



**J.K. SHAH**<sup>®</sup>  
**TEST SERIES**  
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**SUGGESTED SOLUTION**

**SYJC**

**SUBJECT- OC**

**Test Code – SYJ 6120 B**

**BRANCH - () (Date :)**

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**ANSWER : 1****(A)**

1. b. 1912
2. b. shopping cart
3. c. morality
4. c. Three – tier
5. c. Equity

**[5 MARKS]****(B)**

- a – Maximum 50 members
- b – Current Account
- c – Business to consumer
- d – 1986
- e – Related with human factor

**[5 MARKS]****(C)**

1. Nominal Partner
2. Cold storage ware house
3. Code of conduct
4. Principle of Espirit de corpse
5. Controlling

**[5 MARKS]****ANSWER : 2****1. Sole Trading Concern and Partnership Firm.****(5 MARKS)**

No.	Basis of Difference	Sole Trading	Partnership Firm
1.	<b>Meaning</b>	Owned and controlled by only one person	In this form of business organisation two or more persons come together to undertake a business activity and share profits.
2.	<b>Formation</b>	It can be formed at any time when proprietor decides.	It can be formed by an agreement between two more competent persons.
3.	<b>Ownership</b>	Sole trading concern has only one owner.	Minimum number of members are 2 and maximum 10 in banking and 20 in other firm.
4.	<b>Registration</b>	Registration is not necessary.	Registration is not necessary, but it is useful.(compulsory in Maharashtra)
5.	<b>Secrecy</b>	A sole trading concern ensures maximum secrecy	Secrecy is shared by the partners.
6.	<b>Managerial skill</b>	The entire burden of management lies on owner.	All partners contribute these skills so there is division of work and expertise.
7.	<b>Capital</b>	Because of only one owner, amount of capital is very small.	Contribution of all partner's capital increases.

8.	<b>Profit &amp; loss</b>	A Proprietor is himself receiver all the profit or loss.	Profit is shared by partners as per their agreement.
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**2. Road Transport and Rail Transport.**

**(5 MARKS)**

No.	Basis of Difference	Road Transport	Rail Transport
1.	<b>Speed</b>	Road Transport has limited speed due to bad road conditions, accidents, etc.	It has considerable speed since it runs on tracks which rarely gets disturbed.
2.	<b>Carrying Capacity</b>	It has limited carrying capacity.	It has huge carrying capacity.
3.	<b>Cost of construction and maintenance</b>	It requires limited capital investment in terms of construction of roads, vehicles and their maintenance.	The cost of construction of trains, railway tracks is high. Also the maintenance of trains, tracks and stations is high.
4.	<b>Distance</b>	Recommended for short distance.	Recommended for both short and long distance.
5.	<b>Transport Charges</b>	Transport charges are not fixed but are high due to increased fuel prices.	Transport charges are relatively low and are fixed according to the distance.
6.	<b>Door to door service</b>	It provides door to door service.	It does not provide door to door service.
7.	<b>Means of Transport</b>	It uses animals, animal carts, motor – cycles three and four wheelers.	It uses passenger and goods train.
8.	<b>Suitability</b>	It is suitable for transporting the goods in relatively smaller quantities for short distance.	It is suitable for transporting heavy goods in large quantity over long distance.
9.	<b>Safety</b>	It provides limited safety to goods from sun, rain, wind, etc.	Goods are kept in locked wagons which provides protection against sun, wind, rain etc.
10.	<b>Accidents</b>	Chances of accidents are more due to poor road conditions and negligent drivers.	Chances of accidents are less because of one way track and good signal system.
11.	<b>Ownership</b>	Ownership is in the hands of private parties.	Ownership is in the hands of the government.

**3. Traditional business and e – business.**

**(5 MARKS)**

No.	Basis of Difference	Traditional business	E - business
1.	<b>Meaning</b>	Business which is managed and carried out in accordance with specific custom or a trading practice of long lasting is called traditional business.	Business which is managed and carried out by using information and communication technologies (ICT) through the internet is called e – business.
2.	<b>Origin</b>	Origin of traditional business is traced to the barter exchange which was originated in the Pastoral stage of human civilisation.	E – business has recent origin. It was introduced for the first time by IBMs Marketing and Internet teams in 1996.

3.	<b>Time, labour and money</b>	In traditional business lot of time, energy and money are required to travel, to negotiate, to convince, to interact and to complete transactions.	In e – business as there is instant communication, lot of time, energy and money are saved which otherwise wasted in traditional business.
4.	<b>Role of middlemen</b>	Role of middlemen is indispensable in traditional business.	On account of direct communication between buyer and seller on the internet, e – business eliminates the role of middlemen.
5.	<b>Physical space :</b>	In traditional business large physical space is required to arrange and display the latest variety of goods.	E – business does not require large physical space. The proprietor may display and sell his goods online.
6.	<b>Capital :</b>	To start, establish and manage traditional business large amount of capital is required.	To start, establish and manage e – business very less amount of capital is required.

