J. K. SHAH CLASSES

SYJC-ORGANISATION OF COMMERCE & MANAGEMENT

QUESTION PAPER – SET 2 **Date: 11/09/2016**

Total Marks: 40 **Total time: 1 hour 30 minutes**

Solutions

Ans.1. (A) Fill in the blanks:

1) **Custodian**
2) **All types of insurance**
3) **Road**
4) **Cold storage**
5) **Govt. of India**

(B) Match the pairs :

(1) **General insurance**
(2) **To minimise the loss**
(3) **Payment made by policy holder**
(4) **Imported goods**
(5) **Storage of goods**

Ans 3 Write short note on:

1. **PRINCIPLES OF INSURANCE**
    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.
    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 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 (parntership 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.

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 losses arising due to 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.

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.

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.

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.

7. **Principle of Cause-Proxima (Nearest Cause**): Principle of Cause-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.

2. NATURE OF BUSINESS SERVICES

1. **Intangible**: Services cannot be seen, touched and smelled as they are intangible. They can only be felt. Like the building of the bank is visible but the banking services can't be seen, yet people can take benefits of the bank.
2. **Heterogeneous**: Services lack in homogeneity. Like the behavior of a bank employee (a provided service) it can be good towards one customer and harsh towards the other. So, it is not essential that the services provided by a person or an organization are homogeneous.
3. **Non-Stocking**: Services cannot be stocked. e.g. A bank employee goes on strike on 10th January, now it is not possible to stock the services which they can give on that day and get double work done on 11th January. That's why it is said that demand and supply of services go hand in hand. Neither it is possible that the supply of services is more than its demand nor be stored. In other words, services are perishable.
4. **Non-Transferable:** Business services are of non-transferable nature. Thus, unlike the products there is no exchange of ownership in services. e.g. A patient visits a doctor. He takes the treatment by paying the fees. The patient cannot purchase the ownership of service by paying the fees. If he again falls ill, again he has to visit the doctor.
5. **Participation of Customers**: To avail the benefit of services, the participation of a customer is indispensable. e.g. A transport company is ready to take you on a tour, a bus is ready and waiting for the passenger. Now, if the passenger wishes to avail this service, he has to travel in the bus. Without the participation of the customer, it is not possible to avail the benefit of the service.

3. **Working of a payment gateway**

Any customer who uses the payment gateway goes through the following steps:

1. He/She places an order for the goods to be bought and clicks on a button called "SUBMIT" once the merchandise is chosen.
2. The site then asks for the customer's credit card details. Once the details are entered, the browser codes the information
3. The transaction details are forwards by the e-business website to the payment gateway. At this stage again information is coded.
4. The payment gateway forwarded the information to the payment processor which is used by the credit card issuing bank.
5. The payment processor sends the information to the card association (VISA/MASTER/AMEX)
6. The card association forwards the transaction to the card issuing bank.
7. The card issuing bank authorities the payment. Then it sends its request back through the same process to the merchant website. Once the authorization is received, the sale is approved.
8. The entire process does not take more than 2-3 minutes depending on the speed of the internet connection.

If the internet connection fails at any step of the process, then the appropriate procedure is adopted. E.g. if the connection fails after payment has been made but before the order is finalized, then the payment is credited back to the card account within a stipulated time.

Q.3 Distinguished between

1.

Sr.N	Points of Distinction	Cheque	Bank Draft
1.	Meaning	According to the Indian Negotiable Instrument Act, A cheque is an unconditional order directing the banker to pay a certain sum of money only to the order of a certain person.	A draft is an order to pay money drawn by one office of a bank upon another office of the same bank for a sum of money payable to order on demand
2.	Aim	It aims at facilitating businessman for effecting local payments.	It aims at facilitating immediate outstation payments.

3.	Drawer	The drawer is the account holder of the bank	The drawer is the bank itself.
4.	Dishonour	The cheque may or may not be dishonoured	A draft can never be dishonoured as it is already paid for.
5.	Bank Charges	The bank may not charge for issuing cheque book.	The bank charges a nominal amount to issue a draft.
6.	Payments	Payment of crossed cheques cannot be obtained immediately	Payment of bank draft can be obtained immediately
7.	Facility extended to	Cheque facility is extended to account holders of the bank only	Draft facilities is extended to both account holders of the bank as well as outsiders.
8.	Reliable	Cheques issued by an individual may not be cleared due to many reasons such as sign not matching, post dated, less balance, etc.	A bank draft is more reliable as it is issued by the bank only after receipt of payment.

2. Duty paid warehouse and Bonded warehouse

Sr.N	Points of Distinction	Bonded Warehouse	Duty Paid Warehouse
1.	Meaning	Bonded Warehouse is the warehouse where imported goods on which duty is not paid are stored.	Duty paid Warehouse is the warehouse where imported goods on which duty is already paid is stored.
2.	Location	They are located within the dock area.	They are located in port-town outside the dock area.
3.	Markets	The imported goods stored here are mostly re-exported.	The imported goods stored here are mostly for the domestic markets.

4.	Supervision	The customs authority closely supervises the working of these warehouses.	These warehouses are not supervised by the customs authority. They are supervised by port authority.
5.	Delivery	Delivery of goods is done after payment of Import duty. In case of re-export, the import duty need not be paid, only rent and service charges need to be paid.	Delivery of goods can be obtained after payment of the rent charges of the warehouse.
6.	Purpose	Main purpose would be either the importer needs to re-export the goods or the importer may not be in a position to pay import duty.	Main purpose would be that the importer does not have suitable warehousing facility. Also, he many not require immediate delivery of goods.
7.	Ownership	Such warehouses may be owned by private or dock authorities.	Such warehouses are owned by public authorities.

