

**FOUNDATION PROGRAMME**  
**DECEMBER 2008**  
**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) Information revolution and changing economies
- (ii) Profession of Company Secretaryship
- (iii) Land acquisition – The Singur lessons
- (iv) Swings in sensex.

(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):

*Liberalisation in India, which began almost a decade ago, has been proceeding at a frantic pace. The implications for corporations in India are significant. This is true of all vertical industry segments across the board such as banking, financial services, airlines, transportation, telecom and manufacturing. One of the most far-reaching implications in this liberalised and hence globalised regimes is the increasing widespread use of state-of-the-art information technology solutions. This is done to gain strategic and competitive advantage vis-a-vis the past. It is worthwhile to examine in some detail the position of enterprises manufacturing systems for the manufacturing industry.*

*Up until recently, manufacturers in India have been a relatively sheltered lot, what with the 'licence raj' regime in the home market on the one hand and lack of global as well as multinational competition on the other. In the current context, however this protection is being withdrawn in intermittent doses by the Union Government. Alarming though this may sound, this is both a problem and an opportunity for Indian manufacturers with an eye towards growth via the international marketplace. The problem is that suddenly they have to compete against the best in the world, albeit in the local market. The opportunity is that if they successfully do so, nothing can really stop them from repeating this success across the globe. It is apart that to achieve world-class status, use of latest information technology will be a pre-requisite. After all, having world-class manufacturing processes, world-class design processes and large local and export market at the same time is of no avail if the organisation cannot produce the right product at the right time and at the right cost. This would also enable them to market their products world-wide using the latest information technology solutions. Liberalisation then will cease to be a dreaded word.*

(304 words)

(8+2 marks)

**Answer 1(a)(i)****Information Revolution and Changing Economies**

With the advent of information technology, everything from how we talk to how we work is changing. Industrialized economies are gradually changing into “information economies” because of the shift that happened in the 1970s and 1980s due to the social, economic and technological changes, which took place during those decades in advanced industrialized societies. The social changes included the entry of entertainment media and computers in home and the growth of telecommunication which made it possible to work from home. The divisions between the home and factory or office started breaking down as the main work of telecommuters was gathering, processing and storing information with the help of personal computers.

IT is constantly evolving. This envisages constant upgradation of knowledge in order to cope with intense global competition. The main components of IT industry are software, hardware, maintenance and networking. Out of these, software is the driving force by which things are carried out at mind boggling speed.

Thus, as far as the economy is concerned, more people are now involved with the information related industries, such as travel, tourism, hospitality, banking, insurance etc, than the production of commodities for a mass consumer market.

It is the technological change that has made these social changes and economic changes possible, which has further brought about the integration of telecommunication, mass-media and computers. All this has resulted in greater flexibility and efficiency at lower costs.

Today’s world is on the way to become an information-centered society. Therefore, some sociologists believe that an “information revolution” is taking place, which is a complete break from the industrial revolution of the nineteenth century. Though not all the countries of the world are at the same level in terms of their adoption of information technology yet an information revolution is surely on the way. (298 words)

**Answer 1(a)(ii)****Profession of Company Secretaryship**

The career of a “Company Secretary” is not only prestigious and financially rewarding but it also carries with it a high degree of job satisfaction. Today, it is considered a multi-dimensional job and a well-known profession.

In the present day corporate environment, a Company Secretary plays a key role in the execution of objectives, policies, strategies and other plans of his company. His position is similar to a hub in a bicycle wheel. He is said to be the mouth piece of the company Directors. He is also described as eyes, ears and hands of a company.

Any student, who has passed Senior Secondary (10+2 equivalent) examination in any stream, can select the Company Secretaryship as a profession. With the number of corporates increasing world-wide, the demand for qualified Company Secretaries is also increasing. The profession provides an opportunity to work in a corporate house or to opt for self-employment. As per law all the public limited companies beyond a particular size are required to appoint a qualified company secretary who is generally a senior

officer of the management. The role of company secretary is that of an advisor to the management regarding complex legal, regulatory as well as business and financial matters. Increasingly the roles of finance and company secretary are also getting merged and in many a company the same person is handling the two jobs, increasing his profile in the management.

The Institute of Company Secretaries of India (ICSI) is the regulatory and examining body. It is a statutory body, constituted under the Company Secretaries Act, 1980 by Indian Parliament. To enter into this profession, one has to clear the examinations conducted by the Institute. With changing environment, the courses designed by it have undergone changes. (290 words)

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

#### **Land Acquisition - The Singur Lessons**

Tata Motors was given 650 acres of land on a 90 years' lease at an annual rent of Rs. one crore per annum by the government for first 5 years and with subsequent increases thereafter. Another 347 acres was given to the part suppliers at the rate of Rs. 8000 per acre for the first 45 years and Rs.16,000 per acre for the rest. Tata Motors was also to get a loan of Rs.200 crore from the West Bengal Government at 1% p.a.

The land was acquired by the West Bengal Industrial Development Corporation (WSIDC) under the Land Acquisition Act 1894. The price of land was fixed at the average of registration price (sectoral rate) in the preceding three years. It sought signatures of farmers on the consent forms prior to announcing the land price. 30% of the farmer's refused to sign consent forms and did not accept the payment. With this background, the unwilling farmers took the case to public domain and Mamta Banerjee championed their cause.

Tata Motors has now moved away from West Bengal to Gujarat. Like Tatas, the West Bengal Chief Minister pleaded that employment opportunities would be lost, foreign investors put off and many projects already sanctioned would not fructify.

Lessons worth learning from Singur fiasco are that the defunct Land Acquisition Act must be overhauled. The Central Government must consider limiting the scope of land acquisition by States to public projects such as roads, railways, airports and ports. Secondly, when public money is involved, there should be greater transparency about the deals between the Government and industrial houses. Thirdly, in the name of employment, bread of farmers should not be taken away. The interests of small land owners against forced purchases for/by powerful industrialists be protected. Lastly, political parties must shun away hypocrisy and follow clear and consistent policies.

(300 words)

### **Answer 1(a)(iv)**

#### **Swings in Sensex**

Swinging in the range of 8586.43 and 8410.69, Indian stocks charged ahead despite pitfalls in 2007 - a year that saw the benchmark Sensex propelling past multiple milestones and also the 9,400 mark, as global liquidity into the country reached a new peak. Domestic mutual funds too played a key role in what has been the strongest ever; most inclusive

and as yet scam-free stocks rally. Despite easing international crude prices and comfortable economic fundamentals, the market majorly remained extremely volatile.

There was scare of a scam in the market when Sensex swelled above the 8,000 mark in September, 2008 but the government was confident that nothing was amiss. It turned out in the end that all that the market needed was a healthy correction and not a probe as demanded by some quarters. The bourses comfortably rested on the country's strong economic fundamentals and consistent robust growth in corporate earnings, even as the government remained committed to reforms and promised to push annual GDP growth to 8-10 per cent in the next year.

Broadly, there are three reasons why the market is surging. Firstly, over the last 18 months or so, the global investor has suddenly discovered the depth and potential of India. Compared to China, whose companies are funded by non-transparent bank finance, India's companies have raised and deployed funds from capital markets for many years. Secondly, through the mid-1990s, India's markets have gained depth, the quality of investors has improved and Corporate Governance—especially in the new, knowledge-driven companies is exceptional. And lastly, profits of Indian companies are robust and expected to grow.

As the stock market soars, it is the responsibility of policy-makers and stakeholders to steer the bourse and to ensure that the going is in the right manner and direction.

(295 words)

### Answer 1(b)

**Title : Liberalization and Information Technology**

**Or**

### **The Impact of Liberalization in India**

The onset of liberalization has impacted almost all sectors of the Indian economy. The common factor in this development has been the use of information technology to gain a competitive advantage. So far the industry had enjoyed a sheltered existence. But manufacturing industry in India is now adopting information technology to face competition better. Liberalization poses problems but also opens new opportunities. In case, Indian industry manages to compete with world's best organizations, it would get a foothold in the entire world market. Adoption of IT and other technological solutions would be a pre-requisite for achieving a share of the global markets. (102 words)

### **Question 2**

(a) Attempt the following as directed against each :

- (i) *I met the accountant on only one occasion. (Omit unnecessary words.)*
- (ii) *My shirt is similar with your shirt. (Correct the preposition.)*
- (iii) *The milk is not fit for drink. (Correct the verb.)*
- (iv) *The restaurant served excellent food; it was only two years old. (Keep related words together through proper punctuation.)*
- (v) *The contract expires in a few years. (Use strong adjective.)*

- (vi) *Your order cannot be shipped until Friday. (Change into affirmative sentence.)*
- (vii) *The Birla House was built in the late 1940s by the Birla Family. (Change into active voice.)*
- (viii) *Bangaluru is the most polluted city in India. (Change the degree of comparison.)*
- (ix) *"Call the witness", said the magistrate. (Change into indirect speech.)*
- (x) *What other sports do you play \_\_\_\_\_ hockey ? (Fill in the blank choosing a correct word — beside/besides.) (1 mark each)*
- (b) *Choose the most appropriate answer from the given options in respect of the following :*
- (i) *The word 'errata' means —*
- (a) *In harmony*
  - (b) *List of errors*
  - (c) *Last resort*
  - (d) *Infinity.*
- (ii) *'One who does not believe in the existence of God' is called —*
- (a) *Atheist*
  - (b) *Agnostic*
  - (c) *Philanthropist*
  - (d) *Malingering.*
- (iii) *The abbreviation 'e.g.' means —*
- (a) *That is*
  - (b) *Namely*
  - (c) *For example*
  - (d) *Nevertheless.*
- (iv) *The abbreviation 'E&OE' refers to —*
- (a) *Errors and omission excusable*
  - (b) *Errors and omissions eliminated*
  - (c) *Errors and omission eligible*
  - (d) *Errors and omissions excepted.*
- (v) *The semi-colon (;) is used to —*
- (a) *Introduce material that explains*
  - (b) *Construct words to clarify meanings*
  - (c) *Separate subordinate clauses*
  - (d) *Separate two or more independent clauses. (1 mark each)*

**Answer 2(a)**

- (i) I met the accountant only once.
- (ii) My shirt is similar to your shirt.
- (iii) The milk is not fit for drinking.
- (iv) The restaurant, which was only two years old, served excellent food.
- (v) The contract expires in five years.
- (vi) Your order will be shipped on Friday.
- (vii) The Birla Family built the Birla House in the late 1940s.
- (viii) No other city in India is as polluted as Bangaluru.
- (ix) The magistrate ordered the witness to be called.
- (x) Besides.

**Answer 2(b)**

- (i) (b) List of errors
- (ii) (a) Atheist
- (iii) (c) For example
- (iv) (d) Errors and omissions excepted
- (v) (d) Separate two or more independent clauses.

**Question 3**

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

(i) *First-come, first-served*

(ii) *From rags to riches*

(iii) *Look forward to*

(iv) *In toto*

(v) *Face value.*

*(1 mark each)*

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

(i) *Table*

(ii) *Chair*

(iii) *Edge*

(iv) *Glass*

(v) *Ice*

(vi) *Jack*

(vii) *Master.*

*(2 marks each)*

**Answer 3(a)**

- (i) *First-come, first-served* : Tickets for the New Year Party bash are limited and sold on first come, first served basis.
- (ii) *From rags to riches* : Dirubhai Ambani rose from rags to riches.
- (iii) *Look forward to* : I am looking forward to the party.
- (iv) *In toto* : We reject your demands in toto.
- (v) *Face value* : He is a nice person, but you need not always take what he says at face value.

**Answer 3(b)**

- (i) *Table* : We have ordered two tables and three chairs.  
His article was missing from the table of contents.  
OR  
Her new offer is on the table.
- (ii) *Chair* : Our order includes one big chair.  
Mr Sujith chairs the board meetings.
- (iii) *Edge* : The child edged towards the door.  
My house is situated on the edge of the town.
- (iv) *Glass* : May I have a glass of water please.  
She got her expensive glass crockery from London.
- (v) *Ice* : With the extra goal, the victory was on ice.  
He accepted the challenge but somewhere deep down he knew he was on thin ice.
- (vi) *Jack* : Mohit jacked the rear of the car to replace the tyre.  
John and Jack are best of friends.
- (vii) *Master* : The dog ran towards its master.  
He finally mastered abstract art.

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

- (a) *State, with reasons in brief, whether the following statements are correct or incorrect. Attempt any five :*
  - (i) *In communication, it pays to increase your word-power.*
  - (ii) *Communication should not only be made, but it should appear to have been made.*

- (iii) *Non-verbal communication is not universal.*
  - (iv) *Silence is also speech.*
  - (v) *You cannot simultaneously use both verbal and non-verbal communication forms.*
  - (vi) *Flowers have a language for all occasions.*
  - (vii) *Grapevine always provides correct information.* (2 marks each)
- (b) *On transfer from Bangaluru to Delhi, a customer has applied for cancellation of his landline telephone. As the Customer Relations Manager of Insta-Tel Co. Ltd., write a reply (in block format only) to the customer at his Delhi address enclosing a demand draft for Rs. 151 towards full and final settlement.* (10 marks)

OR

- (b) *Answer the following questions :*
- (i) *There is no universal agreement as to whether the day should come first or the month (9/11/2008 can be read as 9th day of November, 2008 and also 11th day of September, 2008). How will you write the date to avoid uncertainty?*
  - (ii) *Why is PIN Code used ?*
  - (iii) *In a formal business letter, what would be the complimentary close ?*
  - (iv) *In an informal business letter, what would be the complimentary close ?*
  - (v) *In the signature block, normally Mr./Ms./Mrs. is not written before the name of sender, but sometimes it becomes necessary. When ?*
  - (vi) *You are using the company name in the first line of the 'inside address', and you want to direct the letter to a particular person within the company. What would you do ?*
  - (vii) *What is the importance of 'subject line' ?*
  - (viii) *What is the full form of 'CC' written after signature block ?*
  - (ix) *What information does a letterhead generally carry ?*
  - (x) *Is use of 'respected sir' as salutation in a business letter grammatically acceptable ?* (1 mark each)

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

*Reason :* If we extend our vocabulary, it would be easier to convey fine shades of meaning.

**(ii) Correct**

*Reason :* If a communication is made, but is neither known nor received at the other end then it is of no use. In such cases, it is made only for the sake of record. Communication has to be visible in order to become a two-way process.



**(iii) Incorrect**

*Reason* : All human beings use non-verbal communication. Irrespective of culture, feelings and messages related to projection, aggression, emotional states etc. are present everywhere.

**(iv) Correct**

*Reason* : The African proverb means that silence can send non-verbal cues concerning the communication situations in which you participate. For instance, it may signal lack of interest or understanding and even refusal. Therefore silence is also speech.

**(v) Incorrect**

*Reason* : The two forms often go together. You might say “Yes” while nodding your head. A public speaker might hold up one, two and three fingers when saying “first”, “second” and “third” to let listeners know he is moving from the first to the second to the third point of a speech.

**(vi) Correct**

*Reason* : Flowers convey meaning according to the situation one is in. On birth, they convey happiness and on death, sorrow.

**(vii) Incorrect**

*Reason* : Grapevine encourages spreading of rumors and half truths, as it is not an official mode of communication.

**Answer 4(b)**

Insta-Tel Co. Ltd.  
Electronics House  
Bannerghatta Road  
Bangaluru-56071  
*Tel.* : +80 1111000/101  
*Fax* : +80 1110111/112  
www.instatel.in

21 September, 2008

Ref. No.BA0036393

Ms. Varsha Babu Chettiyar  
1005, Yojna Vihar  
Delhi-110 091

**Subject : Cancellation of landline telephone connection**

Dear Madam,

Your request for cancellation of the landline telephone connection No. 22657743 has been processed and your account with us has been closed.

It has been our privilege to be your preferred telecom service provider and we regret losing your valuable patronage. Enclosed is demand draft no.47833 dated 20th September, 2008 for Rs.151/-, drawn on HDFC Bank, Vivek Vihar, Delhi towards refund settlement.

We thank you for using our services and hope that you will grant us an opportunity to serve you again in future.

For further assistance please call us at 080-11112345 or e-mail at care.karnataka@instatel.in.