4. **Planning and Directing.**

**(5 MARKS)**

No.	Basis of Difference	Planning	Directing
1.	<b>Meaning</b>	Planning is deciding in advance what to do, how to do it, when to do it and who is to do it.	Directing is a process to instruct, guide, communicate, inspire and motivate employees to achieve organizational objectives.
2.	<b>Objective</b>	The main object is to set goals and choosing the means to achieve these goals.	The main objective of giving direction to the subordinates is to get the things done in the right manner.
3.	<b>Area of function</b>	It includes Setting objectives Identifying alternate course of action Select the best plan	It includes Guiding Instructing Inspiring Motivating Communicating.
4.	<b>Factors</b>	Internal as well as external factors are considered while setting targets.	Directing is also concerned directly with Internal (human) factors.
5.	<b>Order</b>	It is the starting point of management. Other functions depends on Planning.	Direction is always needed. It follows organizing and staffing.
6.	<b>Resources</b>	Planning is done as per the resources required for achieving the targets.	It gives direction to the employees and regarding use of other resources.
7.	<b>Targets</b>	The targets set are analysed and then selected.	Proper direction to the employees is needed to achieve the targets.
8.	<b>Nature</b>	It is continuous in nature. Planning will never come to an end till the organization exists.	It is a continuous process as directing is needed till the targets are achieved.
9.	<b>Levels Management</b>	Top level management is with related planning of activities.	Middle level manager provides direction to the employees for achieving targets.

## 5. District Forum and State Commission.

(5 MARKS)

No.	Basis of Difference	District Forum	State Commission
1.	<b>Meaning</b>	A consumer dispute redressal forum working at district level	A consumer dispute redressal forum working at state level
2.	<b>Monetary Jurisdiction</b>	It can entertain the cases where the value of goods/ services and the compensation claimed is less than rupees twenty lakhs	It can entertain the cases where the value of goods/services and the compensation claimed as more than rupees twenty lakhs and less than rupees one core
3.	<b>Duration</b>	Every member should hold office for a term of five years or up to the age of sixty – five years, whichever is earlier.	Every member should hold office for a term of five years or up to the age of sixty – seven years, whichever is earlier.
4.	<b>Nature of Complaints</b>	Only original cases can be entertained which are within the local limits of a district.	It can entertain original cases and also appeals against the order of District Forum within the geographical limits of the state
5.	<b>Members</b>	Other than president it has minimum two members	Other than president it has minimum two members.
6.	<b>Area Covered</b>	It covers a particular district	It covers a particular state
7.	<b>President</b>	District Judge or equivalent	High Court Judge or equivalent

**ANSWER : 3**

## 1. Features of Co – operative society

(5 MARKS)

ANS.:

- (1) **Voluntary Association and open Membership** : Co – operative organization is a voluntary association of individuals. In other words the membership of a co – operative society is voluntary i.e. the membership is open to all. Because co – operative society is managed and controlled on democratic principles, there is a common goal for all the members which is to work together for the benefits of all the members and any person of any caste, creed or religion can join the organization.
- (2) **Equal Voting rights** : There is equality in voting rights. The principle of voting is ‘one member one vote’ unlike a company which follows the principles of ‘one share one vote’. Thus the co – operative society members having a very large capital cannot dictate their terms. Similarly, while providing services, all members are treated same.
- (3) **Service Motive** : Co – operative organization differs from others forms of organization in the sense that the main purpose of co – operative organization is not to maximize profit but to provide services to its members. Its main motto is not to accumulate wealth and exploit consumers but to work in the interests of members and provide goods and services to them by treating every member at par with others. Moreover, there is no distinction among members based upon the number of shares held by them.

- (4) **Limited Liability** : The liability of a member in a co – operative organization is limited to the extent to the unpaid amount of shares held by him i.e. if the business assets are not sufficient to pay off its debts, the personal property of members cannot be utilized for the purpose.
- (5) **Democratic Management** : The management of a co – operative organization is based on democratic principles. Each member is given an opportunity to express his opinion. The principles of voting is '**One member One vote**'. Decision are taken by majority of votes. Managing committee is an elected body of representatives of members of a co – operative organization for its day to day administration.
- (6) **Independent Existence** : According to the Co – operative Societies' Act, 1912, a co – operative society has an independent legal status different from its members, Therefore, it enjoys a stable and continuous life.
- (7) **Registration** : The registration of a com – operative society is compulsory as per the relevant act in the concerned state e.g. A Co – operative organization in the state of Maharashtra has to be registered under Maharashtra State Co – operative Societies' Act, 1960.
- (8) **Surplus Profit** : After payment of dividend and bonus, a part of the profit is transferred to the statutory reserve and remaining is utilized for the welfare of the locality where the co – operative society is situated.
- (9) **State control** : Every co – operative organization must be compulsorily registered as per the relevant act of the state according to the Co – operative Societies' Act, 1912. The co – operative societies are subjected to state control and supervision. At the same time, they are given various concessions and facilities by the Government.

