary liability being that of the principal debtor.
- (3) In the case of a 'contract of indemnity', the indemnifier need not necessarily act at the request of the indemnified. Whereas in guarantee the surety gives guarantee only at the request of the principal debtor.

- (4) In the case of a guarantee there is an existing debt or duty, the performance of which is guaranteed by the surety, whereas in the case of indemnity, the possibility of any loss happening is the only contingency against which the indemnifier undertakes to indemnify.
- (5) In a 'contract of guarantee', the surety on payment of the debt when the principal debtor has failed to pay, is entitled to proceed against the principal debtor in his own right. But in the case of indemnity, the indemnifier cannot sue third-parties for loss in his own name, unless there be assignment in his favour. He must sue in the name of the indemnity-holder.

### Question 3

Attempt **any three** of the following :

- (i) What are the rights of an unpaid seller against the goods ?
- (ii) A promissory note was made without mentioning any time of payment. The holder added the words 'on demand' on the face of the instrument. Does this amount to a material alteration ? Give reasons.
- (iii) Can a minor be admitted to partnership ? If so, what will be his rights and liabilities during minority and after he has attained majority ?
- (iv) State the essential elements of a valid contract. (5 marks each)

### Answer 3(i)

#### Rights of an unpaid seller against the goods

According to the Sale of the Goods Act, 1930, an unpaid seller's rights against the goods are as under:

- (a) *Right of lien (Sections 47-49 and 54)* : It is available to an unpaid seller when: (a) the goods have been sold without any stipulation as to credit; (b) the goods have been sold on credit, but the term of credit has expired; (c) the buyer becomes insolvent.
- (b) *Right of stoppage in transit (Sections 50-52)* : This right can be exercised under the following circumstances:
  - (i) The seller must be unpaid.
  - (ii) The seller must have parted with the possession of the goods and the buyer must not have acquired it.
  - (iii) The buyer must be insolvent.
  - (iv) The property in goods must have passed from the seller to the buyer.
- (c) *Right of re-sale (Section 54)* : The right may be exercised: (a) Where the goods are of a perishable nature; (b) Where the unpaid seller has exercised his right of lien or stoppage in transit, he can give notice to the buyer of his intention to resell the goods. If after such notice the buyer does not within a reasonable time pay or tender the price, the seller can resell the goods within a reasonable time.

- (c) Where the seller has expressly reserved a right of resale, in case the buyer makes default.
- (d) *Right of withholding delivery* : Where the property in the goods has not passed to the buyer, the unpaid seller has, in addition to other remedies against the buyer personally, a right of withholding delivery of goods which are the subject-matter of the contract. This right is similar to and co-extensive with his right of lien and stoppage in transit.

**Answer 3(ii)**

As per section 87 of the Negotiable Instruments Act, 1881, an alteration is material which in any way alters the operation of the instruments and liabilities of the parties thereto. Further section 19 of the Act states that a promissory note in which no time for payment is specified is an instrument payable on demand.

In view of the above cited legal provisions, the alteration is not material because a promissory note in which no time of payment is specified will be treated as payable on demand. Hence adding the words 'on demand' does not alter the business effect of the instrument.

**Answer 3(iii)**

An agreement is an essential ingredient in a partnership. A minor being incompetent to contract cannot enter into the agreement of partnership i.e. he cannot be a partner. However, as per Section 30 (1) of the Indian Partnership Act, 1932, a minor can be admitted, to the benefits of a partnership with the consent of all the existing partners.

*Rights and Liabilities during minority :*

- (a) The minor is entitled to receive his agreed share of profits;
- (b) The minor is entitled to inspect the books of accounts of the firm only and not any other books as he is not a full-fledged partner;
- (c) The minor can file a suit against the firm for claiming his share of profits when he intends to serve his connection with the firm but not otherwise;
- (d) The minor partner's liability to third parties is limited only to the extent of his share in the firm [Section 30 (3)]. However, he is neither personally liable nor his private estate is liable for the acts of the firm.

*Rights and liabilities on attaining majority:*

A minor who was admitted to the benefits of partnership, within six months of attaining majority or when he comes to know of his being so admitted (whichever is later), has to elect whether he would or would not like to become a partner. He has to give public notice to this effect. If he fails to give any public notice, he will be deemed to have elected to become a partner. [Section 30(5)]

If he becomes or elects to become a partner, then:

1. His rights and liabilities will be similar to those of a full-fledged partner.
2. He will be personally liable for all the acts of the firm, done since he was first admitted to the benefits of the partnership.