Yours sincerely,

Sd/-  
(Smitha Patil)  
Customer Relations Manager

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

- (i) September 11, 2008 or 11 September, 2008.
- (ii) It helps postal authorities in identifying area of delivery in India.
- (iii) Yours faithfully or Truly yours.
- (iv) Yours sincerely.
- (v) When the gender of the writer/sender is unclear.
- (vi) Write 'Attention'.
- (vii) It helps Office personnel sort and route the incoming mail and code document for storage and retrieval.
- (viii) Carbon or Courtesy copy.
- (ix) A letterhead generally carries a Logo, the name and postal address of the company, its phone/fax numbers, e-mail and website address.
- (x) No, it is grammatically unacceptable. The standard salutation is "Dear Sir".

#### **Question 5**

*Attempt any three of the following :*

- (i) *Draft a memorandum informing employees of your company that, henceforth, all employees are entitled to make personal use of photocopiers on payment basis.*
- (ii) *Reliance Petrochemicals Ltd. is planning to issue new debenture certificates on cancellation of the existing debenture certificates. Draft a suitable public notice for this purpose.*
- (iii) *Draft the body of a letter to be written to the insurance company asking it to provide details of an 'against all risks', (AAR) Cover.*
- (iv) *Draft the body of an interview letter to Karan who has applied for the post of Human Resource Executive in your company. (5 marks each)*

**Answer 5(i)****GREEN PROJECT INDIA LTD****INTEROFFICE MEMO**

TO : All employees  
FROM : General Manager  
DATE : 8 August, 2008  
SUBJECT: Personal Use of Photocopiers

**PERSONAL USE OF PHOTOCOPIER ON PAYMENT BASIS**

It may be noted that all the employees can now use the photocopier for their personal use on payment basis. The rate list per page and concessions on bulk usage have been put up near the photocopier machine.

Henceforth, everyone is requested to use the photocopier on pay-as-you use basis.

RMS

**Answer 5(ii)****Reliance Petrochemicals**

*Regd. Office: 23, Ansal Chambers, Connaught Place, Delhi - 1*

**PUBLIC NOTICE**

Notice is hereby given that the company has, in consultation with the Stock Exchanges, fixed closure of register of debenture holders (Convertible Debentures) and transfer books thereof from 9th January to 17th January 2009 (both days inclusive) for issuing New Debenture Certificate(s) on cancellation of the existing Debenture Certificate(s).

In view of this, all the convertible Debenture holders are requested to lodge their Debenture Certificates, along with relevant applications for transfer in their favour on or before 8th January, 2009 with the Registrars of the Company viz. Surya Consultants Ltd. 203, Ansal Chambers, Connaught Place, Delhi - 1 or at any of the Investor Relation Centers of the Company for issuing new debenture certificate(s).

*Sd/-*

Date : 12th December, 2008

Company Secretary

**Answer 5(iii)**

Our Company Mercury Ltd is interested in insuring its factory located at D-42, Sonapat Industrial Area, Haryana. Our factory is already insured with your company against fire for a total value of Rs. 75 Lacs. Now we would like to have an 'Against All Risks (AAR) Cover.

We shall be grateful if you please quote your lowest premium rates for an AAR cover at the earliest, as our Insurance Policy expires in mid February.

**Answer 5(iv)**

With reference to your application for the post of Human Resource Executive in our company, you are requested to attend a personal interview on 20th January, 2009 at our corporate office, Ansal Chambers, Gurgaon, at 11.00 a.m.

Please note that no traveling allowance is payable for attending the interview.

**Question 6**

Attempt any three of the following :

- (i) *Airport Authority of India (AAI) is contemplating to invite tenders for 'provision of taxi-way lighting system at Jhil-Mil Airport, Dehradun.' The estimated cost of taxi-way lighting system is Rs.18.90 lakh and period of its completion is three months. The last date for receipt of tenders is 1st January, 2009. Other details are available on AAI website [www.aai.aero](http://www.aai.aero) and [www.airports.org.in](http://www.airports.org.in). Prepare a tender notice in a tabular form for publication in leading national dailies of India.*
- (ii) *You are the Public Relations Officer (PRO) of Larsen & Toubro Ltd. (L&T). Based on the information given below, draft a press release on the firm's recent performance and achievements :*
- The company has proposed to issue 1:1 bonus shares. The company's order book stood at Rs.52,683 crore in 2007-08. The Government of India has issued a commemorative postal stamp in honour of L&T's founder Holck-Larsen in the birth centenary year. In 2007-08, company's 'return on capital employed' (ROCE) stood at 20.6%. The company was adjudged India's best managed company and the 'best of the best' across all sectors.*
- (iii) *Draft an office order appointing an enquiry officer to conduct proceedings against allegations of misappropriation of cash by Rakshit, an Accounts Assistant.*
- (iv) *Saurabh, an investor, has filed a complaint that he has not yet received the dividend. Draft the body of the reply. (5 marks each)*

**Answer 6(i)**

**AIRPORTS AUTHORITY OF INDIA**  
*Dr. Krishnan Road, New Delhi-110 012*

**TENDER NOTICE**

Airports Authority of India invites sealed item-rate tenders for the "Provision of Taxi Way Lighting at Jhil-Mil Airport, Dehradun" at an estimated cost of Rs.18.90 lacs to be completed within three months. The last date of receipt of duly filled in tenders is 1st January, 2009. For further details, please refer to AAI website [www.aai.aero](http://www.aai.aero) and [www.airports.org.in](http://www.airports.org.in)

New Delhi

15th December, 2008

Sd/-

Chief Manager

**Answer 6(ii)****LARSEN & TOURBO LTD.****PRESS RELEASE**

It is a great pleasure to share with all the stakeholders the highlights of significant achievements of another successive year, 2007-08.

Larsen & Toubro's order book stands at Rs.52,683 crores. Return on capital employed stood at 20.6% compared with 19% in 2006-07. The Company therefore is pleased to propose 1:1 Bonus Shares, subject to approval of its shareholders.

It is a matter of great pride that L&T was adjudged India's best managed company across all sectors by India's leading business magazine Business Today. The Company is also delighted to inform that in the birth centenary year of L & T's founder Holck-Larsen, the Government of India issued a commemorative postal stamp to honour him for his contributions to the Indian Industry.

*Issued by*

Deepika Singh

Public Relations Officer

**Answer 6(iii)**

Order No.34/4

30th June, 2008

**OFFICE ORDER**

Mr. Arun Lal, Senior Law Officer is hereby appointed as an Inquiry Officer to conduct proceedings against allegations of misappropriation of Rs.30000/- by Mr. Rakshit, Accounts Assistant. He is authorized to call any of the employees of the company as a witness during the proceedings.

Mr. Arun Lal is directed to complete the enquiry as expeditiously as possible and submit his report to the undersigned latest by 30th July, 2008.

Sd/-

Manager, Administration

CC : Notice Board

**Answer 6(iv)**

This refers to Investor Complaint No. 432/DFY/22876 regarding the non-receipt of dividend. We are pleased to inform you that we have already dispatched the dividend amount of Rs. 35000/- through Warrant No. 60843 dated 26th Nov, 2008.

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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 correct or incorrect :
- (i) Micro economics is also known as macro economics.
  - (ii) When a consumer moves upwards left along a given demand curve it is termed as contraction of demand.
  - (iii) Under perfect competition, a firm has full control over the price at which it may choose to sell its output.
  - (iv) An increase in national income will result in a corresponding increase in economic welfare of the country.
  - (v) 'Balance of payments' and 'balance of trade' convey the same information.  
(2 marks each)
- (b) Choose the most appropriate answer from the given options in respect of the following :
- (i) Central problems of economies arise because —
    - (a) Wants are unlimited
    - (b) Means are limited
    - (c) Wants are unlimited and means which have alternative uses are limited
    - (d) None of the above.
  - (ii) When marginal utility is zero, the total utility will be —
    - (a) Minimum
    - (b) Maximum
    - (c) Negative
    - (d) Indeterminate.
  - (iii) Production function is —
    - (a) Physical relationship between inputs and outputs
    - (b) Relationship among all factors of production
    - (c) Relationship between workers and management
    - (d) None of the above.
  - (iv) In perfect competition, the price is determined by —
    - (a) Firm
    - (b) Industry
    - (c) Government

- (d) *None of the above.*
- (v) *Price discrimination is possible under the following market form —*
- (a) *Perfect competition*
  - (b) *Pure competition*
  - (c) *Monopolistic competition*
  - (d) *Monopoly.*
- (vi) *Since adoption of economic liberalisation, the share of agriculture to India's GDP is —*
- (a) *Constant*
  - (b) *Declining*
  - (c) *Increasing*
  - (d) *None of the above.*
- (vii) *Which of the following is not included in income method of measurement of national income —*
- (a) *Fixed capital formation*
  - (b) *Wages and salaries*
  - (c) *Interest*
  - (d) *Dividends.*
- (viii) *When general price level increases, the value of money will —*
- (a) *Increase*
  - (b) *Decrease*
  - (c) *Remain constant*
  - (d) *None of the above.*
- (ix) *Find the odd one out of the following —*
- (a) *State Bank of India*
  - (b) *Reserve Bank of India*
  - (c) *Union Bank of India*
  - (d) *Central Bank of India.*
- (x) *Which of the followings is not the objective of the WTO —*
- (a) *To help free trade flow*
  - (b) *To help trading members to settle disputes*
  - (c) *To try to sort out the trade problems of members*
  - (d) *To determine the exchange rates of different currencies.*

(1 mark each)

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

**Incorrect**

*Reasons* : Microeconomics is that branch of economic analysis which studies the behaviour of individual economic units or small groups in their alternative capacities such

as a consumer, producer, investor or supplier of labour of other factor inputs. Macroeconomics, on the other hand, is that branch of economics which is concerned with the analysis of the economy as a whole and its large aggregates or averages such as national income and output, total employment, aggregate demand and aggregate supply, and the general price level. It basically studies the entire economic system.

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

*Reasons* : Contraction of demand refers to a situation when there is reduction in quantity demanded for a commodity as a result increase in its price (other things remains the same). Here, the Consumer moves on the same demand curve to upwards left.

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

*Reasons* : Under perfect competition, a firm has no control over price. Price is determined by the free forces of demand and supply in industry. A firm under perfect competition is price taker and not the price maker.

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

*Reason* : It is not always true. If increase in national income increases economic disparity, economic welfare of the country will hurt. Similarly, an addition to national income may be the result of overworking of workers. An increase in national income may degrade environment and resources of the country, which results in reducing productive potential.

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

*Reasons* : Balance of payment is wider term which incorporate balance of trade also. Balance of payments is a systematic statistical record of all economic transactions visible or invisible between the residents of an economy and rest of the world over a specific period of time normally one year. Balance of payments account necessarily balances in the accounting sense, due to adoption of the double entry system. Whereas, balance of trade represents trade of visible good with other country. It is also called 'balance of tangible trade'.

**Answer 1(b)**

- (i) (c) Wants are unlimited and means which have alternative uses are limited.
- (ii) (b) Maximum
- (iii) (a) Physical relationship between inputs and output.
- (iv) (b) Industry
- (v) (d) Monopoly



- (vi) (b) Declining
- (vii) (a) Fixed capital formation
- (viii) (b) Decrease
- (ix) (b) Reserve Bank of India
- (x) (d) To determine the exchange rates of different currencies.

### Question 2

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

- (i) 'Perfect competition' and 'monopolistic competition'.
- (ii) 'Positive economics' and 'normative economics'.
- (iii) 'Law of demand' and 'elasticity of demand'.
- (iv) 'Fixed cost' and 'variable cost'.

(3 marks each)

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

- (i) \_\_\_\_\_ policy is aimed to regulate and control the money supply in an economy.
- (ii) \_\_\_\_\_ is the interest rate at which the Central Bank provides loans to banks and other borrowers.
- (iii) No costs are fixed in \_\_\_\_\_ run.
- (iv) Monopolist controls the \_\_\_\_\_ of the product for which there is no close substitute in the market.
- (v) In the perfect competition, in the long run no firm can earn \_\_\_\_\_ profits.
- (vi) \_\_\_\_\_ sector contributes more than 50% of the GDP in India.

(1 mark each)

### Answer 2(a)(i)

#### Distinction between 'Perfect Competition' and 'Monopolistic Competition'

Perfect competition is a market form which possess the following characteristics i.e., large number of buyers and sellers and each act as price taker, the product is homogenous, there is free mobility of all resources including free entry and exist of business units and all economic agents in the market possesses complete and perfect knowledge of market.

As against this, Monopolistic Competition refers to a market structure in which there are many sellers selling similar but differentiated products and there is existence of free entry and free exit of firms. In other words, it is situation where there is keen, but not perfect competition among sellers and producing close, but not perfect substitutes. Selling expenses and product differentiation are the important features of this type of market.

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

Economic analysis operates at two levels is positive and normative.

**Distinction between Positive Economics’ and ‘Normative Economics’**

Positive economics studies:

- (a) The factual position as it exists and undergoes a change;
- (b) Working of various economic systems; and
- (c) The interdependence between (a) and (b).

It also covers the theoretical frameworks for studying economic issues and problems. Since positive economics are about facts, disagreements over these facts can be appropriately handled by appeal to the facts.

In a way, we limit our study of an economy to just ‘what is’.

As against this, in normative economics, we use our knowledge of economic theory for laying down the standards of performance of the economy and the manner in which they can be achieved and/or improved. Here, we deal with practical policy issues and recommend ‘what ought to be’. In its normative aspect, therefore, economics is concerned with how things should operate.

Factually, study of economics covers both positive and normative aspects. Limiting the study of economics to one of these dimensions is meaningless and irrational.

The basic distinction between the positive and normative economics is the distinction between ‘is’ and ought.

**Answer 2(a)(iii)****Distinction between ‘Law of Demand’ and ‘Elasticity of Demand’**

Law of demand explains the relationship between the price and quantity demanded of a commodity. When the price of a commodity increases, its quantity demanded decreases and when its price falls, its quantity demanded increases, *ceteris paribus*. The *ceteris paribus* clause holds the consumer’s tastes, other prices and the consumer’s income constant.

As against this, elasticity of demand measures the degree of change in quantity demanded for a commodity with response to change in its price. In other words, it is the ratio of percentage change in quantity demanded for a commodity to percentage change in its price i.e.

$$= (-) \frac{\text{Percentage change in Quantity demanded}}{\text{Percentage change in price}}$$

The basic distinction between the two is that law of demand explain the relationship between quantity demand for a commodity and its price *ceteris paribus* whereas elasticity of demand measures the degree of change in quantity demanded of a commodity with response to its price.

**Answer 2(a)(iv)****Distinction between ‘Fixed Cost’ and ‘Variable Cost’**

Fixed costs are the amount spent by the firm on fixed inputs in the short run. Fixed costs are thus, those costs which remain constant, irrespective of the level of output. These costs remain unchanged even if the output of the firm is nil. Fixed costs, therefore, are known as “supplementary costs” or “overhead costs”. The fixed cost includes cost of: (i) managerial and administrative staff; (ii) depreciation of machinery building and other fixed costs and (iii) maintenance of land etc., The concept of fixed cost is associated with short-run.

As against fixed cost, variable costs are those costs which are incurred on variable factors. Variable cost include cost of raw materials, running cost of fixed capital such as fuel, ordinary repairs, routine maintenance, direct labour charges associated with level of output and cost of all other inputs that vary without put. These costs vary directly with the level of output. In other words, variable costs are those costs which rise when output expands and fall when output contracts. When output is nil, they are reduced to zero.

The basic distinction between the two is that fixed cost does not vary with level of output whereas variable cost changes with level of output.

**Answer 2(b)**

- (i) **Monetary** policy is aimed to regulate and control the money supply in an economy.
- (ii) **Bank rate** is the interest rate at which the Central Bank provides loans to banks and other borrowers.
- (iii) No costs are fixed in **long** run.
- (iv) Monopolist controls the **supply** of the product for which there is no close substitute in the market.
- (v) In the perfect competition, in the long run no firm can earn **super normal** profits.
- (vi) **Tertiary (Services)** sector contributes more than 50% of the GDP in *India*.