2. **Functions of Warehousing :**

**(5 MARKS)**

Ans.:

1. **Storage of goods** : The basic function of warehouse is to store large stock of goods. These goods are stored from the time of their production or purchase till their consumption or use.
2. **Protection of goods** : A warehouse provides protection to goods from loss or damage due to heat, wind, dust, etc. It makes special arrangements for different products according to their nature. It also helps to reduce the losses due to spoilage or wastages during storage.
3. **Financing** : When good are kept in a warehouse, the depositor gets a receipt which acts as a proof about the deposit of goods. The warehouse, also issues a document in favour of the owner of goods which is called a warehouse – keeper's warrant. The warehouse warrant and receipt are negotiable instrument and can be negotiated by endorsement and delivery . Thus the owner of the goods can raise finance from banks, financial institutions, etc.
4. **Risk – Bearing** : The entire responsibility of the goods stored in the warehouse is passed to the warehouse keeper, once the goods are handed over to him for storage. Thus, the risk of loss or damage to goods in storage is borne by the warehouse – keeper. Since he is bound to return the goods in the same

condition, warehouse becomes responsible for any loss, theft, damage, etc. Thus warehouses take all precautions to prevent the goods from any loss.

5. **Grading and Branding** : Warehouses also perform the functions of grading and branding of goods on behalf of the manufacturer, wholesaler and the importer of goods. It also provides facilities for packaging of goods for the convenience of handling.
6. **Processing** : Certain commodities are not consumed in the form they are produced. Processing is required to make them consumable. E.g. Paddy is polished, timber is seasoned, fruits are ripened, etc. Sometimes warehouses undertake these activities on behalf of the owners.
7. **Transportation** : Warehouses can provide transport facility to the bulk depositors. It collects goods from the place of production and also sends goods to the place of delivery on the request of the depositors.
8. **Time and Place Utility** : Warehouses create time utility by preserving the goods till it is demanded. It also creates place utility by providing the goods at the place, where they are required.

**3. Features of Business ethics.**

**(5 MARKS)**

**Ans.:**

1. Business ethics is a code of conduct evolved for regulating the activities of business towards society and other business units.
2. Business ethics is a relative term. It may differ from country to country.
3. It protects the interests of all the constituents of the society. It creates healthy and competitive business atmosphere. It specifies what should be done and what should be avoided for welfare of the society.
4. Business ethics is applicable to all business organizations whether small or large sole trading, co – operative or public limited companies.
5. It calls for the importance and community at large. It promotes the principle of honesty, sincerity, fairness and justice in business dealings.
6. Business ethics defines the social, legal, cultural and economic limits within which business organizations are expected to plan their activities.
7. Business ethics underlines the conditions to be satisfied by any course of action to be taken by business organization. It guides the business organization to formulate the business policies in a justified manner.

Thus business ethics practiced by businessmen in the right spirit can be considered as a tool for social development.

**4. Role of NGOs in Consumer Protection.**

**(5 MARKS)**

**Ans.:**

Consumer organizations are voluntary groups of people who work for a cause of protecting consumers from hazardous products, false advertising, pollution, etc. They function through protests, campaigns, lobbying etc. Their main objective is to establish consumer rights. All these organizations are Non – Governmental Organizations, i.e. NGOs. They are non – profit and non – political, independent groups working for a definitive cause. They have a constitution and rules of their own. They depend on donations. NGOs work for various social causes, one such cause being consumer protection. They do not have statutory powers but they form a strong support network



for consumers. They give a feel to the consumers that they are not alone in the fight against manufacturers and sellers. Instead, they have a support of strong social organizations. They make the government take note of consumer grievances. They create awareness among people about their rights and also advise consumers on legal action to be taken in case of loss.

There are many NGOs in India working for consumers. The following are a few examples :

- Consumer Guidance Society of India ([WWW.cgsiindia.org](http://WWW.cgsiindia.org))
- Association of Consumer's Action on Safety and Health([www.acash.org](http://www.acash.org)).
- Consumer Education and Research Centre ([www.cercindia.org](http://www.cercindia.org))
- Consumer's Association of India ([www.cai-india.org](http://www.cai-india.org))
- Mumbai Grahak Panchayat
- Voice Society ([www.consumer-voice.org](http://www.consumer-voice.org))
- Grahak Shakti ([www.grahakshakti.org](http://www.grahakshakti.org))

In general, the following functions are performed by NGOs :

- (i) They undertake various programmes for creating awareness about consumer rights and for educating the general public.
- (ii) They guide consumers in taking legal action in case of damage.
- (iii) An NGO can represent a consumer in front of the government.
- (iv) They arrange for comparative testing of consumer products through their own resources or through reliable laboratories and publish the test results for the information of the general public.
- (v) They publish periodicals and journals to keep consumers informed.
- (vi) They make suggestions and recommendations to government authorities while policy making.
- (vii) Some NGOs file cases in the court of law in the interest of the general public.

**5. Functions of an entrepreneur : (5 MARKS)**

The functions of an entrepreneur are many as they are the sole arranger of an entire organization. They can be explained as follows :

- 1. Determination of objectives:** An entrepreneur has to determine the aims and objectives of the enterprise. He should change them as per required conditions or prefer those which are advantages to the enterprise.
- 2. Innovation :** An entrepreneur is basically an innovator who introduces new combinations of means of production. He introduces something new in any branch of economic activity. Innovation implies doing new things or doing those things that one already is being done in a new way. Innovation also involves problem solving and the entrepreneur gets satisfaction from using his capabilities in attacking problems.
- 3. Good relations :** The development of an enterprise greatly depends on the efficient relations of the superiors, subordinates and all employees. Coordination among the employees of the enterprise will have great effect on the success of an enterprise.
- 4. Organizing funds :** To keep the enterprise run successful the need of adequate financial resources has to be looked after by the entrepreneurs. A good relation with the existing and potential investors has to be looked after.