3. His share of profits and property remains the same as was before, unless altered by agreement.

If he elects not to become a partner, then:

1. His rights and liabilities shall continue to be those of a minor upto the date of his giving public notice.
2. His share shall not be liable for any acts of the firm done after the date of the public notice.
3. He is entitled to sue the partners for his share of the property and profits in the firm. [Section 30(8)]

### **Answer 3(iv)**

#### **Essential elements of a valid contract**

Section 10 of the Indian Contract Act, 1872 provides that “all agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void”.

The essential elements of a valid contract are:

- (i) An offer or proposal by one party and acceptance of that offer by another party resulting in an agreement—consensus-ad-idem.
- (ii) An intention to create legal relations or an intent to have legal consequences.
- (iii) The agreement is supported by a lawful consideration.
- (iv) The parties to the contract are legally capable of contracting.
- (v) Genuine consent between the parties.
- (vi) The object and consideration of the contract is legal and is not opposed to public policy.
- (vii) The terms of the contract are certain.
- (viii) The agreement is capable of being performed i.e., it is not impossible of being performed.

Therefore, to form a valid contract there must be (1) an agreement, (2) based on the genuine consent of the parties, (3) supported by a lawful consideration, (4) made for a lawful object, and (iv) between the competent parties.

### **Question 4**

*Attempt **any three** of the following :*

- (i) *Define ‘memorandum of association’. Name the various clauses of memorandum of association.*
- (ii) *Ram wrote to Shyam to sell him apples at the rate of ` 150 per kg. On the same day, Shyam wrote to Ram to buy apples at the rate of ` 150 per kg. Their letters*

*cross in the post. Shyam now requires Ram to sell him apples as there was an enforceable contract between them. Will Shyam succeed ? Give reasons.*

- (iii) *What is 'agency by ratification' ? State the conditions of valid ratification.*  
 (iv) *"Sharing of profits is a prima facie evidence of partnership but not conclusive evidence." Discuss.* (5 marks each)

#### **Answer 4(i)**

##### **Memorandum of Association**

The second step in the formation of a company is to prepare a document called the Memorandum of Association. This document contains the constitution of a company. It defines the area, within which the company can operate, the objects for which the company has been formed, as well as the business that the company would undertake. The memorandum has to be divided into five clauses:

- Name clause;
- Registered office clause;
- Objects clause;
- The objects clause is further divided into two sub-clauses:
  - (i) Main objects; (ii) Other objects;
- Liability clause;
- Capital clause;
- *Subscription* : The memorandum concludes with the subscriber's declaration that they desire to be formed into a company.

#### **Answer 4(ii)**

No, Shyam will not succeed. In the given problem, Ram and Shyam make identical offers to each other, in ignorance of each other's offer. Such offers are called as 'cross offers'. 'Cross-offers' do not constitute acceptance of one's offer by the other and as such there is no completed agreement. There is no binding contract between Ram and Shyam because the offers were simultaneous, each being made in ignorance of the other, and there is no acceptance of each other's offer.

#### **Answer 4(iii)**

##### **'Agency by ratification'**

All acts of an agent done in the discharge of his duties and within the scope of his authority are binding upon the principal. Acts performed by an agent beyond the scope of his authority are not binding upon the principal. However, the principal may in such a case either adopt or reject the act of the agent. In case the principal adopts the act of the agent done without his authority, he is said to have ratified that act. Thus, ratification is an approval of a previous act or contract. It implies the adoption by the principal of an act made by the agent in his behalf, but without his authority. As per section 196 of the Indian Contract Act, 1872, "where acts are done by one person on behalf of another, but

without his knowledge or authority, he may elect to ratify or to disown such acts. If he ratifies them, the same effects will follow as if they had been performed by his authority". It is also known as ex post facto agency, i.e., agency arising after the event. The effect of ratification is to render the contract binding on the principal as if the agent had been authorised before hand.