Q.4 True or False

1. This statement is FALSE.
Reasons:

a) The principle of indemnity does not apply to life insurance.
b) Indemnity means a guarantee or assurance to put insured in the same position in which he was immediately prior to the happening of the uncertain event.
c) The insurer undertakes to make payment of actual loss incurred by the insured.
d) Insurance contract is signed only for getting protection against unpredicted financial losses causing out of future uncertainties.
e) Insurance is not for making profit.
f) Compensation is paid in proportion to the losses incurred.
g) The amount of compensation is limited to the amount insured or actual loss whichever is less.
h) It is applicable to fire and marine insurance.
i) It is not applicable to life insurance because value of human life cannot be assessed in monetary terms.

2. This statement is TRUE

Reasons:

a. Formation of e-business is simple.
b. It does not require any physical presence.
c. Cost of setting up e-business is low because it does not require any physical facility.
d. It involves low operating cost due to reliance on network of relationship rather than ownership of resources.
e. Government patronage is more because of giving priority to IT sector.
f. It requires less time to settle transactions because transactions are settled immediately on internet.
g. Thus, it is easy to set up e-business as compared to traditional business.

Ans 5 Long Answers

1. ADVANTAGES AND DISADVATAGES OF E-BUSINESS

- **Advantages of e-business**

1. It is easy to set up e-business as compared to traditional business.
2. E-business does not require physical space. It requires highly qualified technical professionals.
3. Communication is easy as there is no face-to face interaction. This results in easy approach.
4. Cost of setting up e-business is comparatively low as compared to traditional business.
5. There is a direct communication between suppliers and consumers.
6. Relationship building is very strong in e-business.
7. The World Wide Web (internet) offers a lot of exposure to business on a global platform e-business.
8. There is a lot of support from the government for e-business.

- **DISADVANTAGES OF E-BUSINESS**

1. In the absence of face-to-face interaction with business firm / sellers, many buyers hesitate to carry out transactions.
2. The personal touch of the seller/firm is missing. This is times makes the buyer insecure.
3. The consumer is not able to handle the product business transaction. Most buyers want to touch and feel the product before buying.
4. Sometimes the government monitoring can lead to interference in the business.
5. Transaction risk is high.

2. TYPESOF WAREHOUSES

Warehouse is a storage structure constructed for the protection of the quality and the quantity of the stored goods. A businessman has to keep different kinds of goods, so there is always a need for different types of warehouses, which are as follows.

1. **Private Warehousing**: Private warehouses are owned and managed by the manufacturers or traders to store their own goods. Big business firms which need large storage capacity on a regular basis construct their own warehouses. The private warehouses are licensed to private person only for the goods imported by him or on his behalf are to be stored in such warehouses. Generally these warehouses are constructed by farmers near their fields, by wholesalers and retailers near their business areas and by manufacturers near their factories. The facilities provided therein are according to the nature of products to be stored.
2. **Public/Commercial Warehouses**: This type of warehouses are established to provide storage facilities to the general public for payment of certain fees. It may be owned by an individual, partnership firm, company, etc. These warehouses have to license from the government and work as per the rules framed by the government. They are generally located near railway stations, highways, airport, seaport, etc. Many facilities are provided by these warehouses such as packaging, grading, inspection to be done by prospective buyers, etc.
3. **Government Warehouses**: These warehouses are owned, managed and controlled by central and state governments or public corporations or local authorities. It is difficult for the small traders, farmers, businessmen, etc. to own a warehouse, so these government warehouses assist them in storing their goods at a nominal charge. Central Warehousing Corporation of India, State Warehousing Corporation and Food Corporation of India are examples of agencies maintaining government warehouses.
4. **Bonded Warehouses**: Bonded warehouses are licensed by the government for storing imported goods till the custom duty is not paid. They are located near the ports. They are either operated by the government or custom authorities. The warehouse-keeper is required to give an undertaking or Bond that it will not allow the goods to be removed without the consent of the custom authorities. The goods are held in bond and cannot be withdrawn without paying the custom duty.

   Such warehouses are very useful to importer and exporters. If an importer is unable to pay custom duty after the arrival of goods, he can store the goods in a bonded warehouse and by making payment of custom duty in instalments, can proportionately withdraw the goods. Goods lying in a bonded warehouse can be packaged, graded and branded for the purpose of sale. Central warehousing corporation operates 75 custom bonded warehouses.

5. **Duty paid Warehouses**: If an importer faces any problem in transportation of goods, after making payment of duty, then goods can be stored at a Duty paid Warehouses. All duty paid warehouses are public warehouses which are available to all the importers whether big or small. Duty paid warehouse helps the importers as proper care of goods is taken, processing of goods can be done like sorting, re-packing etc. Such warehouses are more helpful for some businessman, who re-export the goods.
6. **Co-operative Warehouses**: These warehouses are owned, managed and controlled by co-operative societies. They mainly provide warehousing facilities at the rural areas. These type of warehouses are very useful for farmers and traders. They provide warehousing facilities at the most economical rates to the members of the society and also to the public.
7. **Cold Storage Warehouses**: Cold Storage warehouses provide facilities for perishable commodities like fisheries poultry, dairy products, vegetables, fruits, flowers, etc. In cold storage warehouse, goods are stored and refrigerated at very low temperatures so as to preserve them and use them in future. International trade for these products has become possible only with cold storage warehouses. e.g. Green Peas produced in India are exported to foreign countries.