5. **Acquiring new technology** : The requisition of new efficient technological equipment and the timely revisions of it as new machinery appears.
6. **Development of market** : The entrepreneurs from time to time try different acts to develop the market for its products. It should also develop the new product in the market or look forward to consumer's demand.
7. **Risk bearer** : Future is uncertain and unknown. The entrepreneur has to take risk in any circumstances. If the enterprise succeeds, the entrepreneur gets profits, if it does not, losses occur. Risk is of two types, insurable or non – insurable. Non – insurable risk can be reduced by the entrepreneur by using his skills and good judgment of the PREVAILINF environment.
8. **Taking decisions** : When an entrepreneur is convinced with his idea of a new production, he decides to enter the market with all his motivation and ability. He has to take wise decisions to formulate a proper action plan.

Economist Kilby Peter has enumerated 13 functions of an entrepreneur. He is of the opinion that an entrepreneur has to perform the following kinds of activities for the successful operations of the enterprise.

1. Perception of market opportunities.
2. Gaining command over scare resources.
3. Purchasing inputs.
4. Marketing of products and responding to the competition
5. Dealing with the public bureaucracy.
6. Managing human resources of the firm
7. Management of customer and supplier relations.
8. Financial management.
9. Managing production.
10. Acquiring and overseeing – assembly of factory.
11. Industrial engineering
12. Ungrading process and product quality.
13. Introduction of new production techniques and products.

**ANSWER : 4**

1. **In a partnership the liability of every partner(or partners) of a firm is unlimited.**

**(5 MARKS)**

This statement is True.

**Reasons :**

- (1) As per the provisions of the Indian Partnership Act, 1932 partnership firm does not have separate legal personality or existence different from its members (Partners). A partnership firm does not enjoy the status of 'a legal person' as a joint stock company does. The partners and the partnership firm are identical in the eyes of law.
- (2) In partnership firm the assets and the properties are jointly owned by all the partners. Such property or asset cannot be used by any single partner for his personal gain. All are jointly responsible for his personal gain. All are jointly responsible for damage, wear and tear of assets of the firm if they are used for business purpose.

(3) The management of the partnership is collective. All partners have equal right to manage the business. Every partners acts as the principle as well as agent of the firm in the matter relating to its business. As an agent one partner can bind the firm as well as all other partners individually by his act. Therefore, responsibility of partners is joint, collective and unlimited in nature.

(4) Partnership firm is personal form of organization. Therefore, the liability of a partnership firm becomes the liability of the partners themselves. Hence, the liability of partners is unlimited. Unlimited liability means the responsibility of any partner to pay off the debts of the firm even from his personal property if the assets of the firm are insufficient to pay off the firm's debts. Moreover, the liability of the partners is joint and several. It means that the creditors are free to decide from whom and in what proportion the debts are to be recovered.

**2. Planning has vital importance in the management process (5 MARKS)**

This statement is **True**.

**Reasons :**

(1) Planning means deciding the future course of action. To do any job we have first to study the exact nature of the job, the factors necessary for executing the job, the method of doing the job, the time when the job is to be completed and many other considerations. Thus, planning is the very first stage of management.

(2) Planning is a systematic activity which determines when, how and who is going to perform a specific job. It is a sort of detailed programme regarding the job to be completed in the future. It is the foremost, fundamental and important function of management.

(3) Planning makes the arrangement of requisite men, materials, machinery, methods and money, so that the job can be completed effectively and efficiently. Planning takes into consideration the available and potential human, physical and financial resources of the organization and gets their effective co-ordination and necessary contribution.

(4) Planning is concerned with both the processes of determining the objectives of the business and choosing the most suitable course of action. Planning bridges the gap between where we are standing now and where we want to reach. It is really looking ahead and preparing for future.

**3. Business organization has various types of social responsibilities. (5 MARKS)**

This statement is **True**.

**Reasons :**

(1) Every business organization is indebted to the society, because it survives and grows on the patronage and support of the society. It should act as good and capable business unit (organization) of the society. It has to use the scarce natural resources most economically and with due priority to produce consumer goods.

(2) While providing employment to the people, business organization should not discriminate against them on the basis race, religion, caste, sex, etc. In order to encourage employees to work with commitment and dedication the business organization must frame rules for confirmation of their services and strictly adhere to them.

- (3) A business organization is expected to take adequate and necessary steps for protecting the health and hygiene of the employees. It should provide proper sanitation, canteen facilities, medical facilities, hygienic conditions, etc. It should take adequate safety measures in case of the production of hazardous or unsafe products. Proper maintenance of machine and buildings must be done to prevent accidents and control pollution.
- (4) A business organization should not resort to false advertising. It should not mislead the consumers through exaggeration and tall claims. It must not indulge in vulgar and unethical advertising. It should help to the community financially and share government's burden in the times of occurrence of natural calamities like floods, earthquakes, cyclones, droughts, famines, riots, accidents, etc. It should also help the government in rehabilitation of disaster affected people.

**4. Lok Adalat can rightly be described as 'People's court.'** (5 MARKS)

This statement is **True**.