**Essentials of a valid ratification** : An agency by ratification is valid only if the following conditions are fulfilled:

- (i) Act must have been done by the agent on behalf of the person ratifying (principal) and not in his (agent's) private capacity.
- (ii) The principal must be competent to contract and must be in existence at the time of the act that is to be ratified.
- (iii) Ratifier should be competent to ratify the act.
- (iv) The transaction must have been subsisting at the time when it is ratified.
- (v) The principal must have signified his unconditional acceptance of the act.
- (vi) Ratification must have been made with full knowledge of all the material facts.
- (vii) Whole transaction must be ratified and not a part thereof.
- (viii) Ratification must be made within a reasonable time.
- (ix) Act to be ratified should not be void or illegal.
- (x) Ratification must be communicated.
- (xi) Ratification must not injure a third person.
- (xii) Ratification relates to the date of the act of agent.
- (xiii) Only lawful acts can be ratified.

#### **Answer 4(iv)**

One of the essential elements of a partnership is that there must be an agreement to share the profits of a business. The sharing of profits is an essential feature of partnership and there would be no partnership where only one of the partners is entitled to the whole of the profits of the business. The partners may agree to share profits in any manner they like. They may share it equally or in any other proportion. It is essential that what is shared is the profits of the business in the sense of the net gain resulting after payment of all outgoings.

Though sharing of the profits of a business is essential to constitute partnership, it does not follow that every one who participates in the profit of a business is a partner. A person may in many ways take a share of the profits of a business without having a direct interest in the business. In any such case he cannot be regarded as a partner unless where the business can be said to have been conducted on his behalf. An assistant who receives a salary and also a share of the profits does not become a partner that he receives a share of the profits.

**PART B**

*(Answer Question No. 5 which is compulsory and any two of the rest from this part.)*

**Question 5**

(a) *State, with reasons in brief, whether the following statements are true or false. Attempt **any five** :*

- (i) *Recruitment is described as a negative process as it involves rejection of some candidates.*
- (ii) *An effective leader is one who is able to force his will on his subordinates.*
- (iii) *Planning is the process of deciding in advance what to do, how and when.*
- (iv) *There are only two media of communication — words or pictures.*
- (v) *Delegation is must for decentralisation.*
- (vi) *Control pervades all levels of management.* (2 marks each)

(b) *Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :*

- (i) \_\_\_\_\_ *is the father of modern management.*
- (ii) *Theory-X is based on \_\_\_\_\_ assumptions about human nature.*
- (iii) *Making the budget from scratch is known as \_\_\_\_\_.*
- (iv) *Policies are \_\_\_\_\_ to objectives.*
- (v) *Direction function is performed at \_\_\_\_\_ levels.* (1 mark each)

(c) *Discuss the various steps involved in the process of decision-making.* (5 marks)

**Answer 5(a)(i)**

**False**

Recruitment is regarded as a positive function as it aims at identifying and stimulating candidates to apply for jobs in large number whereas selection is more of a negative function because number of candidates chosen is invariably less than those rejected.

**Answer 5(a)(ii)**

**False**

An effective leader directs and motivates the group. He cannot be autocrat, self-centered tyrant to force his will on his followers. If he does so, he may be able to get forced, passive and temporary compliance but not voluntary, enthusiastic, sincere cooperation from the followers.

**Answer 5(a)(iii)****True**

Planning is determining the goals of the organization in the light of the available opportunities and threats and formulation of a strategy, programme, budget, to achieve these goals taking into consideration the time, resources and human constraints.

**Answer 5(a)(iv)****False**

There are three media of communication words, pictures and actions (gestures). Of these, 'actions' speak louder than words-written or spoken. Purposeful silence, manner and tone of the voice, facial or hand expressions, physical distance between the parties, carry and convey special meanings to the people we communicate with and are easily and speedily understood.

**Answer 5(a)(v)****True**

There cannot be any decentralization without delegation of authority from the superiors to the subordinates for the performance of the assigned tasks in the respective area of responsibility.

**Answer 5(a)(vi)****True**

Top managers are concerned with the control of direction, strategies and environmental challenges; middle managers with the control of systems, procedures, budgets, cost and resources, while lower managers are concerned with operational efficiency, individual and group performance as per targets.