**Question 3**

- (a) *Briefly explain the Fisher’s Quantity Theory of money.* (5 marks)
- (b) *What is ‘fiscal policy’ ? Discuss its various objectives.* (5 marks)
- (c) *Explain the importance of agricultural sector in India.* (5 marks)

**Answer 3(a)****Fisher’s Quantity Theory of Money**

Quantity theory of money states that the value of money changes inversely and the price level directly, to the changes in quantity of money. In its extreme form, the theory states that other thing remaining equal, the changes in general price level are directly proportional to the change in money supply.

The transactional version of quantity theory of money was presented by Irving Fisher in the form of an equation of exchange as follows:

$$P = \frac{MV + M'V'}{T}$$

$$\text{or } PT = MV + M'V'$$

Where :

P = Average price of the goods and services

M = The total quantity of the legal tender money.

M' = The total quantity of bank money.

V = Velocity of circulation of the legal tender money.

V' = Velocity of circulation of the bank money, and

T = Total transactions of goods and services during a given time.

The equation equates the demand for money (PT) to the supply of money (MV + M'V'). The total volume of transactions multiplied by the price level (PT) represents the demand of money. This equals to the total supply of money in the community consisting of quantity of actual money (M) multiplied by its velocity of circulation (V) plus the total quantity of credit money (M') multiplied by its velocity of circulation (V'). Thus, the total value of purchases (PT) in a year is measured by MV + M'V'.

The above equation basically explains the direct proportional relationship between the quantity of money and the general price level. If the quantity of money is doubled, the price level also doubles, but the value of money (1/p) is reduced to half and vice versa.

*Assumptions* : Fisher's equation is based upon the following assumptions:

- (i) P is passive element in the equation and does not affect other variables.
- (ii) T, V, V' and M' remain constant during the short period.
- (iii) Full employment prevails in the economy.

*Criticism* : Fisher's quantity theory of money is criticized by economists on several grounds including its unrealistic assumptions.

### **Answer 3(b)**

**Fiscal Policy** : Fiscal policy is a policy which deals with Government income and expenditure programmes during a year. It is basically related to government budget. In the words of Arthur Smith, fiscal policy refers to a policy under which the government uses its expenditure and revenue programmes during a year to produce favourable distributional effects and avoid undesirable effect on national income, production and employment.

Some of the important objectives of Fiscal Policy in a country include the following:

- (i) *Economic Growth* : It refers to sustained and substantial increase in real per capita income. The fiscal policy may help to deliver this objective by mobilizing

the required recourses to finance infrastructure facilities in the economy which will give a big push to the process of growth and development in the country.

- (ii) *Balanced Regional Development* : Balance regional development is a major objective of fiscal policy. Various fiscal measures such as tax concessions, relief in excise duties may help to achieve this objective smoothly.
- (iii) *Equal distribution of economic resources* : An important objective of fiscal policy is to achieve transfer of income from rich to poor. This is achieved on one hand by imposing highly progressive direct taxes on people in high income brackets and using these resources for the benefit of the common people directly or through provision of social amenities free of cost.
- (iv) *Full Employment* : Fiscal policy also enables the policy makers to attain the objectives of full employment and control of Business Cycles. It is possible by making the desired public expenditure to boost the effective demand in the economy at the time of depression. Public expenditure may be financed through deficit financing.
- (v) *Exchange Stability* : Fiscal policy also helps in maintaining exchange stability by regulating customizing duties. Exchange control measures are also used in big way to achieve the objective.

### **Answer 3(c)**

Agriculture sector forms the backbone of Indian economy. It is the means of livelihood of all most two third of work force in the country. According to available information for the Financial Year 2006-07 agriculture accounts for 18% of India's GDP. About 43% of India geographical is used for agricultural activity. Though the share of Indian agriculture in the GDP has steadily decline over the years, it is still the single largest contributor to the GDP and plays a vital role in the overall socio-economic development of India. Despite industrialization of economy in last six decades, agriculture sector still occupies a place of pride. The importance of agriculture sector to national economy can be better understood in terms of following :

- (i) It supplies the food to India's increasing population;
- (ii) It also creates the demand for industrial products such as fertilizers, seeds, pesticides, agriculture machinery etc. and helps the industrial sector to grow;
- (iii) It supply other consumptions goods like fruits, vegetables, milk etc.
- (iv) It supplies the raw materials for various leading industries. Cotton and Jute Textiles Industry, Sugar, Vanaspati and Plantation all these depend on agriculture directly. There are many other industries which depend on agriculture in an indirect manner. Many of our small scale and cottage industries like handloom, weaving, oil crushing, rice husking etc., depend upon agriculture for their raw materials.
- (v) It offers employment opportunities to large portion of total working population in the country;
- (vi) It enables the country to earn foreign exchange by exporting agricultural product;
- (vii) Agriculture also provide main support for India's transport system

The major challenges confronting the agriculture sector, particularly in food grains production is the slowdown in fertilizer, irrigation and energy use at the farm level and technological stagnation. Crop intensity and area under cultivation have also shown a decline. Improvement in rural infrastructure, proper price, marketing, storage and extension support services and facilities, better irrigation based on improved methods of water utilization, extension of improved technologies, balanced use of fertilizers and crop diversification provide the necessary framework for sustaining a growth rate in the farm sector of close to 4 percent. It is also imperative to consolidate unviable and fragmented holdings, substantially raise agricultural productivity and improve opportunities of non-agricultural employment to relieve the pressure on agriculture for residual labour absorption.

#### Question 4

Attempt **any three** of the following :

- (i) Write a note on the role of service sector in Indian economy.
- (ii) What do you mean by 'economies of scale' ? What are its different types ?
- (iii) Briefly explain the meaning of 'globalisation' and its impact on the Indian economy.
- (iv) Enumerate the difficulties in estimating national income of a country with particular reference to India. (5 marks each)

#### Answer 4(i)

Services sector or tertiary sector involves provision of services to other business enterprises as well as to final consumers. It includes, service related to business and profession, communication, construction, distribution, education, energy, environment, finance, health, transport and tourism etc.

The service sector is the largest sector and accounts for a sizeable share—54.1% of GDP (2005-06); its share has steadily increased over the years. It provides employment to about 25% of working population. It provides support to agriculture and industries by providing them a number of services. The Service sector is a big partner in country's exports accounting to about 35% of total exports during 2004-05. The service sector heavily contributes on Indian foreign exchange.

Its growth achieved in services sector during 2005-06 was 14.2%. This sector has the potential to grow. It has gained at the expense of both the agricultural and industrial sectors through the 1990s. The rise in the service sectors' share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy. The Government has given a specified status to the service sector in the Export and Import Policy (2002-07). However, the sector faces a number of problems in the form of infrastructure, poor quality and lack of institutional set-up, lack of trained and hospitable service providers and stiff competitive from other countries.

#### Answer 4(ii)

**Economies of Scale** : A business firm expands its production in order to maximize profit and minimize cost. It derives many economies of large scale production which in

turn help in lowering the cost of production and increasing its productive efficiency. Economies of scale basically refers to the 'saving' in cost of production with an increase in the scale of output or by increasing the number of firms in the industry. Economies of scale are divided into two categories viz., internal and external:

- (a) *Internal Economies* : It covers those economies which are open to single firm independently of any action of other firms. These economies arise due to expansion of scale of output by the firm itself. It begins to make a better use of such resources which were not being utilized properly before the expansion of scale of production. Some of the internal economies include specialization and division of labour, technical economies, production economies, managerial economies, financial economies, use of by products, better utilization of inputs, marketing economies, risk and survival economies, economies of inventories etc.
- (b) *External Economies* : It refers to those economies which arise from some external causes such as expansion of the industry as a whole and developments of markets. These advantages are generated outside the firm. According to Stonier and Hague," external economies are those in production which depend on increase in output of the whole industry rather than on increase in output of the individual firm. External economies occur where an increase in the size of industry leads to lower costs for each individual firm comprising the industry. External economies are generated because of the growth of the whole industry. They are not monopolized by a single firm but are shared by number of firms, when the scale of production of the industry expands. It depends on the individual entrepreneur, how far he is able to take advantage of these economies. Some of the main types of external economies available to the firms in the industry include economies of concentration, economies of information, research and development, economies of better infrastructure facilities, better network of transportation, communication, banking system, insurance companies, warehouses and other commercial services, specialized marketing agencies facilities, supply of raw materials etc.

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

**Globalization of Indian Economy** : Globalization means integration of Indian economy to world economy through cross country flow of information, ideas, technologies goods, services, capital, finance and people. Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as Liberalization Privatization and Globalization (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the cost of reforms to liberalize the Indian economy in July 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy and its effects over the last decade can hardly be overlooked. Besides it also marks the advent of the real integration of the Indian economy into the global economy. The impact of globalization on Indian economy can be better understood in terms of its gains and loss to the economy.



### **Gain of Globalization**

Some of the important gains of globalization to Indian economy are discussed as under:

- The rate of growth of the Gross Domestic Product of India has been on the increase from 5.6 per cent during 1980-90 to seven per cent in the 1993-2001 period. In the last four years, the annual growth rate of the GDP was impressive at 7.5 per cent (2003-04), 8.5 per cent (2004-05), 9 per cent (2005-06) and 9.2 per cent (2006-07). Prime Minister Manmohan Singh is confident of having a 10 per cent growth in the GDP in the Eleventh Five Year Plan Period.
- The foreign exchange reserves (as at the end of the financial year) were \$ 39 billion (2000-01), \$ 107 billion (2003-04), \$ 145 billion (2005-06) and \$ 180 billion (in February 2007). It has crossed \$ 250 billion in August 2008.
- The cumulative FDI inflows from 1991 to September 2006 were Rs.1,81,566 crores (US \$ 43.29 billion). The sectors attracting highest FDI inflows are electrical equipments including computer software and electronics (18 per cent), service sector (13 per cent) telecommunications (10 per cent), transportation industry (nine per cent) etc. In the flow of FDI, India has surpassed South Korea to become the fourth largest recipient.
- India controls at the present 45 per cent of the global outsourcing market with an estimated income of \$ 50 billion.
- In respect of market capitalization (which takes into account the market value of a quoted company by multiplying its current share price by the number of shares in issue), India is in the fourth position and has already crossed the trillion dollar mark.
- As per the Forbes list for 2007, the number of billionaires of India has risen to 40 (from 36 last year) more than those of Japan (24), China (17), France (14) and Italy (14) this year. A press report was jubilant. This is the richest year for India. The combined wealth of the Indian billionaires marked an increase of 60 per cent from \$ 106 billion in 2006 to \$ 170 billion in 2007. The 40 Indian billionaires have assets worth about Rs.7.50 lakh crores whereas the cumulative investment in the 91 Public Sector Undertakings by the Central Government of India is Rs.3.93 lakh crores only.

### **Loss of Globalization**

The other side of the coin cannot be ignored. Indian economy is also adversely affected by globalization in terms of increase in unemployment, slowdown in the process of poverty reduction, rise in inequality in distribution of income.

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

National income is the sum of money value of final goods and services produced in a country over a specific period of time usually one year. To be more precise, national income refers to the money value of all final goods and services produced by the residents of a country while working both within and outside the domestic territory of the country in an accounting year.



### Difficulties in estimating 'National Income'

A country experiences many difficulties while estimating its national income. These difficulties may be conceptual or statistical or others. Some of these difficulties include the following:

- (a) *Inadequate and Unrealizable Data* : There are no legal forces which will ensure that people record all transactions. For instance, a farmer does not keep a record of his income; in an unorganized sector data is missing; rich people keep a lot of black money; etc. All this makes correct estimation of National Income difficult.
- (b) *Difficult Differentiation between Economic and non-economic Activities* : It is difficult to demarcate between economic activities which are included in national income calculation and non-economic activities which are excluded from National Income.
- (c) *Conceptual Difficulties* : Difficulty arises in interpreting new products like synthetic rubber or a new chemical fertilizer as they did not exist in the base year. Problem arises in estimating them at constant prices.
- (d) *Double Counting* : Sometimes, it is very difficult to differentiate between intermediate good and final good. For example, sugarcane is a final good if consumed domestically, but it is an intermediate good if sold to sugar industry. Sugar may be a final good if sold to bakery. It is very difficult to avoid double counting and get correct estimate of National Income.
- (e) *Scattered and Unorganised Production* : Statisticians make guesses on the income from those units whose production is scattered, unorganized and unrecorded.
- (f) *Unreliable Data Collecting agencies*: The data collecting agencies are generally unqualified and incompetent. The personal bias of the enumerators and investigators affect the correctness of result.
- (h) *No Data for Backward Areas* : In backward areas, barter system prevails. There is no record of these transactions. Also, data on self-consumed goods is not available. This makes the estimate of National Income incorrect.
- (i) *Lack of Data on Subsidiary Jobs* : People are engaged in more than one occupation or job. Lack of information on subsidiary jobs makes the estimation of National Income incorrect.

### 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 correct or incorrect :*
  - (i) *Statistics deals with individual measurements.*

- (ii) *The sum of squares of the deviations of a set of value is minimum when taken from mean.*
  - (iii) *Cartograms are used to represent spatial distribution.*
  - (iv) *In a moderately asymmetrical distribution —  
Median = mode +  $\frac{3}{2}$  (mean – mode).*
  - (v) *Fisher's ideal index number is geometric mean of Laspeyre's index number and Paasche's index number. (2 marks each)*
- (b) *Choose the most appropriate answer from the given options in respect of the following :*
- (i) *Statistics in singular sense means —*
    - (a) *Statistical data*
    - (b) *Statistical method*
    - (c) *Inductive statistics*
    - (d) *Descriptive statistics.*
  - (ii) *Word 'statistics' seems to have been derived from the Italian word 'statista' which means —*
    - (a) *Economic state*
    - (b) *Political state*
    - (c) *Numerical state*
    - (d) *Social state.*
  - (iii) *The co-efficient of correlation will have positive sign when —*
    - (a) *X increasing, Y decreasing*
    - (b) *Both X and Y increasing*
    - (c) *X decreasing, Y increasing*
    - (d) *No change in X and Y.*
  - (iv) *A diagram having two dimensions is known as —*
    - (a) *Linear diagram*
    - (b) *Volume diagram*
    - (c) *Area diagram*
    - (d) *None of the above.*
  - (v) *Deviation bars —*
    - (a) *Have only positive value*
    - (b) *Have only negative value*
    - (c) *Can have both negative and positive values*
    - (d) *Have only zero value.*
  - (vi) *Link relative method is also known as —*
    - (a) *Graphical method*
    - (b) *Curve fitting by principles of least squares*

- (c) *Pearson's method*  
 (d) *Method of semi averages.*
- (vii) *Prof. Sturges' formula is used for deciding —*  
 (a) *Number of class-interval*  
 (b) *Magnitude of class-interval*  
 (c) *Arrangement of frequencies*  
 (d) *Determination of class limits.*
- (viii) *Secular trend in the time series is the general tendency over a long period of time of data to —*  
 (a) *Increase*  
 (b) *Decrease*  
 (c) *Stagnate*  
 (d) *All the above.*
- (ix) *The value of coefficient of correlation between the variables is always —*  
 (a) *Greater than one*  
 (b) *Less than one*  
 (c) *Equal to zero*  
 (d) *In the range of minus one and plus one.*
- (x) *Distrust of statistics is due to —*  
 (a) *Insufficient statistical method*  
 (b) *Limited scope of statistics*  
 (c) *Misuse of unscrupulous elements*  
 (d) *None of the above.* (1 mark each)

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

*Reasons :* Since statistics deals with aggregate of facts, the study of individual measurements lies outside the scope of statistics.

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

*Reason :* It is one of the properties of arithmetic mean. This property implies that

$$\sum (X - A)^2 \quad \sum (X - A)^2 \quad \text{Where A is any arbitrary origin.}$$

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

*Reasons :* Cartograms are used to give quantitative information on a geographical basis. The quantities on the map can be shown in many ways like by dots, by colour, by placing pictograms in each geographical units, etc. Cartograms should be used only

where geographic comparison is of primary importance. Thus, they are used to represent spatial distribution.