**Reasons :**

- (1) Lok Adalat i.e. People's Court is established by the government to settle the disputes by compromise. It is a mock court held by the State authority, District authority, Supreme Court Legal Service Committee, High Court Legal Service Committee or Taluka Legal Service Committee.
- (2) Lok Adalat accepts the cases pending in regular courts to settle them by compromise. For this, both the parties to the case should agree to transfer the case to Lok Adalat from regular court. Even on the application of one of the parties, the court transfer the case to Lok Adalat, if the court feels that there are chances for a compromise.
- (3) In Lok Adalat, if a matter cannot be settled through a compromise, then it is returned to regular court. The order passed or resolution of disputes by Lok Adalat is given statutory recognition.
- (4) Lok Adalat is one of the several ways to resolve the consumers' problems or grievances. It is also referred as People's court. Some organizations such as Railways, Electricity Boards, Telephone Exchanges, Insurance Companies in public sector regularly hold Look Adalat to resolve consumers' problems through compromise.

**5. Principles of management are rigid.** (5 MARKS)

This statement is **False**.

Principles of management are flexible.

**Reasons :**

- (1) Principles of management are the statements of fundamental truth which act as guidelines for managerial decision – making and action. They establish cause and effect relationship. They establish cause and effect relationship. They are evolved through observation, analysis and experiments.

- (2) Principles of management although fundamental are not rigid statement. They are flexible in nature in the sense they can be changed or modified according to the situation and requirements of the organization. Managers can bend these principles to suit the requirements of the organization.
- (3) Principles of management are flexible guidelines providing ample scope for making changes according to the nature of enterprise, its size, competitive situation etc. For instance, in the context of present business scenario. The 'family management has been substituted by professional management'.
- (4) Modern business world is dynamic. The situation in a business enterprise keep on changing continuously. No two circumstances are identical. Principles of management can be changed, adjusted or modified and used in the enterprise as per its changing needs and requirements. By identifying problems of business permanent changes will be accepted.

**ANSWER : 5**

**1. Ans.:**

**(5 MARKS)**

- 1. Identification of Business Opportunity :** An Important tool in the identification of business opportunity is the 'SWOT' analysis. A systematic approach to understand the environment is the SWOT analysis i.e. strength, weaknesses, opportunities, and threats. An understanding of the external environment, in terms of opportunities and threats and the internal environment, in terms of strengths and weaknesses, is important for the existence, growth and profitability of an organization.
- 2. Raw Material :** While starting a new business the availability of raw material is basic question. What type of raw material is required ? What is the quality and what quantity of raw material is to be purchased ?
- 3. Technology and Equipment :** The equipment is more important for better production, and for that technology is also important. Proper selection of equipment results in good production. While starting a new business latest technology must be used for production to get superior quality of goods.
- 4. Human Resources :** Without human factor, all the factors of production are useless. Man power is the most important factor in the management of any organization so when starting a new business should be considered the requirement of skilled, semi – skilled personnel for production and where they are easily available.
- 5. Financial Planning :** No one can start any business without capital. The business can be run successfully and without obstruction only after the availability of sufficient capital. The capital is required to purchase for fixed assets and working capital for daily working expenses. So starting a new business it is necessary to have new resources of financial sources.
- 6. Utilities :** When starting a new business it is known that requirements of power, water, fuel, steam, and other consumables quantity and their value. It is essential to get the clearance certificate from government authority i.e. pollution control Board.
- 7. Selection of Location :** Every place is not suitable for every type of business. For the manufacturing that place should be suitable where raw materials is easily available and

labour is cheaply and easily available. Other factors also affect the site of business i.e. Transportation, market, banking facilities.

- 8. Form of Business organization :** When choosing a specific form of business organization following factors are to be taken into consideration. Entrepreneur's personal capacity to manage and control the business at any time. Investment capacity, professional background and technical support for business are essential factors.

2.

(5 MARKS)

Ans.:

• **Advantages of Outsourcing :**

1. It leads to better efficiency and effectiveness.
2. The companies are able to focus their attention on improving the quality of their product.
3. Outsourcing leads to cost reduction for the company. The cost of outsourcing services is much less than keeping such a large work force on the rolls of the company.
4. Manpower through outsourcing is available at a lower cost.
5. Investment requirements of the company are reduced.
6. Outsourcing helps in knowledge sharing between organizations.
7. It stimulates entrepreneurship, employment and exports in the country from where outsourcing is done.

• **Disadvantages of Outsourcing :**

1. There is always a danger of the misuse of company information by the contractor.
2. Many companies compromise on the quality of outsourcing in order to cut costs. This is especially seen in the IT sector where companies try to get cheap manpower from the other countries.
3. In some cases, companies ignore ethical issues related to outsourcing.
4. The quality of the outsourced service is sometimes not up to the mark.

3.

(5 MARKS)

Ans.:

Importance of Co – ordinating is as follows :

1. **Integrated Group Effort :** Co – ordination is related to integrated group effort. It is only a team work under the guidance, direction and motivation of the manager which encourages the subordinates for the achievement of the organizational goals. This reduces the conflicts between the employees and increases their team spirit.
2. **Creative Force :** It is a group effort of all employees and not individual effort in an organization that helps to co – ordinate with each other and forms a creative force, as to achieve the desired results. Combined efforts of all the employees can help an organization to overcome its limitations and achieving organizational objectives.
3. **Unity of Direction :** All the departments in the organization perform different activities. Co – ordination brings together these activities for achieving common goals and objectives of the organization. Thus co – ordinating gives proper direction to all the departments of the organization.

