J. K. SHAH CLASSES

SYJC-ORGANISATION OF COMMERCE & MANAGEMENT

QUESTION PAPER **Date: 02/10/2016**

Total Marks: 40 **Total time: 2 hour**

SOLUTION

Ans.1. (A) Select the proper option from the options given below and rewrite the sentence.

1) Central
2) All types of insurance
3) Air
4) Cold storage
5) Govt. of India

(B) Match the pairs :

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

Ans .2. 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 (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.

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 10^{th} January, now it is not possible to stock the services which they can give on that day and get double work done on 11^{th} 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.

Ans.3. Distinguished between :

Sr. No.	Point of Distinction	Cheque	Bank Draft
1.	Meaning	According to the India 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.	Rreliable	Cheques issued by an individual may not be cleared due to many reasons such as sign mot 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. No.	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 good 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.

Ans.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**

A 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.

B 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. **FUNCTIONS OF COMMERCIAL BANKS**

Commercial bank performs diverse types of functions. It satisfies the financial needs the sectors such as agriculture, industry, trade, etc. It plays a very significant role in i process of satisfying economic and social needs. The functions performed by banks an changing according to change in time and recently they are becoming customer centric and widening their functions.

Functions of the commercial banks are divided into two categories/types:

1. Primary Functions
2. Secondary Functions

1. **Primary Functions**

A. **Accepting Deposits:** The most important activity of a commercial bank is to mobilise deposits from the public. People who have surplus income and savings, find it convenient to deposit the amounts with banks in different types of deposit accounts which are as follows:

Types of Deposits

1. **Fixed Deposits**: A fixed amount is deposited for a fixed period and it is called fixed deposit account. It is also known as term deposit. The fixed period of time may be from 30 days to 5 years and above. The rate of interest on this account is the highest because the amount accepted is invested elsewhere for a long term by the bank. The depositor is given a fixed deposit receipt. If the depositor is in need of cash before the date of maturity, he can get a

loan against the deposit.

2. **Savings Account:** This account, as the name suggests, is meant for promotion of savings. Persons having fixed and regular income can deposit their savings in this account. A savings account holder is not permitted to have frequent withdrawals from this account as it is meant for saving. The interest on this account is credited to the account once in every six months.
3. **Current Account:** In this account, a depositor can deposit money any number of time and can withdraw it as and when he require • :t In this account, generally business class deposits the money. Generally the bank does not pay any interest on this deposit. If the total amount deposited is less than the minimum amount required, then the bank can charge some service charges. Money is withdrawn from this account by cheque. A current Account holder enjoys overdraft facility.
4. **Recurring Deposit Account:** In this type of account, a depositor deposits a fixed amount of money every month for a fixed period. The money is deposited on monthly basis. This money cannot be withdrawn before the expiry of a fixed term except in certain conditions. The amount of interest which is received on the money deposited in this account is re-deposited along with the principle. This account attracts higher interest in comparison to other accounts except Fixed Deposit Account.
5. **Multiple Option Deposit Account:** It is a type of Saving Bank Account in which deposits in excess of a particular limit gets automatically transferred into Fixed Deposit. On the other hand, in case adequate fund is not available in our Saving Bank Account so as to honour a cheque that we have issued, the required amount gets automatically transferred from Fixed Deposit to the Saving Bank Account. The balance amount continues as Fixed Deposit and earns interest as per existing rate of interest. One can earn higher rate of interest from a Fixed Deposit Account than from a Saving Bank Account.

B. Granting Loans and Advances:

A banker receives money through its deposits at lower rates. Out of these deposits Commercial bank grants loans and advances to the members of the public and to the business community at a higher rate of interest.

i. **Loans**: A loan is granted for a specific time period. The loans are particularly granted to businessmen and members of the public against personal security, gold and silver and other movable and immovable assets. Generally commercial banks grant short term loans. But term loan i.e. loans for more than a year may also be granted. The borrower may withdraw the entire amount in lump sum or in instalments. However, interest is charged on the amount withdrawn or used.

ii. **Advances:** An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally given for a short period of time. The purpose of granting advances is to meet day-to-day requirement of a business. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

2) Secondary Functions

A) Agency Functions

Agency functions include the following:

i. **Collection of Cheques, Dividends and Interests:** As an agent the bank collects cheques, drafts, promissory notes, interests, dividend, etc. on behalf of its customers and credit the amount to their accounts.
Customers may furnish their bank details to companies where investment made in shares, debentures, etc. So that the companies can directly send warrants/cheques to the bank for credit to customer's account.

ii. **Payment of rent, insurance premiums, etc.:** The bank makes the payment such as rent, insurance premiums, subscriptions, etc. on standing instructions until further notice. Till the order is revoked the bank will continue to make such payments regularly by debiting the customer's account. ECS means electronic clearing system under which one time instruction is given to the bank for debiting/crediting the account.

iii. **Dealing in foreign exchange**: As an agent, the commercial bank purchases and sells foreign exchange for customers as per RBI Exchange Control Regulations.

iv. Purchase and Sales of Securities: Commercial banks undertake the purchase and sale of different securities such as shares, debentures, bonds, etc on behalf of their customer. They run a separate 'Portfolio Management Scheme' for their big customers.

B) Utility Functions:

Utility functions of Banks include the following:

i. **Safe Deposit vault/lockers:** Safety of valuables like jewels, documents, etc. is provided by commercial banks by way of safe deposit vaults or lockers. 'Lockers' are small receptacles (cabinets) which are fitted in steel racks and kept inside 'strong rooms' known as vaults. These lockers are available in half yearly or annual rental basis.

ii. **Traveller's Cheques:** Traveller's cheques are used by domestic travellers as well as by international travellers. Bank issues travellers cheques to help carry money safely while travelling within India or abroad. Thus, the customers can travel without fear, theft or loss of money. Travellers cheques are more commonly used by international travellers so as to make their travel more safe and convenient.

iii. **Letter of Credit(L/C):** Letter of Credit is a payment document provided by the buyer's banker in favour of the seller. This document guarantees payment to the seller upon presentation of documents mentioned in the Letter of credit evidencing dispatch of goods to the buyer. The Letter of Credit is an important method of payment in international trade. There are four parties to a Letter of Credit.

  a. The buyer or the importer also known as Applicant.
  b. The bank which issues the letter of Credit known as opening bank.
  c. The seller in whose favour the Letter of Credit is issued also as Beneficiary.
  d. The credit receiving bank.

v. **Provides Trade Information**: The commercial banks collect information on business and financial conditions etc for their customers which them to plan their strategy. Trade information service is very useful j those customers going for business with companies outside the count will help traders to know the exact business conditions, payment and buyer's financial status in other countries.

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