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

**Incorrect**

*Reason* : The difference between mean and median is about 1/3 the difference between mean and mode i.e. Mean – Median = 1/3 (Mean – Mode)

$$\text{or } 3 \text{ median} = 2 \text{ mean} + \text{Mode}$$

$$\text{Median} = 1/3 (2 \text{ mean} + \text{Mode})$$

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

**Correct**

*Reason* : Fisher's Ideal Index Number is the geometric mean of Laspeyre's (L) and Paasche's (P) index numbers. The Fisher's formula for calculating the price index number can be written as under:

$$P^{FI} = \quad \text{where } L = P^{La} = \frac{p_1 q_0}{p_0 q_0} \times 100$$

$$\text{and } P = P^{Pa} = \frac{p_1 q_1}{p_0 q_1} \times 100$$

$$\text{Thus, } P^{FI} = \sqrt{\frac{p_1 q_0}{p_0 q_0} \times \frac{p_1 q_1}{p_0 q_1}} \times 100$$

**Answer 5(b)**

- (i) (b) Statistical method
- (ii) (b) Political State
- (iii) (b) Both X and Y increasing
- (iv) (c) Area diagram
- (v) (c) Can have both negative and positive values
- (vi) (c) Pearson's Method
- (vii) (a) Number of class interval and (b) Magnitude of class-interval\*
- (viii) (d) All the above
- (ix) (d) In the range of minus one and plus one.
- (x) (c) Misuse of unscrupulous elements.

**Question 6**

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

- (i) 'Histograph' and 'histogram'.
- (ii) 'Census investigation' and 'sample investigation'.

- (iii) 'Fixed base index number' and 'chain base index number'.
- (iv) 'Laspeyre's index number' and 'Paasche's index number'. (3 marks each)
- (b) Re-write the following sentences after filling-up the blank spaces with appropriate word(s)/figure(s) :
- (i) Indirect oral interview is one of the methods of collecting \_\_\_\_\_ .
- (ii) The sum of observations divided by the number of observations is known as \_\_\_\_\_.
- (iii) \_\_\_\_\_ is the value which has the greatest frequency in its immediate neighbourhood.
- (iv) Lorenz curve method is graphical method of measuring \_\_\_\_\_ of a distribution.
- (v) \_\_\_\_\_ is a statistical tool which measures the degree of relationship between one or more variables.
- (vi) When the verticals of a frequency polygon are joined by a smooth curve, the resulting figure is known as \_\_\_\_\_. (1 mark each)

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

##### Distinction between 'Histogram' and 'Histograph'

Histogram or frequency polygon is a graph which is drawn by joining the mid points of the upper width of adjacent rectangles of Histogram, with straight lines. However, a frequency polygon can be drawn even without constructing a histogram. Both the sides of frequency polygon are extended to meet the X axis.

As against this, histogram is a graph of grouped frequency distribution in which class interval are plotted on X axis and respective frequencies on Y axis. On each class interval a rectangle is created with the height proportional to the frequency density of the class. It is often used to illustrate the major features of distribution of the data in the convenient form.

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

##### Distinction between 'Census Investigation' and 'Sample Investigation'

Census and sample investigation are the two popular approaches used by the statisticians to collect the primary data. Under census or complete enumeration method, data are collected for each and every unit of the population or universe which is a complete set of items and are of interests in any particular situation. This method is generally recommended in those cases where area of

investigation is limited and requires intensive examination or study of population. This method is time consuming and expensive.

As against census investigation, sample investigation refers to the process of learning about population on the basis of sample drawn from it. In sampling technique instead of every item of the universe, only a part of the universe is studied and conclusions are drawn on the same basis for the entire universe. This method saves time and labour and is less expensive.

**Answer 6(a)(iii)****Distinction between ‘Fixed Base Index Number’ and ‘Chain Base Index Number’**

Fixed base index number refers to an index number where reference is made to same base period throughout the series of index. The base period refers to that time period with which comparison of relative changes are made. It may be a year; month or a day, the index for base period is always taken as 100.

As against this, under the chain base index number, the base changes from year to year. In chain base index number, we have to compute the link relative.

**Answer 6(a)(iv)****‘Laspeyre’s Index Number and ‘Paasche’s Index Number’**

‘Laspeyre’s index number’ is the most important of all types of index numbers. In this method, the base year quantities are taken as weights. The formula for constructing the index number is as under :

$$P_{01} = \frac{\sum p_1 q_0}{\sum p_0 q_0} \times 100$$

As against this, under, ‘Paasche’s index number’ current year quantities are taken as weights. The formula for constructing the Paasche Index number is as under :

$$P_{01} = \frac{\sum p_1 q_1}{\sum p_0 q_1} \times 100$$

**Answer 6(b)**

- (i) Indirect oral interview is one of the methods of collecting **primary data** .
- (ii) The sum of observations divided by the number of observations is known as **Arithmetic mean**.
- (iii) **Mode** is the value which has the greatest frequency in its immediate neighbourhood.
- (iv) Lorenz curve method is graphical method of measuring **dispersion** of a distribution.
- (v) **Correlation** is a statistical tool which measures the degree of relationship between one or more variables.
- (vi) When the verticals of a frequency polygon are joined by a smooth curve, the resulting figure is known as **Frequency curve**.

**Question 7**

Attempt **any three** of the following :

- (i) “All statistics are numerical statements but all numerical statements are not statistics.” Explain.
- (ii) Define ‘secondary data’. State the precautions that need to be taken in their use.

- (iii) *A cyclist pedals from his house to college at a speed of 10 km. per hour and back from the college to his house at 15 km. per hour. Compute his average speed.*
- (iv) *What are the various components of a time series ?* (5 marks each)

### Answer 7(i)

The word 'statistics' is used in two senses i.e., as 'statistical data' and as 'science of statistical methods'. Statistics as data refers to quantitative aspects and is used in the form of numerical data. But all numerical data are not statistics. The numerical data must possess the following characteristics to be called statistics.

- (i) Numerical data are aggregates of facts. A single figure cannot be called statistics for the simple reason that they are unrelated and cannot be compared. No conclusions can be drawn out of it.
- (ii) They must be affected to a marked extent by a multiplicity of causes or factors;
- (iii) They are numerically expressed. Qualitative expressions like poor, good, bad intelligent etc. do not form part of statistics
- (iv) Statistics must be either estimated or enumerated.
- (v) They are collected only with a reasonable standard of accuracy.
- (vi) Numerical data depends upon the nature and purpose of enquiry.
- (vii) Statistics are collected in a systematic manner for determined purpose.
- (ix) Should be comparable and be placed in relation to each other.

Prof. Secrist's definition of statistics incorporates all the above characteristics.

### Answer 7(ii)

Secondary data refers to data which is originally collected and published by the authorities other than who require it. Such data is available in some government publications such as CSO, NSS, RBI, research studies journal/news papers etc.

#### Precautions in use of Secondary Data:

Secondary data should not be accepted at their face. It is because that such data may be erroneous in many respects due to bias inadequate size of the sample, substitution, error of definition, arithmetical errors etc. Even if there is no error, such data may not be suitable and adequate for the purpose of enquiry. Hence, an investigator before making such data should take the following precautions :

- (a) *Suitability of data* : An investigator before using the secondary data should ensure that the data under reference are suitable for the purpose of enquiry. The suitability of data can be judged in the light of nature and scope of investigation, terms and units defined etc.
- (b) *Adequacy of data* : Adequacy of data is another important precaution in use of secondary data. Adequacy of data is judged by in the light of the requirement of survey geographical area covered time period.

- (c) *Reliability of data*: Secondary data to be used should be reliable. Generally it is very difficult to ascertain whether the secondary data is reliable or not.

While using the secondary data, one should take into account the following norms also-

- Integrity and experience of data collecting organization;
- Reliability of sources of information;
- Use of proper sampling technique;
- Used of proper estimation technique
- Unbiased investigator and supervision of competent officer.

#### Answer 7(iii)

Let the distance from house to college be X kms.

The cyclist covers  $x + x = 2x$  km. distance

Hence Average Speed =  $\frac{\text{Total distance Travelled}}{\text{Total Time taken}}$

$$= \frac{2x}{(x/10 + x/15)} = \frac{2}{(1/10 + 1/15)}$$

$$= \frac{2}{\frac{3+2}{30}} = \frac{2 \times 30}{5} = 60/5 = 12 \text{ km per hour}$$

#### Answer 7(iv)

##### Components of a Time Series

A time series may be defined as a sequence of repeated measurement made periodically through time. Basically, it establishes a relationship between two variables in which one of the variable is independent variable i.e., time and other variable is dependent variable whose value changes with regards to time variable.

Some of the important components of time series include the following:

- (a) *Secular Trend*: It is basically the tendency of data to increase or decrease or stagnate over a long-period of time. It is generally the result of long-term forces such as change in population, technological change, change in government policies, change in consumer taste and habits. Secular trends are of two types i.e., Linear and Non-Linear. The basic objective of the study to trend is to predict the future behaviour of data. If a trend can be determined, then the rate of change of progress can be ascertained and tentative estimates concerning the future made accordingly.
- (b) *Periodic Variation*: These variations are of regular nature and repeat themselves after a fixed time duration. This time duration is known as period of these variations.



Periodical variation can be further classified in two categories:

- (i) *Seasonal Variations* : Seasonal Variations describe the pattern of change within a year that trend to be repeated from year to year. Seasonal variations are short-term period movements. The time interval of occurrence of seasonal variations may from few hours to a few weeks or few months. Some of the important forces responsible for seasonal variations are :
- Varying seasons;
  - Wealthier conditions;
  - Change in social custom and conversions.
- (ii) *Cyclical Variations* : It is concerned with periodic movements in time series around the trend line. These variations do not follow any regular pattern and move in some what unpredictable manner. These are upswing and down swings in the time series which are observable over the extended period of time. The most common example of a cycle is business cycle. The business cycle has four phases i.e., boom or prosperity, recession, depression and recovery. The business displays a systematic pattern but are of irregular duration.
- (c) *Random or Irregular Variations* : These are disturbances, occurs to 'everyday' unpredictable influences, such as weather conditions, strikes, accidents, war, natural calamities etc. These events cause a sever variation on the value of time series. Normally, they are short-term variations but at times leave a long lasting effect.

### Question 8

- (a) Calculate the quartile deviation and the coefficient of quartile deviation from the following data :

Wages (Rs.)	Less than 35	35–37	38–40	41–43	Above 43
No. of Workers	14	62	99	18	7

(5 marks)

- (b) Using rank correlation method, determine the relationship between debenture prices and share prices from the following data :

Year	1	2	3	4	5	6	7
Debenture Price (Rs.)	97.8	99.2	98.8	98.3	98.4	96.7	97.1
Share Price (Rs.)	73.2	85.8	78.9	75.8	77.4	87.2	83.8

(5 marks)

- (c) In a certain industry, the production of a certain commodity during the year 2001-2008 is given in the following table :

Year	2001	2002	2003	2004	2005	2006	2007	2008
Production (Rs. in Lakhs)	76	80	130	144	138	120	174	190

Fit a straight line trend by using the method of least squares and represent the data alongwith trend values on graph paper. (5 marks)

**Answer 8(a)****Calculation of Quartile Deviation and Co-efficient of Quartile Deviation**

<i>Wages (Rs.)</i>	<i>Frequency (f)</i>	<i>Cumulative Frequency</i>
Less than 35	14	14
35-37	62	76
38-40	99	175
41-43	18	193
Above 43	7	200
N = 200		

$$\text{Quartile Deviation} = (Q_3 - Q_1)/2$$

$$Q_1 = \text{Size of } (N/4)\text{th item} = 200/4 = 50^{\text{th}} \text{ item.}$$

$Q_1$  lies in the class 35 – 37

$$Q_1 = L + \frac{N/4 - \text{C.f.}}{f} \times i$$

$$L = 35, N/4 = 50, \text{C.f.} = 14, f = 62, i = 2$$

$$Q_1 = 35 + \left( \frac{50 - 14}{62} \right) \times 2 = 35 + 1.16 = 36.16$$

$$Q_3 = \text{Size of } (3N)/4^{\text{th}} \text{ item} = 3 \times 200/4 = 150^{\text{th}} \text{ item.}$$

$Q_3$  lies in the class 38 – 40

$$Q_3 = L + \left( \frac{3N/4 - \text{C.f.}}{f} \right) \times I$$

$$L = 38, 3N/4 = 150, \text{C.f.} = 76, f = 99, I = 2$$

$$Q_3 = 38 + \left( \frac{150 - 76}{99} \right) \times 2$$

$$Q_3 = 38 + 1.49 = 39.49$$

$$\text{Quartile Deviation} = (39.49 - 36.16)/2 = 1.67$$

$$\text{Coefficient of Q.D.} = \frac{Q_3 - Q_1/2}{Q_3 + Q_1/2} = \frac{39.49 - 36.16}{39.49 + 36.16} = 0.44$$

**Answer 8(b)****Calculation of Rank Correlation Co-efficient**

X	R <sub>x</sub>	Y	R <sub>y</sub>	$(R_x - R_y)$ = D	$(R_x - R_y)^2$ = D <sup>2</sup>
97.8	3	73.2	1	2	4
99.2	7	85.8	6	1	1
98.8	6	78.9	4	2	4
98.3	4	75.8	2	2	4
98.4	5	77.4	3	2	4
96.7	1	87.2	7	-6	36
97.1	2	83.8	5	-3	9
<b>Σ D<sup>2</sup> = 62</b>					

$$N = 7$$

$$R = 1 -$$

$$\frac{6 \sum D^2}{(N^3 - N)}$$

$$= 1 - \frac{6 \times 62}{(7^3 - 7)} = 1 - \frac{372}{(343 - 7)} = 1 - \frac{372}{336}$$

$$= 1 - 1.107$$

$$R = -0.107$$

**Answer 8(c)****Computation of Straight Line Trend by using Least Square Method**

Years	Production Rs. Lakhs (Y)	Deviation from 2004.5 (D)	Deviation (D) Multiplied by 2 = (x)	xy	x <sup>2</sup>	Y <sub>c</sub> = 131.5 + 7.33x Trend Value in Lakhs
2001	76	-3.5	-7	-532	49	80.19
2002	80	-2.5	-5	-400	25	94.95
2003	130	-1.5	-3	-390	9	109.51
2004	144	-0.5	-1	-144	1	124.17
2005	138	0.5	1	138	1	138.83
2006	120	1.5	3	360	9	153.49
2007	174	2.5	5	870	25	168.15
2008	190	3.5	7	1330	49	182.81
<b>N = 8</b>	<b>1052</b>			<b>1232</b>	<b>168</b>	

Let the straight line trend equation be –

$$Y_c = a + bx$$

Two normal equations are :

$$\sum y = Na + b \sum x \dots\dots\dots (1)$$

$$\sum xy = a \sum X + b \sum x^2 \dots\dots\dots(2)$$

Since  $\sum x = 0$ , the values of a and b from normal equations may be worked as under:

$$a = \frac{\sum y}{N} = 131.5$$

$$b = \frac{\sum xy}{\sum x^2} = \frac{1232}{168} = 7.33$$

Hence, the least square trend line becomes

$$Y_c = 131.5 + 7.33x$$

Thus, the trend values can be obtained by putting  $x = -7, -5, -3, -1, 1, 3, 5, 7$  in the trend line equation.

The corresponding trend values for different year after putting above values of x in trend equation are – 80.19, 94.95, 104.5, 124.17, 138.83, 153.49, 168.15, 182.81 respectively.

The graph of the original data and the trend line should be plotted on the graph paper. We will get AA` as trend line and BB` as Actual value line. ( See graph below.)



## 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) Convention of conservatism
- (ii) Users of accounting information
- (iii) Retiring a bill under rebate
- (iv) Objectives of providing depreciation. (5 marks each)

(b) State, with reasons in brief, whether the following statements are true or false:

- (i) Credit sales of fixed assets and investments are also entered in sales book.
- (ii) Goodwill is a current asset.
- (iii) The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.
- (iv) The errors of principle are caused due to incorrect allocation of expenses and revenue between capital and revenue items.
- (v) Fire insurance policies include average clause in order to discourage under-insurance. (2 marks each)

### Answer 1(a)(i)

#### Convention of conservatism

According to this convention, the principle of 'anticipate no profit but provide for all probable losses' should be applied. While valuing assets, lesser value method should be chosen. The valuation of stock in trade at a lower cost or net realizable value and making the provisions for doubtful debts and discount on debtors etc. are the applications of this principle. In other words, profits are accounted for only when they are realized. But in case of losses the accountant considers even those losses which may be probable. The principle of conservatism requires that in the situation of uncertainty and doubt, the business transaction should be recorded in such a manner that the profits and assets are not overstated and losses and liabilities are not understated.