4. **Facilitates Motivation :** Co – ordination gives an opportunity to the employees to take initiative, bring creativity in work and perform better. This motivates the employees and in turn they get monetary and non – monetary incentives from the organization. Employees also get job satisfaction and encouragement to give their best performance for achievement of organizational objective and self – satisfaction.
5. **Optimum Utilization of Resources :**Co – ordination helps to bring together all the resources of the organization. It helps to make the optimum utilization of available resources i.e. human and non human while achieving the objectives of the organization. Co – ordinations also helps to minimize the wastage of resources in the organization.
6. **Achievement of objectives :** Co – ordinate helps to reduce wastage, delays and other organizational problem to a great extent. Co – ordination ensures smooth working of he organization in the process of achieving the objectives of the organization.
7. **Improve Relations :** Co – ordinate develops good relations between top level, middle level and lower level employees of an organization. There is always dependence of one person with other like production department has to depend on purchase department, sales department has to depend on production department and so on. So co – ordination not only helps the employees to achieve their targets but also helps to improve their relations with each other.
8. **Higher Efficiency :** Efficiency can be measured in terms of Returns and Costs. Higher efficiency is a result of higher returns and low costs due to optimum utilization of resources. So co – ordination leads to high efficiency.
9. **Improves Goodwill :** Higher efficiency means low costs and higher sales leading to higher returns. This leads to better prices of shares in the market. Better return also helps the organization to build a good image and a goodwill for the organization in the market and corporate world.
10. **Specialization :** All the departments of the organization are headed by specialized professionals in their respective fields. Co – ordination among these specialized professionals can lead the organization towards achieving the targets as planned.

4. **Ans.:**

**(5 MARKS)**

Management principles are applicable in every business organization and every situation. These principles are tested and practiced for years in all parts of the world. Therefore it is important to study its importance or significance. It can be studied with the help of following points.

1. **Management principles help to improve understanding :** the principles of management help the manager to understand the organization. The study of the principles of management helps to improve the understanding of the situations and problems. It further helps the manager to find out the solutions to the problems and handle situations
2. **Help in increasing the efficiency :** By using these principles the organization can increase the efficiency of the employees. Principles can guide the managers about handling the human resource, reducing the wastage, co – ordinate the activities of different departments, etc. All this helps to improve the productivity in the organization.

3. **Help of develop the objective approach** : The principles of management help the manager to develop an objective approach. Thus the manager can identify the problem in correct manner and he can provide solutions in an objective manner. This approach builds confidence in the minds of the managers.
4. **Help to co – ordinate and control** : Management principles give the guidelines for better co – ordination and control. While practicing management the managers can make use of these principles to coordinate the activities of difference departments. Manager can exercise better control over the organization. Thus the given target can be achieved easily.
5. **Understanding social responsibility** : In modern world more importance is given to understand the social responsibility of business orgnizations. It is because business organizations are the part of the society. Business organizations should not only emphasis on making profit but they should discharge their responsibility towards the society also. Management principles help the managers to understand this responsibility. They show the ways to fulfill this responsibility. E.g. Payment of good remuneration is one of the principles of management which is the responsibility towards employees.
6. **Research and development** : Principles of management are dynamic. Their nature go on changing along with the changes in the business world. Over years they have developed to suit the current needs. Therefore, these principles give encouragement to research and development in the organization.

**ANSWER : 6**

**(10 MARKS)**

## **Joint Stock Company**

### **Introduction**

Sole proprietorship or partnership firm can not raise large amount of capital or unable to handle large scale business. So it becomes necessary to have another form of business organization, through which large capital could be collected from large number of people who have no time to run a business or they are not capable of doing it.

The Industrial Revolution took place in 1760. There was a need for high production capacities and management which could not be offered by the previously existing forms of organization. The technology in commerce and industry had grown phenomenally and the period after 1760 was known as the Machine Age. Large scale production was taking place all over the world. To keep up with the rising needs of capital, managerial skills, professional specialization etc. it was necessary to organize business in a new form. This led to the corporate or company forms of organization.

### **Meaning**

A Joint Stock Company is a separate entity formed by a number of persons contributing a fixed capital in the formation of shares (sharing the ownership of the company) with liability of each shareholder being limited to his investment in the company only. The management of the company is done professionally by experts who are not the owners and are controlled by the representatives of the shareholders are called the board of directors.