**Answer 5(b)**

- (i) **Henry Fayol** is the father of modern management.
- (ii) Theory-X is based on **Negative/Conventional** assumptions about human nature.
- (iii) Making the budget from scratch is known as **Zero Budget**.
- (iv) Policies are **Subordinate/means** to objectives.
- (v) Direction function is performed at **All** levels.

**Answer 5(c)****Decision Making**

Decision-making signifies actual selection of a course of action from among a number of alternatives. It is so important to the job of managing that management is sometimes described as consisting essentially of the decision-making process. Decision-making permeates planning, organising, controlling and all other functions of management.

**Process of Decision Making**

The main points or various steps of decision making process are as under:

- (i) *Identifying and diagnosing the real problem* : Understanding the situation that sets the stage for decision-making by a manager is an important element in decision-making. Diagnosing the real problem implies knowing the gap between what exists and what is expected to happen and identifying the reasons for the gap.
- (ii) *Discovery of alternatives* : The next step to decision making is to search for available alternatives and assess their probable consequences.
- (iii) *Analysis and evaluation of available alternatives* : Once the alternatives are discovered, the next stage is to analyse and compare their relative importance. This calls for listing of the pros and cons of different alternatives in relation to each other.
- (iv) *Selection of alternative to be followed* : Defining the problem, identifying the alternatives and their analysis and evaluation set the stage for the manager to determine the best solution. In this matter a manager is frequently guided by his past experience.
- (v) *Communication of decision and its acceptance by the organization* : Once decision is made it needs to be implemented. This calls for laying down derivative plans and their communication to all those responsible for initiating actions on them.

**Question 6**

Distinguish between **any three** of the following :

- (i) 'Motivation' and 'morale'.
- (ii) 'Planning' and 'forecasting'.
- (iii) 'Policies' and 'strategies'.
- (iv) 'Cooperation' and 'coordination'. (5 marks each)

**Answer 6(i)****Difference between 'Motivation' and 'morale'**

<i>Motivation</i>	<i>Morale</i>
1. Motivation is the process of stimulating people to work for the achievement of desired goals i.e. it is the will to work.	Morale is a composite of feelings, attitudes and sentiments. In simple words morale is an overall state of group's emotional health and enthusiasm.
2. Motivation is largely an individual's willingness to work.	Morale is a group phenomenon.
3. Motivation is a function of needs and desires.	Morale is a function of group relationships.

<i>Motivation</i>	<i>Morale</i>
4. Motivation is whether the people in the work environment have enough incentive to do their jobs. For example, a salary is a good motivation.	Morale is whether the people in the work environment are happy. For example, being paid well leads to higher morale.

**Answer 6(ii)****Difference between ‘Planning’ and ‘Forecasting’**

<i>Planning</i>	<i>Forecasting</i>
1. It is the basis for future course of action.	It is the base of planning.
2. Planning helps to arrive at certain decisions that what is to be done, how is to be done and when is to be done.	Without the help of forecasting, no decision can be taken.
3. Planning is made at the top level of management.	It is done at the middle or lower level of management.
4. Planning can be done by any person of authority.	Forecasting is done by the experts/ professionals.
5. A large number of persons are involved in planning process.	A few members of the organization are involved in forecasting process.

**Answer 6(iii)****Difference between ‘Policies’ and ‘Strategies’**

<i>Policies</i>	<i>Strategies</i>
1. A policy is a guide to thinking and action of those who make decisions.	A strategy provides the direction in which physical, technological and human resources of the organization are to be deployed.
2. A policy is made to guide taking action in those situations which arise time and again.	Strategy is made by the top management where need arises for giving apt attention to an objective.
3. Policy is a type of standing plan.	Strategy is a single use plan.
4. Situations which are to be faced by a policy are comparatively known.	Strategy is formulated for unknown environment in the coming periods, popularly known as situational plan.
5. In the context of business, policies need not originate due to market competition.	Strategies are made with a view to fighting competition in the market.

**Answer 6(iv)****Difference between ‘Cooperation’ and ‘coordination’**

<i>Cooperation</i>	<i>Coordination</i>
1. Cooperation is a voluntary attempt of members.	Coordination is a deliberate attempt of managers.
2. Cooperation is narrow in scope.	Coordination is wider in scope.
3. Cooperation is an important technique of coordination.	Coordination is not a technique to achieve cooperation.
4. Cooperation is a collective effort of group members that arises out of their need to work together to attain a common goal.	Coordination is an attempted effort of managers to unify the actions of all the organizational members.
5. The need for co-operation is not all-pervasive.	The need for coordination is all-pervasive and ever present in every organization.