### Answer 1(a)(ii)

#### Users of accounting information

Accounting is of primary importance to the proprietors and the managers. Following are the common users of accounting information:

1. *Owners/Shareholders* : The primary aim of accounting is to provide necessary information related to the business to the owners.
2. *Managers* : In large business organizations and in corporations, there is separation of ownership and management functions. The managers of such business are

more concerned with the accounting information because they are answerable to the owners.

3. *Prospective Investors* : The person who is contemplating an investment in a business will like to know about its profitability and financial position.
4. *Creditors, Bankers and other Lending Institutions* : Trade creditors, bankers and other lending institutions would like to be satisfied that they will be paid on time. The financial statements help them in judging such position.
5. *Government* : The Government is interested in the financial statements of business enterprise on account of taxation, labour and corporate laws.
6. *Employees* : Employees are interested in financial statements because their wage increase and payment of bonus depend on the size of the profit earned.
7. *Regulatory Agencies* : Various Government departments and agencies such as Company Law Board, Registrar of Companies, Tax Authorities etc. use accounting reports not only as a basis for tax assessment but also in evaluating how well various business units are operating under regulatory legislation.
8. *Researchers* : Accounting data are also used by the research scholars in their research in accounting theory as well as business affairs and practices.
9. *Customers* : Customers may also have either short-term or long-term interest in the reporting entity to be satisfied with the profitability, liquidity and solvency position.

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

#### **Retiring a bill under rebate**

Retiring a bill means making payment before the date of maturity. At times, in order to earn a rebate, the acceptor of a bill desires to discharge his liability before the due date of the bill. If the holder agrees, the acceptor will pay to the holder the amount of the bill as reduced by the amount of rebate agreed upon between the acceptor and the holder of the bill. For the holder, the transaction will be similar to the one of getting bill discounted as he will have to surrender the bill before the due date on receipt of amount, which is less than its face value.

On retirement of a bill under rebate, the entries will be as follows:

*In the books of holder*

Cash Account	Dr. (cash received)
Discount Account	Dr. (rebate allowed)
To Bills Receivable A/c	(amount of bill)

*In the books of acceptor*

Bills Payable A/c	Dr.(amount of bill)
To Cash A/c	(cash paid)
To Discount A/c	(rebate received)

**Answer 1(a)(iv)****Objectives of providing depreciation**

The term depreciation is used when expired cost of physical assets, say, building machinery, etc. is to be recorded. The accounting process of converting the cost of such fixed assets to expense is called depreciation. The following are the objectives of providing depreciation :

- (i) *To ascertain the correct profits* : It is reasonable that when a particular asset is used for earning the income of the business, the reduction in the value of assets should be provided from the income in order to calculate the correct and real profit of the business.
- (ii) *To present true and fair financial position* : In order to show the true financial position of the business in the balance sheet, it is necessary that assets must be shown at their true value after deducting reasonable depreciation. If depreciation is not provided, the assets will be overstated in the financial statements and it will be against the business principles.
- (iii) *To make provision for replacement of assets* : Since depreciation is a non-cash expense, the amount charged can be kept separately and utilized for the replacement of the asset after the expiry of the life of the asset.
- (iv) *To ascertain the proper cost of products* : In order to ascertain the cost of production, it is necessary to charge depreciation as an item of cost of production.
- (v) *To ensure uniform rate of return* : This presupposes ideal matching of expired cost against the related revenue and proper measurement of depreciable asset at each accounting date.
- (vi) To maintain the capital invested in the cost of the asset intact in the business so that it can be reinvested in profit earning process.
- (vii) Maximum tax benefit can be derived.
- (viii) *To meet the legal requirements* : In the case of joint stock companies, it is necessary to charge depreciation on fixed assets before declaring dividends.

**Answer 1(b)**

- (i) **False** : The credit sales of fixed assets, and investments are entered in Journal Proper / General Journal.
- (ii) **False** : Goodwill is not a current asset but it is a fixed asset of intangible nature. In a business enterprise, it may be a very valuable asset.
- (iii) **True** : Yes, the statement is correct. The provision for discount on debtors is calculated after deducting the provision for doubtful debts from debtors.
- (iv) **True** : These errors are caused due to incorrect allocation of expenditure or revenue between capital and revenue.
- (v) **True** : If the sum insured is less than actual value of property, the insured is liable to get only the proportionate claim of loss. Hence, applicability of average clause, discourages under insurance.

**Question 2**

- (a) Re-write the following sentences after filling-up the blank spaces with appropriate word(s)/figure(s) :
- (i) The burden of noting charges is ultimately borne by the \_\_\_\_\_ of the bill.
  - (ii) The amount which is received by a non-trading concern as per the will of a deceased person is called \_\_\_\_\_.
  - (iii) Recording of transactions from journal to ledger is called \_\_\_\_\_.
  - (iv) The \_\_\_\_\_ balance in the bank columns of the cash book means a bank overdraft.
  - (vi) The party to whom goods are sent on consignment is called \_\_\_\_\_.
  - (vi) If the insured amount is less than the actual value of insured asset, it is known as \_\_\_\_\_.
  - (vii) Capital of a trader at the end of the year is Rs.60,000. He withdrew Rs.10,000 during the year and suffered a loss of Rs.12,000. His capital in the beginning of the year shall be \_\_\_\_\_.
  - (viii) \_\_\_\_\_ account appears in the trial balance to account for undetected errors causing a difference in trial balance. (1 mark each)
- (b) Distinguish between any two of the following :
- (i) 'Capital receipts' and 'revenue receipts'.
  - (ii) 'Statement of affairs' and 'balance sheet'.
  - (iii) 'Partnership' and 'joint-venture'. (4 marks each)

**Answer 2(a)**

- (i) The burden of noting charges is ultimately borne by the **drawee / acceptor** of the bill.
- (ii) The amount which is received by a non-trading concern as per the will of a deceased person is called **legacy** .
- (iii) Recording of transactions from journal to ledger is called **posting** .
- (iv) The **credit** balance in the bank columns of the cash book means a bank overdraft.
- (vi) The party to whom goods are sent on consignment is called **consignee**.
- (vi) If the insured amount is less than the actual value of insured asset, it is known as **underinsurance** .
- (vii) Capital of a trader at the end of the year is Rs.60,000. He withdrew Rs.10,000 during the year and suffered a loss of Rs.12,000. His capital in the beginning of the year shall be **Rs. 82,000** .
- (viii) **Suspense** account appears in the trial balance to account for undetected errors causing a difference in trial balance.



**Answer 2(b)(i)****Capital Receipts and Revenue Receipts**

The distinction between capital receipts and revenue receipts are as follows:

<i>Capital Receipts</i>	<i>Revenue Receipts</i>
(1) Amount realised by the sale of fixed assets or by issue of shares or debentures is capital receipts.	Amount realised by sale of goods or rendering services is always revenue receipts.
(2) A receipt in substitution of a source of income is a capital receipt.	A receipt in substitution of an income is a revenue receipt.
(3) Amount received for surrender of certain rights under an agreement is a capital receipt.	Amount received as compensation under an agreement for the loss of future profits is a revenue receipt.
(4) Amount realized from the sale of capital assets or investment is capital receipt.	Amount realized from the sale of assets kept for sale is revenue receipt.

**Answer 2(b)(ii)****Statement of Affairs and Balance sheet**

The following are the points of distinction between statement of affairs and balance sheet :

	<i>Statement of Affairs</i>	<i>Balance sheet</i>
Purpose :	To show the financial position as well as to find out the capital in ascertaining the trading profit or loss for a particular period.	To show the financial position of the business as on a particular date.
Source:	Prepared from ledger balances and partly from other particulars and estimates, etc.	Prepared from the ledger balances only.
Accounting method :	Prepared when accounts are maintained under single entry system.	Prepared when accounts are maintained under double entry system.
Reliability :	Being based partly on accounts and partly on other information, it is not regarded as reliable.	Being based on actual figures, balance sheet is reliable.
Capital account :	Capital is the excess of assets over liabilities.	Capital account is taken from the ledger.
Trial balance	Trial balance is not prepared.	Trial balance is prepared. before balance sheet.
Omission:	Omission of assets or liabilities cannot be traced in a statement of affairs.	Omission of any assets or liabilities can easily be traced because the totals will not tally.

**Answer 2(b)(iii)****Partnership and Joint Venture**

The following are the points of distinction between partnership and joint venture :

<i>Partnership</i>	<i>Joint Venture</i>
(i) It is not limited to a specific venture	It is limited to a specific venture
(ii) It is a continuing profit seeking enterprise	It is a terminable profit-seeking venture
(iii) It is carried on under firm's name	There is no common firm's name in joint venture
(iv) Persons carrying on partnership business are called partners.	Parties are called co-venturers.
(v) Profit or loss is ascertained on an annual basis.	Profit or loss is ascertained after the end of the specific venture
(vi) The doctrine of implied authority is applicable to partners.	The doctrine of implied authority is not applicable to co-venturers.

**Question 3**

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

- (i) *Bad debts recovered is credited to —*
- Bad debts account*
  - Provision for bad debts account*
  - Bad debts recovered account*
  - Debtors account.*
- (ii) *The credit purchases of fixed assets are recorded in —*
- Purchases book*
  - Cash book*
  - Journal proper*
  - Sales returns book.*
- (iii) *Del credere commission is allowed to cover the risk of —*
- Fire*
  - Bad debts*
  - Damage of goods in transit*
  - Theft.*
- (iv) *The amount of yearly depreciation under diminishing balances method —*
- Remains constant over the years*

- (b) *Decreases year after year*  
 (c) *Increases year after year*  
 (d) *Fluctuates.*
- (v) *Provision for bad and doubtful debts is made according to the convention of—*  
 (a) *Disclosure*  
 (b) *Materiality*  
 (c) *Conservatism*  
 (d) *Consistency.*
- (vi) *Bhola purchased a piece of furniture valued Rs.6,000 at 10% trade discount and 3% cash discount. The amount payable on cash purchase by him is —*  
 (a) *Rs. 5,400*  
 (b) *Rs. 5,220*  
 (c) *Rs. 5,238*  
 (d) *Rs. 5,364.*
- (vii) *A discounted bill till it is paid by the acceptor, remains —*  
 (a) *An asset*  
 (b) *A liability*  
 (c) *A contingent liability*  
 (d) *An expense.*
- (viii) *In the absence of a partnership deed, the interest on capitals is —*  
 (a) *Allowed @ 5% per annum*  
 (b) *Allowed @ 6% per annum*  
 (c) *Allowed @ 10% per annum*  
 (d) *Not allowed.* (1 mark each)
- (b) *Explain any two of the following statements :*
- (i) *Single entry system is a simple method of recording business transactions and hence suitable for small business concerns.*
- (ii) *Depreciation is a charge against revenue whether the business makes profit or incurs loss.*
- (iii) *Dissolution of partnership between all the partners of a firm is called 'dissolution of the firm'.*
- (iv) *The relationship between the consignor and consignee is that of principal and agent.* (4 marks each)

**Answer 3(a)**

- (i) (c) Bad debts recovered account
- (ii) (c) Journal proper

- (iii) (b) Bad debts
- (iv) (b) Decreases year after year
- (v) (c) Conservatism
- (vi) (c) Rs.5,238
- (vii) (c) A contingent liability
- (viii) (d) Not allowed.

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

Single entry system is a system of book-keeping, in which as a rule only records of cash and personal accounts are maintained. In other words, a business is said to be using single entry system of accounting when it is not following fully the principles of double entry system of accounting.

The statement is correct as the system is a simple method of recording business transactions and basically suitable for small business organizations. Single entry system is less expensive as compared to double entry system of book-keeping. Ascertainment of profit or loss is also easier, but it is mainly suitable for small businesses having limited number of transactions, all other organizations employ double entry system. Under this system, both the aspects of certain transactions are recorded while only one aspect is recorded for certain other transactions. Certain transactions may not be recorded at all.

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

Depreciation refers to a permanent/gradual and continuous decrease in the utility value of fixed asset and it continues till the end of the useful life of the asset. Its aim is to spread over and allocate or distribute the cost of fixed asset to the years of its use and charge the depreciable cost to profit and loss account before arriving at the profits of each of the accounting periods in which the fixed assets has been utilized. It is an expense and hence it is charged to revenue or profit and loss account. It is immaterial whether the business is making profit or incurring loss but depreciation is to be provided or charged. It is a process of allocation of expired cost and not of valuation of fixed assets. The amount to be allocated each year is based on some rational method of depreciation.

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

Dissolution of a firm differs from dissolution of a partnership. When a partnership is formed for a specific venture, it is dissolved on the expiry of the term or on the completion of the specific venture, but the partners may decide to continue to run the business for another term or for another venture.

According to Section 39 of the Indian Partnership Act, 1932, dissolution of partnership between all the partners of a firm is called dissolution of the firm. Dissolution of firm results in discontinuation of the business in partnership, i.e., it necessarily includes dissolution of partnership. Whereas it is not so in case of dissolution of partnership. It

refers to change in partners' relation without affecting continuity of business. It may or may not involve dissolution of the firm.

### Answer 3(b)(iv)

Consignment is the process of sending of goods by one person to another person for the purpose of sale on commission basis at the sole risk of the sender. The person who sends the goods to be sold on his behalf is called the consignor whereas the person to whom the goods are sent to be sold is called consignee.

The legal relationship between the consignor and the consignee is that of principal and agent and not of seller and buyer. A consignor who sends the goods is principal and consignee who takes the delivery of goods is agent. It means that the title of goods sent remains with consignor and consignee is liable to account for the goods which have been sold. If the goods are not sold, he is not liable to pay. The consignee is also not responsible for any loss/destruction of goods.

### Question 4

*Arun, a Company Secretary in Practice, started his professional practice on 1st April, 2007. He invested Rs. 10,00,000 as his capital. The receipts and payments account for the year ended 31st March, 2008 was as follows :*

#### *Receipts and Payments Account*

<i>Receipts</i>	<i>Rs.</i>	<i>Payments</i>	<i>Rs.</i>
<i>To fees</i>	<i>32,00,000</i>	<i>By rent</i>	<i>7,20,000</i>
<i>To misc. receipts</i>	<i>4,000</i>	<i>By salary to Assistants</i>	<i>9,00,000</i>
<i>To office equipments sold</i>	<i>80,000</i>	<i>By journals</i>	<i>40,000</i>
		<i>By library books</i>	<i>1,20,000</i>
		<i>By office equipments</i>	<i>1,60,000</i>
		<i>By drawings</i>	<i>4,80,000</i>
		<i>By cash at bank</i>	<i>8,30,000</i>
		<i>By cash in hand</i>	<i>34,000</i>
	<u><u><i>32,84,000</i></u></u>		<u><u><i>32,84,000</i></u></u>

*Rs. 60,000 of the fees were still outstanding. On 1st January, 2008, office equipments costing Rs. 1,20,000 were sold and new office equipments were purchased. Depreciation on office equipments @ 20% per annum and on all the library books @ 5% per annum is to be charged. Salaries to Assistants still payable on 31st March, 2008 was Rs. 40,000.*

*You are required to prepare receipts and expenditure account for the year ended 31st March, 2008 and balance sheet as on that date. (16 marks)*

**Answer 4****Mr. Arun****Receipts and Expenditure Account for the year ended 31st March 2008**

<i>Dr.</i>		<i>Cr.</i>	
<i>Expenditure</i>	<i>Rs.</i>	<i>Receipts</i>	<i>Rs.</i>
To Rent	7,20,000	By Fees	32,00,000
To Salaries to Assistants	9,00,000	<i>Add</i> : Outstanding	<u>60,000</u> 32,60,000
<i>Add</i> : Outstanding	<u>40,000</u> 9,40,000	By Miscellaneous	
To Journals	40,000	Receipts	4,000
To Depreciation on:			
Equipments	2,02,000		
Library books	6,000		
To Provision for outstanding fees	60,000		
To Loss on sale of equipment	22,000		
To Surplus (excess of receipts over expenditure)	<u>12,74,000</u>		
	<u>32,64,000</u>		<u>32,64,000</u>

**Balance Sheet of Mr. Arun as on 31st March, 2008**

<i>Liabilities</i>		<i>Rs.</i>	<i>Assets</i>		<i>Rs.</i>
Salaries Outstanding		40,000	Cash in hand		34,000
Capital introduced	10,00,000		Cash at Bank		8,30,000
<i>Add</i> : Surplus	<u>12,74,000</u>		Library Books	1,20,000	
	22,74,000		<i>Less</i> : Depreciation	<u>6,000</u>	1,14,000
<i>Less</i> : Drawings	<u>4,80,000</u>	17,94,000	Equipment	10,00,000	
			<i>Add</i> : Additions :	<u>1,60,000</u>	
				11,60,000	
			<i>Less</i> : Cost of equipment sold	<u>1,20,000</u>	
				10,40,000	
			<i>Less</i> : Depreciation	<u>1,84,000</u>	8,56,000
			Outstanding fees	60,000	
			<i>Less</i> : Provision	<u>60,000</u>	—
		<u>18,34,000</u>			<u>18,34,000</u>

*Working Note*

1. Since, the question is silent as regards the investment (capital) of Rs.10,00,000, it is assumed as investment in equipment on 1st April, 2007 and the question is solved accordingly.
2. Depreciation on equipments: Rs.