## Merits of Joint Stock Company

- 1. Large Capital :** It is possible for a joint stock company to raise huge financial resources. There is not maximum limit on membership in a public limited company. Shares issued are available in small denominations. Therefore people can invest any small amount as per their needs and capacity. Due to the features of limited liability, free transferability of shares etc. many investors are attracted to become shareholders of the company. Loans can be taken from banks and other financial institutions by the company.
- 2. Democratic Management :** Though shareholders elect the Board of Directors, who manage the business efficiently, the directors are accountable to shareholders, their activities are supervised and controlled by shareholders indirectly. Though policy decisions are taken by the board, it must be approved by shareholders. If shareholders are not satisfied with the performance of a director, he can be removed and a new one will be appointed in his place by members.
- 3. Transferability of shares :** There is free transferability of shares in a public limited company. No permission is required to be sought from the directors or members of the company for buying or selling shares. Thus there is high degree of liquidity involved in shares of company. A private limited company, however does not permit free transferability of shares.
- 4. Limited Liability :** The liability of a member in a public limited company is limited to the extent of the unpaid amount of shares held by him. Since the company has an independent legal status, its liabilities are its own. Shareholders cannot be held liable for debts of the company and there is no question of using their personal property for the purpose. This advantage of limited liability attracts a large number of investors.
- 5. Expert Services :** Due to large financial resources available with joint stock company, it can appoint experts for managing each area or function of the company business, by paying attractive salaries to them, these brings in a great degree of professionalism and thereby, efficiency in management of business. The turnover of the company goes up and the profit rises.
- 6. Relief in Taxation :** The companies are required to pay taxes at flat rate. The amount of tax on a high taxable income therefore may be less for a joint stock company than individuals in a same tax bracket.
- 7. Public confidence :** Joint stock company enjoys public confidence. The working of joint stock companies in India is governed by the provisions of Indian Companies Act, 1956. As per the act the company has to get its annual accounts audited by a practicing Chartered Accountant.
- 8. Scope for Growth and Expansion :** There is possibility of growth and expansion in the company business. The company can raise large financial resources. Attractive salaries can be paid to engage the services of experts for business expansion and for managing the business professionally. A part of profit is kept aside in the form of reserves and ploughed back for business expansion. Loans can be raised from banks and other financial institutions by hypothecating some assets of the company.

### **Demerits of Joint Stock Company**

1. **Difficulty in Formation :** The formation of the company is in itself a very difficult and involves too many formalities. Promoters have to prepare and submit various documents to the registrar of companies for approval i.e. Articles of Association, Memorandum of Association etc. The public limited company cannot commence business without obtaining a certificate of commencement of business. Registration of Joint stock companies is compulsory as per Indian companies Act, 1956. Thus the formation is complicated, costly and time consuming.
2. **Delay in Decisions:** In sole trading concern, and partnership firms decisions can be taken quickly. Company business is managed by Board of Directors who are not owners of the company. Therefore, there is no direct motivation for directors to give their best to the company. Moreover, for taking various decisions and getting them approved from share holders, they have to hold board Meeting and share holders meetings, for which a proper procedure has to be followed. That results into delay in decision making, good business opportunities may be lost.
3. **Excessive Government Control:** There is a lot of government interference in the working of the company. Various rules and regulation of companies Act have to be strictly followed by the company, the non-compliance of any of these provision results into penalties for the officers involved.
4. **High cost of management:** The management of joint stock company form of organization is costly. The formation involves availing of the expert services of many professional like underwriters, financial and technical experts, share brokers, solicitors, bankers etc. Moreover, the compliance of the management appoints highly qualified staff to managers for various functional areas of business to whom attractive salaries are required to be paid. Even the process of dissolution of company is lengthy and costly.
5. **Undue Speculation:** Since directors are responsible for the management of the company, they sometime use the confidential information for speculation and for personal gains. This results in sudden fluctuations in prices of shares in stock exchange, adversely affecting the public confidence.
6. **No Personal contact:** Due to very large size of the organization, employees feel that their efforts are not recognized and appreciated, their work related problems are not taken care of. As a result they feel demoralized and their productivity declines.
7. **Lack of secrecy:** There is no business secrecy involved in the company form of organization since it has to fulfill various statutory requirements, e.g. As per Indian companies Act, 1956, every company must publish its annual accounts and certain other important documents. Due to this the competitors may take undue advantage of the inner information for their benefit.
8. **No Direct Effort Reward Relationship:** Since the ownership and management are separate, there is no direct relationship between the efforts and rewards. This can be demotivating for the owners of the company.

**ANSWER : 6**

Insurance is a contract between two parties. Hence, all the elements of a valid contract should be present in every insurance contract. Besides these elements, there are certain other principles also to be followed essentially at the time of entering into an insurance contract, which are as follows:

1. **Principles of Utmost Good Faith (Uberrimae Fidei):** All types of insurance contracts require utmost good faith towards each other. The insurer and the insured must also disclose all material facts, clearly, correctly and completely.  
If the insurer finds that certain material facts relating to the contract was not disclosed the insurer may avoid the contract, this principle is more important for life Insurance as the information disclosed will affect the decision of the Insurance Company to decide whether to accept or reject the proposal. e.g. Mr. A takes Insurance Policy for Rs.10 Lakhs for himself. He had not disclosed his medical illness (heart problem) in the contract. Mr. A died with a heart attack after 2 years of taking the policy. The insurance company comes to know about Mr. A's illness only after his death. Under these circumstances, Insurance company is not liable to pay any amount to the dependents of Mr. A, as the contract between Mr. A and insurance company is void. Mr. A did not follow the principle of utmost good faith. Hence, the insurance company can cancel the contract.
2. **Principle of Insurable Interest:** The insured must have insurable interests (financially) in the subject matter of insurance. In Life Insurance it refers to the life insured. In Fire and General Insurance, it must be present at the time of occurrence of loss and in Marine Insurance, the insurable interest exists only at the time of taking the occurrence of the loss. The owner of the contract is said to have insurable interest as long as he is the owner. It is applicable to all contracts of insurance. Following are the cases insurable interest.
  - a. A person has insurable interest in his own life and his property.
  - b. A wife has insurable interest in the life of her husband.
  - c. A businessman has insurable interest in the goods he deals with and in the business property.
  - d. A creditor has insurable interest in the life debtors to the extent of loan given.
  - e. A partner has insurable interest in the life of other partners (partnership firm).