**Question 7**

Attempt **any three** of the following :

- (i) Write a note on ‘matrix organisation’.
- (ii) Evaluate the uses and the abuses of committees in an organisation.
- (iii) What is ‘grapevine’ ? Explain the benefits and limitations of grapevine.
- (iv) Why is change resisted ? Discuss. (5 marks each)

**Answer 7(i)****‘Matrix Organization’**

It combines functional departmentation with product or project organisation. In a matrix organisation, the functional departments like manufacturing, marketing, accounting and personnel constitute the vertical chains of command while the project organisation or product divisions form the horizontal chains of command. The vertical lines of authority are cut horizontally across by project or product line divisions. The matrix or task force consists of a group of individuals drawn from the various functional departments who are assigned to particular projects or product divisions and are considered best qualified for the work.

The matrix organisation structure is designed to derive the benefits of both functional structure and the divisional structure. It helps to promote specialisation as well as lateral co-ordination and highlights the achievement of business results in each of the divisions and the organisation as a whole. However, it suffers from several limitations. The multiplicity of vertical and horizontal relationships impair organisational efficiency. The secondment of specialists from functional departments to a number of projects makes it difficult for functional heads to appraise employee performance. Disagreement



between project teams and functional departments result in considerable stress for the personnel.

**Answer 7(ii)****Committee**

A committee may be defined as a group of people performing some aspect of managerial function. It refers to a group of persons to whom a matter has been committed. A committee is a body of persons appointed or elected to meet on an organised basis for the consideration of matters brought before it.

**Uses and Abuses of Committee**

The main uses of Committees in an organization are:

- (a) Integrated group knowledge and judgement pooling of wisdom;
- (b) Representation of different interest groups—joint decision making;
- (c) Coordination of plans and policies through group thinking and deliberations;
- (d) Improved communication- face to face exchange of views and feelings;
- (e) Training ground for executives—opportunity to juniors to provide valuable inputs and suggestions.

The main abuses of Committees in an organization are:

- (a) Slowness and expressiveness in decision making;
- (b) Compromise and indecisions;
- (c) Minority dominations because of the attempt to build consensus, the majority has to succumb to pressures of the minority groups;
- (d) Divided responsibility because everyone craves credit for success but avoids responsibility for failure.

**Answer 7(iii)****Grapevine**

Grapevine is the term used in organizational parlance for informal communication. This communication between persons follows no certain path, suffers no organizational restraints, is mostly oral and serves personal and social needs. It arises spontaneously because people interact with each other and share their thoughts, feelings, sentiments and through this develop a sense of belongingness with each other.

**Benefits**

- (a) It is very quick means of transferring information because it does not follow the chain of command.
- (b) It bears more credibility because of personal touch and relationships.
- (c) It fills up the gaps in formal communication.

- (d) It helps in relieving the tensions and stress suffered by organizational members because of uncertainties; complexities and anxieties of the situations and supposedly unfair behavior of superiors, peers and subordinates.

**Limitations**

- (i) Management has no control over it. Therefore, it can manipulate or misrepresent facts and distort managerial intentions and plans.
- (ii) It may work against the interest of the organization by spreading rumors and disinformation in the system.

**Answer 7(iv)****Resistance to Change**

New policies and programmes often meet with resistance and cause a failure, unnecessary delay or distortion in implementation. Conflict between human reaction to change and the increased need for change is the most perplexing problem in the management of change.

Following are the important factors responsible for people's resistance to change:

- (i) People find it easy to do what they have been doing and find it inconvenient to learn something new.
- (ii) Since change almost invariably brings with it a redistribution of power and influence, it tends to be opposed by those individuals and groups who are negatively affected by it.
- (iii) Change is also resisted when people in course of doing or learning a new system experience failure.
- (iv) Change is also resisted by individuals who are less educated and less intelligent, and who rely heavily on their personal experience and are not inclined to take risks. Those who stand to lose the most by the change tend to oppose it the most. People with traditional temperament know that change will expose their inadequacy and inefficiency, and, as such, they must oppose change.