On Rs.8,80,000 (Rs.10,00,000 – 1,20,000) for one year	1,76,000
On Rs.1,20,000 (sold) for 9 months	18,000
On Rs.1,60,000 for 3 months	8,000
	2,02,000
3. Loss on sale of equipments:

Cost	1,20,000
Less : Depreciation	18,000
	1,02,000
Less : Sale proceeds	80,000
Loss on sale	22,000

**Question 5**

- (a) *On 10th January, 2008, a fire occurred in the godown of Bright Electricals. All the stock was burnt. Each year, Bright Electricals values the stock at cost less 10%. From the following additional information, ascertain the value of stock on the date of fire :*

	Rs.
Stock on 1st April, 2006	7,20,000
Purchases during the year ended 31st March, 2007	28,00,000
Sales during the year ended 31st March, 2007	40,00,000
Stock on 31st March, 2007	4,50,000
Purchases from 1st April, 2007 to date of fire	29,20,000
Sales from 1st April, 2007 to date of fire	32,00,000

(8 marks)

- (b) *From the following particulars, prepare a bank reconciliation statement and arrive at the balance as per cash book as on 30th June, 2008 :*
- (i) *Credit balance as per pass book : Rs.4,750.*
  - (ii) *Cheque issued on 28th June, 2008, but presented for payment on 4th July, 2008 : Rs.14,800.*
  - (iii) *Cheques deposited in the bank on 29th June, 2008, but credited by bank on 3rd July, 2008 : Rs. 8,950*
  - (iv) *Bank debited bank charges, but not yet recorded in cash book : Rs.150.*
  - (v) *Dividend on shares collected and credited by bank, but not yet recorded in cash book : Rs.1,200.*

(8 marks)

**Answer 5(a)**

<b>Trading Account for the year ending 31st March, 2007</b>			
<i>Dr.</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Cr.</i>
<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Opening Stock	8,00,000	By Sales	40,00,000
To Purchases	28,00,000	By Closing Stock	5,00,000
To Gross Profit (@22.5% on sales)	9,00,000		
	<u>45,00,000</u>		<u>45,00,000</u>

**Memorandum Trading Account from 1st April, 2007 to 10th January, 2008**

<b>Memorandum Trading Account from 1st April, 2007 to 10th January, 2008</b>			
<i>Dr.</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Cr.</i>
<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Opening Stock	5,00,000	By Sales	32,00,000
To Purchases	29,20,000	By Closing Stock (Balancing figure on the date of fire)	9,40,000
To Gross Profit (@22.5% of 32,00,000)	7,20,000		
	<u>41,40,000</u>		<u>41,40,000</u>

Value of stock on the date of fire = Rs. 9,40,000

*Working Note :*

(i) Opening Stock = Rs. 7,20,000 x  $\frac{100}{90}$  = Rs. 8,00,000

(ii) Closing Stock = Rs. 4,50,000 x  $\frac{100}{90}$  = Rs.5,00,000

**Answer 5(b)****Bank Reconciliation Statement as on 30th June, 2008**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Credit balance as per Pass Book		4,750
<i>Add:</i>		
(i) Cheques deposited into bank but not yet credited	8,950	
(ii) Bank charges debited by bank	<u>150</u>	<u>9,100</u>
		13,850
<i>Less:</i>		
(i) Cheque issued but not yet presented for payment	14,800	
(ii) Dividend on shares collected by bank	<u>1,200</u>	<u>16,000</u>
Credit balance (overdraft as per Cash Book)		<u>2,150</u>



**Question 6**

Ashok and Biju were partners sharing profits and losses in the ratio of 3:1 respectively. The following was their balance sheet as on 31st March, 2008 :

Liabilities	Rs.	Assets	Rs.
Creditors	1,20,000	Sundry debtors	2,00,000
Bank overdraft	1,50,000	Stock	2,20,000
Ashok's capital	1,50,000	Furniture	40,000
Biju's capital	1,00,000	Machinery	60,000
	<u>5,20,000</u>		<u>5,20,000</u>

On 1st April, 2008, Chandra was admitted to the firm on the following terms :

- (i) Chandra would provide Rs. 1,00,000 as a capital and pay Rs.20,000 as goodwill for his one-third share in future profits. Goodwill account would not appear in the books.
- (ii) Ashok, Biju and Chandra would share profits equally.
- (iii) Machinery would be reduced by 10% and Rs.5,000 would be provided for bad debts. Stock would be valued at Rs.2,49,400.
- (iv) Capital accounts of old partners would be adjusted in the profit sharing ratio on the basis of Chandra's capital by bringing in or taking out cash.

Pass necessary journal entries and prepare partners' capital accounts and balance sheet of the new firm. (16 marks)

**Answer 6****Journal Entries**

Particulars	Dr. (Rs)	Cr.(Rs.)
Revaluation A/c	Dr 11,000	
To Machinery A/c		6,000
To Provision for bad debts A/c		5,000
(Being the decrease in the value of machinery and creation of provision for bad debts)		
Stock A/c	Dr 29,400	
To Revaluation A/c		29,400
(Being the increase in the value of stock)		
Revaluation A/c	Dr 18,400	
To Ashok's Capital A/c		13,800
To Biju's Capital A/c		4,600
(Being the profit on revaluation transferred in the old profit sharing ratio).		

<i>Particulars</i>	<i>Dr. (Rs)</i>	<i>Cr. (Rs.)</i>
Bank	Dr 1,20,000	
To Chandra's Capital A/c		1,20,000
(Being capital and share of goodwill brought in on admission)		
Chandra's Capital A/c	Dr 20,000	
To Ashok's Capital A/c		20,000
(Being goodwill amount credited to Ashok's capital account)		
Biju's Capital A/c	Dr 5,000	
To Ashok's Capital A/c		5,000
(Being Biju's share of goodwill credited to Ashok's capital due to his gaining in new ratio)		
Bank	Dr 400	
To Biju's Capital A/c		400
(Being the amount brought for proportionate capital as per profit sharing ratio)		
Ashok's Capital A/c	Dr 88,800	
To Bank		88,800
(Being the excess amount withdrawn to make the capital proportionate to profit sharing ratio)		

<i>Dr.</i>				<b>Capital Accounts</b>				<i>Cr.</i>			
<i>Particulars</i>	<i>Ashok</i>	<i>Biju</i>	<i>Chandra</i>	<i>Particulars</i>	<i>Ashok</i>	<i>Biju</i>	<i>Chandra</i>				
To Ashok's Capital A/c	—	5,000	20,000	By Balance b/fd	1,50,000	1,00,000					
To Bank	88,800	—	—	By Revaluation A/c	13,800	4,600					
To Balance c/d	1,00,000	1,00,000	1,00,000	By Bank		—	1,20,000				
				By Chandra's Capital A/c	20,000	—	—				
				By Biju Capital A/c	5,000	—	—				
				By Bank	—	400	—				
	<u>188,800</u>	<u>1,05,000</u>	<u>1,20,000</u>		<u>188,800</u>	<u>1,05,000</u>	<u>1,20,000</u>				

**Balance Sheet as on 1st April 2008**

<i>Liabilities</i>	<i>Rs</i>	<i>Assets</i>	<i>Rs.</i>
Sundry Creditors	1,20,000	Debtors	2,00,000
Bank Overdraft	1,18,400	Less : Provisions for bad debts	5,000
Capital Accounts			1,95,000
Ashok	1,00,000	Stock	2,49,400
Biju	1,00,000	Furniture	40,000
Chandra	1,00,000	Plant & Machinery	54,000
	<u>3,00,000</u>		
	<u>5,38,400</u>		<u>5,38,400</u>

**Working Notes :**

- (i) Calculation of sacrificing/gaining ratio.

Ashok's sacrificing ratio =  $3/4 - 1/3 = 5/12$ Biju's gaining =  $1/3 - 1/4 = 1/12$ 

Since Biju is gaining equal to  $1/12$  in profits, he has to compensate Ashok to the extent of  $1/12$  of total goodwill

- (ii) Treatment of Goodwill

Chandra's  $1/3$  share of goodwill = Rs. 20,000

∴ Total goodwill = Rs.20,000 x 3 = Rs.60,000

Gaining ratio:

Biju  $1/12$  and Chandra  $1/3 = 4/12$ 

Biju has to compensate Rs.5,000 to Ashok ( $1/12 \times$  Rs. 60,000) by way of goodwill.

This amount is debited to Biju's Capital Account and credited Ashok's Capital Account.

Chandra has brought ( $4/12 \times$  Rs. 60,000) = Rs. 20,000 as his share of goodwill to be credited to Ashok's Capital Account.

- (iii)

**Cash Book (Bank Columns)**

<i>Dr.</i>	<i>Rs.</i>		<i>Cr.</i>
To Chandra's Capital A/c	1,20,000	By Balance b/d	1,50,000
To Biju's Capital A/c	400	By Ashok's Capital	88,800
To Balance c/d	1,18,400		
	<u>2,38,800</u>		<u>2,38,800</u>

**Question 7**

(a) During the course of an accounting year, an Accountant found a difference in the trial balance. He put this difference in a newly opened suspense account. Subsequently, he located the following errors in his books of account :

- (i) Goods purchased from Shiv for Rs.10,000, but entered in sales book.
- (ii) Received a bill receivable for Rs.18,000 from Ganesh, but recorded in bills payable book.
- (iii) An item of Rs.4,000 in respect of purchases returns, wrongly debited to purchases account.
- (iv) An item of Rs.2,000 relating to pre-paid salary account omitted to be brought forward.
- (v) Paid Rs.1,000 on account of repair of furniture, but wrongly debited to furniture account.

Pass journal entries to rectify the abovementioned errors and prepare suspense account assuming that no error remained undetected. (8 marks)

(b) Aman and Chaman agreed for purchasing and selling of old cars in a joint venture; their profit sharing ratio being 3:2 respectively. Aman purchased ten old cars @ Rs.60,000 per car. He sent these cars to Chaman for sale after spending Rs.5,000 per car on repairs and cartage. He drew a bill of Rs.3,00,000 on Chaman and this bill was discounted at the discount of Rs.10,000 after the acceptance. Chaman incurred further expenses of Rs.1,60,000 on these cars before sale. He sold all the old cars @ Rs.90,000 per car, giving 5% commission to the broker.

Prepare joint venture with Chaman account in the books of Aman. Also show memorandum joint venture account. (8 marks)

**Answer 7(a)****Rectifying Journal Entries**

Particulars	Dr. (Rs.)	Cr.(Rs.)
Purchase A/c	Dr	10,000
Sales A/c	Dr.	10,000
To Shiv		20,000
(Purchase of goods entered in sales book, error now rectified)		
Bills Receivable A/c	Dr	18,000
Bills Payable A/c	Dr.	18,000
To Ganesh		36,000
(Bills receivable but entered in Bills Payable Book)		

<i>Particulars</i>		<i>Dr. (Rs.)</i>	<i>Cr.(Rs.)</i>
Suspense A/c	Dr.	8,000	
To Purchases Returns A/c			4,000
To Purchases A/c			4,000
(Purchase returns entered in purchases account, error now rectified)			
Prepaid Salary A/c	Dr.	2,000	
To Suspense A/c			2,000
(Prepaid salary omitted to be brought forward)			
Repairs A/c	Dr.	1,000	
To Furniture A/c			1,000
(Repairs paid but debited to Furniture A/c)			

<i>Dr.</i>	<b>Suspense Account</b>		<i>Cr.</i>
<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Purchases Returns A/c	4,000	By Balance b/d (Bal.figure)	6,000
To Purchases A/c	4,000	By Prepaid Salary	2,000
	<u>8,000</u>		<u>8,000</u>

**Answer 7(b)**

<i>Dr.</i>	<b>Memorandum Joint Venture Account</b>		<i>Cr.</i>
<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Bank (purchases) (Rs.60,000 x 10)	6,00,000	By Chaman (Sales) (Rs.90,000 x 10)	9,00,000
To Bank (repairs) (Rs.5,000 x 10)	50,000		
To Discount A/c	10,000		
To Chaman (expenses)	1,60,000		
To Chaman (commission) (5/100 x Rs.9,00,000)	45,000		
To Profit & Loss A/c :			
Aman	21,000		
Chaman	14,000		
	<u>35,000</u>		
	<u>9,00,000</u>		<u>9,00,000</u>

<b>Joint Venture with Chaman Account</b>			
Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bank (Purchases)	6,00,000	By Bills Receivable	3,00,000
To Bank (Repairs)	50,000	By Balance c/d	3,81,000
To Discount on Bills Receivable	10,000		
To Profit & Loss A/c	21,000		
	6,81,000		6,81,000

**Question 8**

*Sohan draws an accommodation bill for Rs. 12,000 on Mohan; the proceeds are to be shared by Sohan and Mohan in the ratio of 2:1 respectively. Mohan accepts the bill. Sohan gets the bill discounted at a discount of Rs.720 and remits 1/3rd of the proceeds to Mohan. Before the due date, Mohan draws an accommodation bill for Rs. 16,800 to arrange the funds to pay the first bill. The second bill is discounted for Rs. 16,320. The first bill is paid with the proceeds and a sum of Rs.2,880 is remitted to Sohan.*

*Sohan becomes insolvent before the due date of the second bill and Mohan receives 50 paise in a rupee as the first and final dividend from Sohan's estate.*

*Pass necessary journal entries in the books of Mohan and prepare Sohan's account in the ledger of Mohan. (16 marks)*

**Answer 8****In the books of Mohan****Journal Entries**

Particulars		Dr. (Rs.)	Cr. (Rs.)
Sohan	Dr	12,000	
To Bills Payable A/c			12,000
<i>(Accommodation bill accepted)</i>			
Bank	Dr.	3,760	
Discount A/c	Dr.	240	
To Sohan			4,000
<i>(1/3rd proceeds received from Sohan)</i>			
Bills Receivable A/c	Dr.	16,800	
To Sohan			16,800
<i>(Accommodation bill accepted by Sohan)</i>			

<i>Particulars</i>		<i>Dr. (Rs.)</i>	<i>Cr. (Rs.)</i>
Bank	Dr.	16,320	
Discount A/c		480	
To Bills Receivable A/c			16,800
(Bills Receivable discounted)			
Sohan	Dr.	3,200	
To Bank			2,880
To Discount A/c			320
(Proceeds remitted and 2/3rd discount charged)			
Bills Payable Account	Dr.	12,000	
To Bank			12,000
(Bill paid on due date)			
Sohan	Dr.	16,800	
To Bank			16,800
(Sohan's acceptance dishonoured)			
Bank	Dr.	5,600	
Bad Debts A/c	Dr.	5,600	
To Sohan			11,200
(50 paise in a rupee received and balance written off as bad debts.)			
<i>Dr.</i>	<b>Sohan</b>		<i>Cr.</i>
<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Bills Payable A/c	12,000	By Bank	3,760
To Bank	2,880	By Discount A/c	240
To Discount A/c	320	By Bills Receivable A/c	16,800
To Bank	16,800	By Bank	5,600
		By Bad Debts A/c	5,600
	<u>32,000</u>		<u>32,000</u>