The subject matter of insurance must be a physical object and must be subject to risk. Absence of insurable interest will make the contract of insurance invalid. Insurable interest must be present at the time of taking the policy and at the time of making the claim. e.g. Owner of the house has insurable interests in his house, therefore, he insures the house.
3. **Principle of Indemnity:** Indemnity means a guarantee or assurance to put the insured in the same position in which he was immediately prior to the happening of the uncertain event. The insurer undertakes to make payment of actual loss incurred by the insured. Insurance contract is signed only for getting protection against unpredicted financial losses arising to the future uncertainties. Insurance contract is not made for making profit out of the future uncertainties. Compensation is paid in proportion to the losses incurred. The amount of compensation is limited to the amount assured or the actual loss, whichever is less. It is applicable to fire, marine and general Insurance. However, in case

of life insurance, the principle of indemnity does not apply because the value of human being cannot be assessed in monetary terms. e.g. If a person has insured his property for Rs.3 lakhs and it is destroyed by fire and actual loss is worth Rs.2 lakhs then he will be paid the actual loss of Rs.2 lakhs.

4. **Principle of Contribution:** This principle is a corollary to the principle of indemnity. It is applicable to all contracts of indemnity. Under this principle the insured can claim the compensation only to the extent of actual loss either from any one insurer or all the insurers. If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers. e.g. (i) Mr. Raj insured his house worth Rs.60 lakhs with three insurance companies. A. Co. Ltd. – Rs.10 Lakhs, B. Co. Ltd. – Rs.20 Lakhs and C.Co. Ltd. – Rs.30 Lakhs. At the time of loss incurred, the compensation will be paid by the insurance companies in the ratio of 1:2:3. (ii) Mr. S Insures his property worth Rs.1 lakh with 2 insurers, with A. Co. Ltd. for Rs.90,000 and with B. Co. Ltd. for Rs.60,000. Mr. S actual property destroyed is worth Rs.60,000, then Mr.S can claim the full loss of Rs.60,000 either from A. Co. Ltd. or B.Co.Ltd.. Or he can claim Rs.36,000 from A. Co. Ltd. and Rs.24,000 from B. Co. Ltd. in the ratio of 3:2.
5. **Principle of Subrogation:** According to principle of Subrogation, after the insured is compensated for the loss due to damage to property insured then the right of ownership of such property passes on to the insurer. This principle is corollary of the principle of indemnity and is applicable to all contracts of indemnity. This principle is applicable only when the damaged property has any value after the event causing the damage. The insurer can benefit out of subrogation rights only to the extent of the amount he has paid to the insured as compensation. e.g. (i) A person has insured his furniture for Rs.50,000 against fire and a part of the furniture was destroyed by the fire and the actual loss was Rs.35,000. Applying this principle, a compensation of Rs.50,000 will be paid by the insurer and he will take charge of the remaining furniture. (ii) Mr. A insures his house for Rs. 1 Crore. The house is totally destroyed by the negligence of his neighbor Mr. B. The insurance company shall settle the claim of Mr.A for Rs.1 Crore. At the same time, it can file a lawsuit against Mr.B for Rs.1.2 Crores., the market value of the hose. If Insurance company wins the case and collects Rs.1.2 Crores from Mr.B, then the insurance company can retain Rs.1 Crore (which it has already paid to Mr.A) plus other expenses such as court fees, etc. The balance amount, if any, will be given to Mr.A, the insured.
6. **Principle of Mitigation of loss:** Under this principle, insured must always try his level best to minimize the loss of his insured property, in case of uncertain events like fire outbreak, blast etc. The insured must take all possible measures and necessary steps to control and reduce the losses. The insured must not neglect and behave irresponsible during such events just because the property is insured. Hence, it is responsibility of the insured to protect his insured property and avoid further losses. e.g. Mr.A's house is on fire due to an electric short circuit. In this tragic incident, Mr. A must try his level best to stop the fire by all possible means like calling fire brigade, use fire extinguishers (if available), etc. He must not remain inactive and watch his house burn, only because it is insured.
7. **Principle of Causa-Proxima (Nearest Cause):** Principle of Causa-Proxima means when loss is caused by more than one causes, the proximate (nearest) cause should be taken into consideration to decide the liability of the insurer. The property may be insured against some causes and not against all causes, in such an instance, the proximate cause of loss to be found. If the proximate cause is the one which is insured against, the insurance company is bound to pay the compensation and vice versa. e.g. A ship was insured against losses resulting from collision. There was a collision and the ship was delayed for a few days. Due to the delay, a cargo of Mangoes in the ship became rotten and unfit for consumption. Now, there are two causes of loss, collision and delay, but the nearest / proximate cause for rotten mangoes was delay. As the ship was insured against collision and not delay, the insured will not get any compensation from insurance company.