**Question 8**

Attempt **any three** of the following :

- (i) Briefly explain the term 'control'. What are the essentials of an effective control ?
- (ii) Explain the principal barriers to communication.
- (iii) What is 'decentralisation' ? What factors affect the degree of decentralisation in an organisation ?
- (iv) What are the essentials of a sound motivational system ? Explain.

(5 marks each)

**Answer 8(i)****Control**

Control is a fundamental managerial function which implies measurement and correction of performance of subordinates to ensure that the pre-determined objectives are accomplished.

**Essentials of effective control**

These are as under:

- (i) *Feedback* : It is the process of adjusting future actions based upon information about past performance;
- (ii) *Control should be objective* : The control should be definite and objective. A subordinate will respond favourably to the objective standards and impartial appraisal of his work performance.
- (iii) *Prompt Reporting of Deviations* : Control system should be devised so as to detect deviations before they actually occur. Manager should be provided with information as soon as possible so that he can live off failures.
- (iv) *Forward looking control* : Ideal control is instantaneous, self correcting and forward looking.
- (v) *Flexible control* : Control must be flexible in the sense that it should respond favourably to the conditions. In consequence of unforeseen circumstances when plans are changed, control should reflect corresponding changes to remain operative under new conditions.

**Answer 8(ii)****Principal Barriers to Communication**

Some of the important barriers obstructing clear understanding and causing breakdowns in communication are as follows:

- (a) *Distortion caused by superior subordinate relationship* : One of the fundamental barriers to communication arises from the status relationships in the organisation. The superior-subordinate relationship in the formal organisation structure inhibit free flow of information and exchange of ideas, suggestions and questions.
- (b) *The problem of semantic distortion* : Messages communicated through words may be distorted intentionally. However, there are words that often mean different things to different people and thus cause non-deliberate distortions.
- (c) *Barriers arising on account of premature evaluation* : Listening is often described as a good business. In order that the complete message may be transmitted and received, it is essential that the communicator should be provided with an environment in which he can state his full position.
- (d) *Barriers due to perfunctory attention* : Communication in the sense of transfer of information and understanding will fail if the receiver pays little or no attention to the message.
- (e) *Barriers due to failure to communicate* : There are managers who fail to communicate correct information at the right time. This is partly because of human tendency to be lazy and partly due to inability of the executive to select what to communicate.
- (f) *Barriers arising on account of resistance to change* : Because of convenience, security and other reasons people generally prefer to adhere to the old pattern and tend to resist change.

**Answer 8(iii)****Decentralization**

Decentralization means dispersion of decision-making authority in an organization in a systematic and comprehensive manner upto the lower most level for prompt spot decisions. It is systematic delegation of authority from top to all lower levels in such a manner that every manager, at his level, can take independent decisions subject to general policy guidelines without reference to his superiors.

The degree of decentralization depends on the following factors:

- (a) Importance and significance of the decision;
- (b) Size of the organization;
- (c) Managements attitude and philosophy;
- (d) Control techniques;
- (e) Availability of capable executives; and
- (f) Environmental influences, like Government Policy, Union pressures, etc.

Decentralisation is a fundamental phase of delegation. It is an extension of the concept of delegation. According to Allen, decentralisation is the systematic effort to delegate to the lower levels all authority except that which can be exercised at central point.

**Answer 8(iv)****Essentials of a Sound Motivational System**

The main essentials of a sound motivational system are as follows:

- (a) It should be consistent with the needs of the employees. It should satisfy unsatisfied need of individuals and groups. Maslow's need hierarchy.
  - (b) It should integrate individual needs with organizational needs-the reward should satisfy the needs of the employee and the employees should also put in the desired performance.
  - (c) There should be proper equity between the perceived value of regards and perceived value of efforts per se and in comparison with the equity of other reference groups – Adam's equity theory;
  - (d) Motivation should be based on both positive and negative reinforcements – more emphasis on positive motivation and rewards – Reinforcement theory.
  - (e) There should be clarity in goals, rewards and roles as well as certainty of rewards and certainty of performance-Vroom's expectancy theory.
  - (f) Motivation system should be based on proper selection and orientation of employees.
  - (g) Motivation system should be flexible to take care of fluctuations in performance and human imperfections.
-