*Working Note :*

*Share of Discount*

1st Bill

Sohan and Mohan : 2 : 1

Sohan Rs. 480

Mohan Rs. 240

*2nd Bill*

Amount due from Sohan on 1st bill – Rs. 8,000

Amount remitted on 2nd bill                      2,880

Amount due from Sohan                              10,880

Total amount received on 2nd bill – Rs. 16,320

Share of Mohan – Rs. 5,440

Ratio of amount 10,880 : 5,440 = 2:1

Therefore, discount is to be shared by

Sohan and Mohan in the ratio 2 : 1 i.e. Rs. 320 : Rs. 160

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## 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 correct or incorrect. Attempt **any five** :
- (i) The law of contracts is not the whole law of agreements.
  - (ii) A minor, who is of sound mind, is competent to contract.
  - (iii) A cheque cannot be crossed more than once under any circumstance.
  - (iv) A partnership firm is not a distinct legal entity apart from its partners.
  - (v) A company can become a partner in a partnership firm.
  - (vi) Future goods can be the subject matter of sale. (2 marks each)
- (b) Choose the most appropriate answer from the given options in respect of the following :
- (i) Which of the followings is not a contract of sale under the Sale of Goods Act, 1930 —
    - (a) A partner agreed to buy goods from the firm
    - (b) X agreed to sell his building for Rs. 10 lakh to Y
    - (c) M agreed to sell 20 kgs rice worth Rs. 1,000 on a future date
    - (d) P agreed to sell 100 shares for Rs. 20,000 to R.
  - (ii) A cheque is drawn payable to Basu or order. It is stolen and Basu's endorsement is forged. The banker pays the cheque in due course. The banker is —
    - (a) Discharged from liability because it was purported to be endorsed by or on behalf of the payee
    - (b) Not discharged from liability because the signature on Basu's endorsement was forged
    - (c) Not discharged from liability because it did not act in good faith
    - (d) Not discharged from liability because it acted without due diligence.
  - (iii) In which of the following cases the partnership relationship does not exist —
    - (a) Joint owners sharing gross returns
    - (b) A person is engaged as an employee who also receives his remuneration as a share of profit
    - (c) A widow of a deceased partner receives a portion of the profits
    - (d) All of the above.

- (iv) *Caveat emptor* means —
- Let the seller beware
  - Let the buyer beware
  - Let the government beware
  - None of the above.
- (v) *The liability of a surety* —
- May be less than that of debtor
  - May be more than that of debtor
  - Always remains the same as that of debtor
  - Depends upon the judgement of court. (1 mark each)
- (c) *Re-write the following sentences after filling-up the blank spaces with appropriate word(s)/figure(s) :*
- Law means a \_\_\_\_\_ of rules.
  - Earnest money means \_\_\_\_\_ for the performance of contract.
  - Consideration must move at the desire of the \_\_\_\_\_ .
  - A negotiable instrument must be payable either to \_\_\_\_\_ or to \_\_\_\_\_.
  - At any point of time, a person can hold directorships at the most in \_\_\_\_\_ companies. (1 mark each)

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

The law of contract is the law of only those agreements which create legal obligations, i.e., the duty to do or not to do certain act.

**(ii) Incorrect.***Reasons*

A minor irrespective of his mental status, is not competent to contract. As per section 11 of the Indian Contract Act, 1872 An agreement with a minor is *void ab initio*.

**(iii) Incorrect***Reasons*

In case of special crossing it requires second crossing. This is allowed when a banker in whose favour a crossing is made, once again crosses it in favour of its agent for collection.

**(iv) Correct***Reasons*

In India, a partnership firm is not a distinct legal entity apart from its partners. A firm is only a compendious description, i.e. abridged name for all its partners.

**(v) Correct***Reasons*

According to Section 4 of the Partnership Act of 1932. Partnership is a contractual relationship between persons. Since a company is a separate legal entity in the eyes of law. It can become a partner. However, a company can become a partner only if its Memorandum of Association specifically allows it.

**(vi) Incorrect***Reasons*

As per Indian Contract Act, 1872, a contract for the sale of future goods is always an agreement to sell unless the ownership is transferred.

**Answer 1(b)**

- (i) (b) X agreed to sell his building for Rs.10 lakh to Y.
- (ii) (a) Discharge from liability because it was purported to be endorsed by or on behalf of the payee.
- (iii) (d) All of the above
- (iv) (b) Let the buyer be aware
- (v) (c) Always remain the same as that of debtor

**Answer 1(c)**

- (i) Law means a **Set** of rules.
- (ii) Earnest money means **Security** for the performance of contract.
- (iii) Consideration must move at the desire of the **Promiser** .
- (iv) A negotiable instrument must be payable either to **Order** or to **bearer**.
- (v) At any point of time, a person can hold directorships at the most in **15** companies.

**Question 2**

- (a) *Sanjay delivers some goods to Tarun on 'sale or return' basis for 7 days. State the legal position in each of the following different situations :*
- (i) *Such goods are destroyed by fire on the second day itself with no fault of Tarun.*
  - (ii) *Tarun informs acceptance of goods over phone to Sanjay and immediately thereafter goods are destroyed by fire.*
  - (iii) *These goods are further delivered by Tarun to Umesh on fourth day, and then by Umesh to Vivek on same terms. The goods are stolen while in the custody of Vivek.*
  - (iv) *Tarun neither returns goods nor gives any notice of rejection even after the expiry of ninth day. Goods are destroyed by fire on the tenth day.*
  - (v) *Tarun retains goods but gives the notice of rejection on the seventh day. Goods are destroyed by fire on the eighth day. (2 marks each)*

- (b) *Aamod has authority from his principal Binod to sell goods on credit. Aamod sells goods on credit to Chandan without making the proper and usual enquires as to Chandan's solvency. at the time of such sale Chandan was insolvent. Should Aamod compensate Binod ?* (5 marks)

**Answer 2(a)**

- (i) Sanjay shall bear the loss as ownership has not yet transferred to Tarun.
- (ii) Tarun shall bear the loss as ownership has transferred to him.
- (iii) Tarun had adopted the transaction by delivering the goods to Umesh. Thus, Tarun is liable to pay the price to Sanjay. Similarly Umesh had also adopted the transaction by delivering the goods to Vivek. And thus, Umesh is also liable to pay the price to Tarun.
- (iv) Tarun shall bear the loss because ownership has passed to the buyer.
- (v) Sanjay shall bear the loss because ownership has not yet passed to Tarun.

**Answer 2(b)**

Yes, Aamod must compensate Binod in respect of any loss thereby sustained. As per Section 212 of the Indian Contract Act, 1872, it is the duty of an agent to act with reasonable skill and diligence.

**Question 3**

*Distinguish between any three of the following :*

- (i) *'Sale' and 'hire-purchase agreement'.*
- (ii) *'Partnership' and 'Hindu undivided family'.*
- (iii) *'Bill of exchange' and 'promissory note'.*
- (iv) *'Contract of indemnity' and 'contract of guarantee'.* (5 marks each)

**Answer 3(i)****Sale and Hire Purchase Agreement**

“Sale”, is a contract by which property in goods passes from the seller to the buyer for a price.

A “hire purchase agreement” is basically a contract of hire, but in addition, it gives the hirer an option to purchase the goods at the end of the hiring period. Consequently, until the final payment, the hirer is merely a bailee of goods and ownership remains vested in the bailor. Under such a contract, the owner of goods delivers the goods to person who agrees to pay certain stipulated periodical payments as hire charges. Though the possession is with the hirer, the ownership of the goods remains with the original owner.

The essence of hire purchase agreement is that there is no agreement to buy, but only an option is given to the hirer to buy by paying all the instalments or put an end to the hiring and return the goods to the owner, at any time before the exercise of the option.

Since the hirer does not become owner of the goods until he has exercised his option to buy, he cannot pass any title even to an innocent and *bona fide* purchaser. The transaction of hire-purchase protects the owner of the goods against the insolvency of the buyer, for if the buyer becomes insolvent or fails to pay the instalments, he can take back the goods as owner. And if the hirer declines to take delivery of the goods, the remedy of the owner will be damages for non-hiring and not for rent for the period agreed.

It is important to note the difference between a hire purchase agreement and mere payment of the price by instalments because, the latter is a sale, only the payment of price is to be made by instalments.

The distinction between the two is very important because, in a hire-purchase agreement the risk of loss or deterioration of the goods hired lies with the owner and the hirer will be absolved of any responsibility therefor, if he has taken reasonable care to protect the same as a bailee. But it is otherwise in the case of a sale where the price is to be paid in instalments.

### **Answer 3(ii)**

#### **Partnership firm and Hindu Undivided Family**

A partnership comes into existence by means of a contract between the partners; a Hindu joint family firm arises as a result of status, i.e., by birth in the family. The death of a partner dissolves the partnership, but the death of a co-parcener does not dissolve the family firm. In a joint family firm only the Karta or manager (who is the head of the family) has implied authority to borrow and bind other members; in a partnership each partner is entitled to do so. Every partner is personally liable for the debts of the firm; in a joint family business only the Karta is personally liable. A minor is a member of a joint family firm from the very day of his birth by virtue of his status, but he is not personally liable. A minor cannot be a partner, although he may be admitted to the benefits of partnership. A partner can demand the accounts of the firm, a co-parcener cannot ask for accounts, his only remedy is to ask for partition of the assets of the family firm. No registration of a family firm is necessary, while a partnership firm must be registered before it can maintain suits against outsiders. Each partner has a definite share in the business and this can be changed only by agreement, but the share of a co-parcener is not fixed; it may be enlarged by death or reduced by a birth in the family. There is a definite limit to the number of partners, but there is no such limit in the case of a Hindu joint family firm. A Hindu joint family business is governed by Hindu Law, while Indian Partnership Act, governs partnerships and excludes Hindu joint family firms. (Section 5)

### **Answer 3(iii)**

#### **Bill of Exchange and Promissory Note**

The following are the important points of distinction between a bill of exchange and a promissory note:

- (a) A promissory note is a two-party instrument, with a maker (debtor) and a payee (creditor). In a bill there are three parties—drawer, drawee and payee, though any two out of the three capacities may be filled by one and the same person. In a bill, the drawer is the maker who orders the drawee to pay the bill to a person

called the payee or to his order. When the drawee accepts the bill he is called the acceptor.

- (b) A note cannot be made payable to the maker himself, while in a bill, the drawer and payee may be the same person.
- (c) A note contains an unconditional promise by the maker to pay to the payee or his order; in a bill there is an unconditional order to the drawee to pay according to the directions of the drawer.
- (d) A note is presented for payment without any prior acceptance by the maker. A bill payable after sight must be accepted by the drawee or someone else on his behalf before it can be presented for payment.
- (e) The liability of the maker of a pro-note is primary and absolute, but the liability of the drawer of a bill is secondary and conditional.
- (f) Foreign bill must be protested for dishonour but no such protest is necessary in the case of a note.
- (g) When a bill is dishonoured, due notice of dishonour is to be given by the holder to the drawer and the intermediate endorsee, but no such notice need to be given in the case of a note.
- (h) A bill can be drawn payable to bearer provided it is not payable on demand. A promissory note cannot be made payable to bearer, even if it is made payable otherwise than on demand.

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

#### **'Contract of indemnity' and 'Contract of guarantee'**

- (a) In a contract of indemnity there are only two parties: the indemnifier and the indemnified. In a contract of guarantee, there are three parties; the surety, the principal debtor and the creditor.
- (b) 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.
- (c) The indemnifier need not necessarily act at the request of the debtor; the surety gives guarantee only at the request of the principal debtor.
- (d) 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.
- (e) 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 the indemnifier cannot sue third-parties in his own name, unless there be assignment. He must sue in the name of the indemnified.

**Question 4**

Attempt any three of the following :

- (i) When must a banker refuse to honour a customer's cheque ? Mention any five situations.
- (ii) There can be different kinds of partners. State briefly about any five kinds of partners.
- (iii) What are 'quasi-contracts' ? Enlist quasi-contracts dealt with under the Indian Contract Act, 1872.
- (iv) There was an agreement to lend Rs.5 lakh to Bimla in consideration of her getting a divorce and marrying Govind, the lender. Is the agreement enforceable? Give reasons. (5 marks each)

**Answer 4(i)**

Banker must refuse to honour cheques issued by the customer in the following situation:

- (a) When a customer countermands payment i.e., where or when a customer, after issuing a cheque issues instructions not to honour it, the banker must not pay it.
- (b) When the banker receives notice of customer's death.
- (c) When customer has been adjudged an insolvent.
- (d) When the banker receives notice of customer's insanity.
- (e) When an order (e.g., Garnishee Order) of the Court, prohibits payment.

**Answer 4(ii)**

Types of Partners

- (i) *Actual, Active or Ostensible Partner*

These are the ordinary types of partners who invest money into the business of the firm, actively participate in the functioning and management of the business and share its profits or losses.

- (ii) *Sleeping or Dormant Partner*

These partners invest money in the firm's business and take their share of profits but do not participate in the functioning and management of the business.

- (iii) *Nominal Partner*

Some people do not invest or participate in the management of the firm but only give their name to the business or firm. They are nominal partners but are liable to third parties for all the acts of the firm.

- (iv) *Partner in Profits Only*

A partner who is entitled to share in the profits of a partnership firm without being liable to share the losses, is called a partner in profits only.

*(v) Sub-Partner*

Where a partner agrees to share his profits in the firm with a third person, that third person is called a sub-partner. Such a sub-partner has no rights or duties towards the firm and does not carry any liability for the debts of the firm. Also he cannot bind the firm or other partners by his acts.

**Answer 4(iii)**

A valid contract must contain certain essential elements, such as offer and acceptance, capacity to contract, consideration and free consent. But sometimes the law implies a promise imposing obligations on one party and conferring right in favour of the other even when there is no offer, no acceptance, no *consensus ad idem*, and in fact, there is neither agreement nor promise. Such cases are not contracts in the strict sense, but the Court recognises them as relations resembling those of contracts and enforces them as if they were contracts, hence the term quasi- contracts (i.e., resembling a contract).

A quasi-contract rests on the equitable principle that a person shall not be allowed to enrich himself unjustly at the expense of another. In truth, it is not a contract at all. It is an obligation which the law creates, in the absence of any agreement, when any person is in the possession of one persons money, or its equivalent, under such circumstances that in equity and good conscience he ought not to retain it, and which in justice and fairness belongs to another. It is the duty and not an agreement or intention which defines it. A very simple illustration is money paid under mistake. Equity demands that such money must be paid back.

The following types of quasi-contracts have been dealt within the Indian Contract Act, 1872—

- (a) Necessaries supplied to person incapable of contracting or to anyone whom he is illegally bound to support - Section 68.
- (b) Suit for money had and received - Section 69 and 72.
- (c) *Quantum Meruit*
- (d) Obligations of a finder of goods - Section 71.
- (e) Obligation of person enjoying benefit of a non-gratuitous act - Section 70

**Answer 4(iv)**

It is a invalid agreement and not enforceable.

In accordance with the provisions of Section 23 of the Indian Contract Act, 1872, an agreement is void if the object or consideration is against the public policy.

**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 correct or incorrect. Attempt any five :*
  - (i) *We live and work in the world of organisations.*



- (ii) *Motivation and morale are conceptually different.*
  - (iii) *Budgeting serves only as an instrument of planning.*
  - (iv) *Decision-making involves choosing from among the alternative solutions.*
  - (v) *The process of recruitment and selection is the same.*
  - (vi) *Planning is a primary function of management.* (2 marks each)
- (b) *Choose the most appropriate answer from the given options in respect of the following :*
- (i) *Management is multi-disciplinary. It means that —*
    - (a) *Management has been developed by borrowing from many disciplines*
    - (b) *Management is based upon cause and effect relationship*
    - (c) *Management principles are relative*
    - (d) *Management is a science.*
  - (ii) *Coordination is not —*
    - (a) *A continuous and dynamic process*
    - (b) *Relevant for individual efforts*
    - (c) *Laying emphasis on unity of efforts*
    - (d) *The responsibility of every manager.*
  - (iii) *A specific guide for action, established authoritatively, and utilised in order to inform employees of conditions under which designated activities are to be performed is known as —*
    - (a) *Policy*
    - (b) *Procedure*
    - (c) *Rule*
    - (d) *Strategy.*
  - (iv) *Span of management refers to —*
    - (a) *Division of authority*
    - (b) *Delegation of authority*
    - (c) *Centralisation of authority*
    - (d) *Number of subordinates to be placed under one superior.*
  - (v) *Organisation development is concerned with —*
    - (a) *Short-term effort for change*
    - (b) *Remaining static*
    - (c) *Normative-educative strategy*
    - (d) *Not bringing major departure from the old practices.*
- (1 mark each)
- (c) *Re-write the following sentences after filling-up the blank spaces with appropriate word(s)/figure(s) :*
- (i) *Planning and controlling are \_\_\_\_\_ to each other.*

- (ii) *Organisational chart does not show \_\_\_\_\_ relationship.*
- (iii) *Controlling everything implies controlling \_\_\_\_\_ .*
- (iv) *Leadership is the activity of \_\_\_\_\_ people.*
- (v) *Resistance to change among human beings is \_\_\_\_\_.*

(1 mark each)

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

*Reason :* We are surrounded by organizations of different sizes all around us. The family we are born and reared, the school or college in which we study, the religious places we go for worship and the retail store from where we buy our daily requirements are all organizations.

**(ii) Correct**

*Reason :* Motivation in simple words is the will to work while morale is defined as overall state of group's emotional health and enthusiasm.

**(iii) Incorrect**

*Reason :* Budgeting serves as valuable aid to management not only in planning but in coordination and control also.

**(iv) Correct**

*Reason :* Decision making signifies actual selection of a course of action from amongst a number of alternative solutions.

**(v) Incorrect**

*Reason :* Recruitment is the process of searching prospective employees whereas selection is the process of choosing the persons most competent to do particular jobs.

**(vi) Correct**

*Reason :* Planning is a fundamental function of management and all other functions of management are greatly influenced by the planning process.

**Answer 5(b)**

- (i) (a) Management has been developed by borrowing from many disciplines.
- (ii) (b) Relevant for individual efforts.
- (iii) (c) Rule.
- (iv) (d) Number of subordinates to be placed under one superior.
- (v) (c) Normative-educative strategy.

**Answer 5(c)**

- (i) Planning and controlling are **Complimentary** to each other.
- (ii) Organisational chart does not show **Informal** relationship.
- (iii) Controlling everything implies controlling **Nothing** .
- (iv) Leadership is the activity of **Influencing** people.
- (v) Resistance to change among human beings is **Natural**.

**Question 6**

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

- (i) 'Management' and 'administration'.
- (ii) 'Policies' and 'procedures'.
- (iii) 'Centralisation of authority' and 'decentralisation of authority'.
- (iv) 'Formal communication' and 'informal communication'. (5 marks each)

**Answer 6(a)(i)****'Management' and 'administration'**

Newman defines administration as “the guidance, leadership and control of the efforts of a group of individuals towards some common goal” whereas Oliver Sheldon defines management as the process concerned with execution of the policies within limits set by the administration and employment of the organisation for the purpose of accomplishing objectives as laid down by the administration.

**Difference between management and administration are as follows:**

The basic distinction between the two terms is that whereas administration is a process of laying down broad policies and objectives of the organisation, management directs and guides the operations of an organisation towards realising the objectives set-forth by the former. It is also said that administration is a top-level function while management is a lower-level function.

A clear distinction may be made between administration and management in the following way:

1. Administration is concerned with policy making whereas management with policy implementation.
2. Functions of administration are legislative and largely determinative while that of management are executive and governing.
3. Broadly speaking, administration is concerned with planning and organizing, but motivating and controlling functions are involved in management.
4. Board of directors of any company is normally concerned with administration whereas personnel below that level are in charge of management.

**Answer 6(a)(ii)****Policies and procedures**

Policy may be defined as a general guideline for making decisions. It defines an area within which decisions will be taken by managers every time they are faced with similar situation. For example, a company may frame a policy of filling up certain posts by seniority and not by a formal selection procedure.

A plan must also lay down the procedures or ways in which it is to be implemented, specifying the chronological sequence for handling future activities. An enterprise, for

example, may have promotion policy based on seniority. Procedure consists of a series of steps to be taken.

**Difference between policies and procedures are as follows:**

- (1) *Basis of formulation* : Policies are formulated on the basis of objectives of the organization, whereas procedures are laid down on the basis of work to be carried out for achieving those objectives.
- (2) *Level of formulation* : Policies are generally formulated by top management, whereas procedures are laid down at the lower level of management.
- (3) *Focus area* : Policies deal with functional aspects of management, whereas procedures deal with operational aspects.
- (4) *Rigidity* : Policies are broad based and flexible, whereas procedures are rigid and less flexible.
- (5) *Part of strategy* : Policies form part of strategies of the organization, whereas procedures serve as tactical tools.

**Answer 6(a)(iii)**

**Centralization of authority and decentralization of authority**

Centralisation refers to the tendency to withhold a larger part of formal authority at higher echelons of management hierarchy. Thus, larger number of decisions and more important of them are made by those occupying higher positions in the organisation. Where, on the other hand, larger part of the authority is delegated down the levels of management so that decisions are made as near the source of information and action as possible, such a tendency and characteristic in the organisation is described as decentralisation.

**Difference between centralization of authority and decentralization of authority are as follows:**

- (1) Centralization is concerned with concentration of authority whereas decentralization is concerned with dispersion of authority for decision making.
- (2) Centralization produces uniformity of policy and action, utilizes the skills of centralized and specialized staff and enables closer control over operating units whereas decentralization tends to effect faster decision making, on the spot action without delay as consultation with higher levels is not required.

**Answer 6(a)(iv)**

**Formal communication and informal communication**

Formal channels of communication are established mainly by the organisation structure, and are referred to as “communication through the chain of command”. The informal network of communication is not established by management and as such it cannot be ordered to be abolished. A manager’s attempt to stamp out grapevine is just imaginary and uncalled for.

**Difference between formal communication and informal communication are as follows:**

<i>Basis</i>	<i>Formal communication</i>	<i>Informal communication</i>
1. Relationship	Based on formal organizational relationships.	It is free from formalities.
2. Channels of communication	Channels of communication are pre planned.	They are not pre planned.
3. Rigidity	It is rigid as deviations are not allowed.	It is flexible.
4. Speed	It is slow as it has to follow pre-decided path.	It is very fast as it is not bound to follow any fixed path.
5. Distortion	Chances of distortion of information are very few.	Chances of distortion and filtration are very high.
6. Status or position of parties	Occupies important place.	It has no relevance.
7. Authenticity	It is authentic.	It may or may not be authentic.

### **Question 7**

*Attempt any three of the following :*

- (i) *“Whatever a manager does, he does through decision-making.” Comment.*
- (ii) *“Leadership is different from management.” Comment.*
- (iii) *Discuss the process of delegation of authority.*
- (iv) *Name the various needs under the hierarchy of needs theory as enunciated by Maslow. (5 marks each)*

### **Answer 7(i)**

*“Whatever a manager does, he does it through decision making”,* rightly commented upon by Peter F. Drucker. No business can survive without effective decision making. In an organization decisions are made at all levels, important decisions tend to be made at higher levels. Decision of an individual is based on the premises of his personal consideration, social environment and also the communication he receives from other parts of the organization. So viewed, organization should be structured in terms of the points at which decisions must be made and also the persons from whom information and influences must flow so that decisions are effective.

A manager’s life is filled with making decision after decision because it is core and an essential part of a manager’s job. In the opinion of Herbert Dimon decision making is synonymous with managing.

Management requires decision making in the performance of all the functions of management, i.e., planning, organizing, staffing, directing and controlling. Whatever the functional area (marketing, finance, personnel, or operations) it may be, decision making is required. Without decision making goals, the purpose of an organization, cannot be achieved. The gap between the current situation and desired situation can only be bridged through decision making.

### Answer 7(ii)

'Leadership is different from management', is right. Leadership is one of the important aspects of managing. It is an interpersonal process of influencing the behavior of individual and the group so that defined objectives are accomplished willingly and enthusiastically. Ordway Tead has defined leadership as "the activity of influencing people to co-operate towards some goal which they come to find desirable". Koontz and O'Donnel state that management means "getting things done through and with people". Haimann observes that "management is the function of getting things done through people and directing the efforts of individuals towards a common objective".

#### The difference between leadership and management is as follows:

<i>Basis</i>	<i>Leadership</i>	<i>Management</i>
1. Scope of activities	It is narrow as it is confined to interpersonal and human relations.	It is broader as it is concerned with people and events.
2. Source of power/ authority	It has various different sources.	It has only formal source of authority.
3. Power	It being based on power is exercised in personalized manner.	It being based on authority is impersonal and constrained by rules and due processes.
4. Structure	It is loosely structured.	It is tightly structured.
5. Elective/selective	Here leadership is elective i.e., acceptance by electors.	It is a product of a selection process and thus selectors are superior.
6. Formal/Informal	In it relations tend to become social.	In it relations tend to be formal.

### Answer 7(iii)

#### Delegation of authority

Delegation, according to L.A. Allen, "is the process, a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organisational placement, can perform effectively and so that he can get others to help him with what remains". As the organisation grows there is a need to delegate authority to more and more people to cope with the volume of work. Delegation of authority entails division of work load and sharing responsibility. Degree of delegation really depends upon manager's degree of management capabilities.

### Process of delegation

Following are the steps in the process of delegation:

- (1) *Allocation of duties*: Duties are the tasks and activities that a superior desires to have someone else to do. So, before authority can be delegated, the duties over which the authority relates must be allocated to subordinate.
- (2) *Delegation of authority*: The essence of the delegation process is empowering another person to act for the manager. This is a passing of formal rights to act on behalf of another.
- (3) *Assignment of responsibility*: When authority is delegated, one must assign responsibility. That is, when one is given “rights”, one must also be assigned a corresponding “obligation” to perform. Here it is important to recognise the importance of equating authority and responsibility. To allocate authority without responsibility creates opportunities for abuse, but no one should be held responsible for what one has no authority over.
- (4) *Creation of accountability*: To complete the delegation process, the manager must create accountability; that is, subordinates must be held answerable for the discharge of the duties assigned and the judicious use of authority delegated.

### Answer 7(iv)

#### Maslow’s theory of need hierarchy

Maslow, a psychologist, developed a theory of motivation based on human needs arranged in a particular order from the lower to the higher. Maslow suggested that people have a complex set of exceptionally strong needs and the behaviour of individuals at a given moment is usually determined by their strongest needs. Maslow divides all human needs into the following five categories in a hierarchical order.

#### Various needs under the hierarchy of needs theory:

- (1) *Physiological needs* : These are needs for food, water, air, clothing, shelter, rest etc. Physiological needs are the basic needs of the organism and are essential for survival.
- (2) *Safety needs* : These represent the second level in Maslow’s need hierarchy. These relate to protection against danger, threat and deprivation.
- (3) *Social needs* : When physiological and safety needs are fairly satisfied, safety needs become powerful motivators. These needs are what Maslow calls “the love and affection and belongingness need’.
- (4) *Ego needs* : These are of two kinds:
  - (i) Needs relating to one's self-esteem such as self-respect, self-confidence and achievement.
  - (ii) Needs relating to one's reputation such as status, recognition, prestige and attention.
- (5) *Self-actualization needs* : These are the needs of an individual to develop himself to the maximum of his potential. These needs are placed at the top of the need hierarchy. There is a strong desire of acquiring a sense of achievement and

competence in every person which presents itself only after the above four needs have been satisfied.

### Question 8

*Write notes on any three of the following :*

- (i) Organisation as a part of the total management task*
- (ii) Staffing process*
- (iii) Rationale of assuming social responsibility*
- (iv) Techniques of overcoming resistance to change. (5 marks each)*

### Answer 8(i)

#### Organisation as Part of the Total Management Task

Organisation in a formal sense refers to a collectivity of persons engaged in pursuing specified objectives. The behavioural scientists and the sociologists view organisation as comprising human relationships in group activity. It is referred to as the social system encompassing all formal relations. Another way of looking at organisation is to consider it as an essential function of management. In operational sense, organisation can be considered as consisting of divisions of work among people and coordination of their activities towards some common objectives.

The organisation structure is not an end by itself, it is rather a means to an end. It is created to achieve certain goals, and organising in turn is done to accomplish those objectives. Peter F. Drucker also views organisation as a means to the end of business performance and results. Organisation should be designed so as to help accomplish business objectives.

Organisation is closely related to other phases of management. This becomes more obvious when we consider changes in the organisation structure and project effects of such changes on other tasks of management. In fact, changes in organisation structure must be matched by suitable changes in planning, staffing and controlling phases of management. It becomes further clear when it is remembered that organisation comes to life only in association with other tasks of management. Thus, organisation should always be viewed as part of the total management task.

### Answer 8(ii)

#### Staffing

“Staffing is the executive function which involves the recruitment, selection, compensating, training, promotion and retirement of subordinate managers”. (Koontz and O’Donnel) Staffing is “concerned with the placement, growth and development of all those members of the organisation whose function is to get things done through the efforts of other individuals”. (Theo Haimann).

#### The Staffing Process

The staffing process includes a number of activities, e.g.,

- (1) Estimate the size and make up of the future manpower needs (Manpower Planning);



- (2) Acquiring the most competent and qualified applicants to meet the manpower needs (Recruitment);
- (3) Evaluating the applicants for different positions choosing the best candidates and assigning them to the right jobs (Selection and Placement);
- (4) To arrange training and development of the employees to secure efficiency of operation (Training and Development);
- (5) Periodic evaluation of the performance of employees (Performance Appraisal); and
- (6) Promotion and transfer of employees (Job Changes).

### **Answer 8(iii)**

#### **Social Responsibility**

The word responsibility implies that business organisations have some kind of obligation toward the society in which they function to deal with social problems and contribute more than just economic goods and services. Business is no longer a mere occupation, it is an economic institution operating, in social environment, an institution that has to reconcile its short-term and long term economic interests with the demands of the society in which it functions. Essentially, it is this which gives rise to the general and specific social responsibilities of business.

#### **Rationale of assuming social responsibility**

- (1) Social responsibility is in the long-term interest of the firm.
- (2) It improves public image of the company.
- (3) It increases the validity of the firm.
- (4) It is necessary to avoid governmental regulation.
- (5) It is required to maintain an orderly legal society.
- (6) It is in the shareholder's best interest.
- (7) Provides a chance to solve problems that government has failed to solve.
- (8) Prevention of problem is better than cure.

### **Answer 8(iv)**

#### **Resistance to Change**

Well documented findings from studies of individual and organisational behaviour have revealed that organisation and their members resist change. And this resistance can be overt, implicit, immediate or deferred. New policies and programmes often meet with resistance and cause a failure, unnecessary delay or distortion in implementation.

#### **Techniques of overcoming resistance to change**

The choice of techniques and their execution would depend upon the specifics of the situation:

- (i) Effective communication of change.
- (ii) Consultation with union leaders.

- (iii) Manipulation and cooptation.
  - (iv) Facilitating and support.
  - (v) Changes should be introduced by stages; further change should be introduced when the earlier change has been fully assimilated.
  - (vi) Change is more effective if it is developed after due participation by all concerned.
  - (vii) As far as possible, change should not carry individual overtones.
  - (viii) Display of effective leadership skills and proper motivation of employees will help management minimize resistance to change.
  - (ix) Introduction of change should be supplemented by systematic training of personnel. Sensitivity training can also be very useful to overcome resistance to change.
  - (x) Advice to specialized staff may be sought while introducing change.
  - (xi) Possibility of introducing change through outside management consultant may also be explored.
-