

ICSE Paper 2015
COMMERCIAL APPLICATIONS

(Two Hours)

Answers to this Paper must be written on the paper provided separately.

*You will **not** be allowed to write during the first **15** minutes.*

This time is to be spent in reading the Question Paper.

The time given at the head of this Paper is the time allowed for writing the answers.

***Section A is compulsory.** Attempt **any four** questions from **Section B**.*

The intended marks for questions or parts of questions are given in brackets [].

Section-A (40 Marks)

*(Attempt **all** questions from this Section)*

Question 1:

State a difference between each of the following:

- (a) Commodity market and Capital market. [2]
- (b) Skimming pricing and Penetrating pricing. [2]
- (c) Current Deposit Account and Saving Deposit Account. [2]
- (d) Training and Education. [2]
- (e) Money costs and Real costs. [2]

Answer:

(a) Difference between Commodity market and Capital market:

Commodity Market	Capital Market
This is an organised market where commodities (e.g., cotton) are bought and sold according to prescribed rules and regulations.	This is a specialised market for providing long-term finance to business enterprises. It comprises specialised financial institutions, stock exchanges, investment trusts, insurance companies.

(b) Difference between a Skimming Pricing and Penetrating Pricing:

Skimming Pricing	Penetrating Pricing
In this strategy a very high price is set so that in the initial stages the cream of demand may be skimmed and the investment made in the product is quickly realised.	This strategy involves selling a low price in the initial stage so as to make the brand quickly popular and to maximise the market share. The manufacturer seeks to sell to the masses.

(c) Difference between Saving Account and Current Account:

Saving Account	Current Account
1. Savings bank account is opened for non-trading customers with small amounts.	1. Current account is generally operated by the business houses.
2. In saving bank account, withdrawals are limited to two or three times in a week.	2. In current account, there are no restrictions to limit the number of withdrawals.

(d) Difference between training and education:

Training	Education
1. Training involves increasing knowledge and skills for a specific job.	1. Education involves improving general knowledge and intelligence.

2. Training is often given on the job.	2. Education is generally imparted in schools and colleges.
3. The burden of training falls mainly on the employer.	3. The burden of education falls mainly on the Government and the student.

(e) Difference between Money costs and Real costs:

Money Cost	Real Cost
Money cost means the amount of money which a producer spends on the production of a particular commodity.	Real cost means the sacrifice, discomfort and pain involved in supplying the factors of production by their owners.

Question 2:

(a) What is meant by 'Variable Cost'? [2]

(b) What is Tidal energy? [2]

(c) Mention any four main reasons for the rapid growth of public relations. [2]

(d) What is 'Balance Sheet'? [2]

(e) State two essential of a good advertisement. [2]

Answer:

(a) **Variable Cost:** Variable costs are those costs which vary in amount with changes in the level of output or activity. Such costs increase or decrease in the same proportion in which the level of output increases or decreases. Variable costs vary in total amount but remain constant per unit of production.

(b) **Tidal Energy:** The energy possessed by rising and falling water in tides is known as tidal energy. Tidal energy is harnessed for producing electricity by constructing a dam across a narrow opening to the sea. This is not a major source of energy.

(c) Four main reasons:

1. Communication gap.
2. Population growth.

3. Recognition of social responsibility.
4. Education in Public Relations.

(d) Balance Sheet: Balance sheet means a statement which shows the assets and liabilities of the organisation (including capital fund and other fund) on a particular date. It is a statement which reports the property values owned by the organisation and the claims of creditors and owners against these properties. It depicts the financial position of the organisation on specified date.

(e) The two essentials of a good advertisement:

1. **Prestige:** This theme is used to popularize luxurious items like motor cars, refrigerators and furniture. Their possession acts as a symbol of prestige to their holders.
2. **Comfort:** This theme is used to advertise products like fans, air conditioners, refrigerators etc., as such products help to make life comfortable.

Question 3:

- (a) What are Receipts and Payments Accounts? [2]
- (b) What is understood by the 'Principle of consistency'? [2]
- (c) What is meant by 'Discounting of a Bill of Exchange'? [2]
- (d) What are the components of Marketing mix? [2]
- (e) What is meant by In-house market? [2]

Answer:

(a) Receipt and Payment Account: It is the summary of Cash Book over a specified period. Actual cash receipts and actual cash payments during the year are considered in this account. These cash receipts and cash payments are recorded under appropriate headings. Such an account necessarily commences with the initial cash and Bank Balances/overdraft and closes with the final cash and Bank Balances/overdraft.

(b) Principle of consistency states that accounting procedures and methods should remain consistent from one year to another. These should not be changed from year to year as otherwise the net profits of different years will not be comparable.

(c) Discounting of a bill means selling the bill before the due date to a bank at less than the face value. The banker takes the bill and in return gives cash which is equal to the amount of the bill minus the discount. The bank may collect the amount of the bill from the drawee on the due date. In case, the bill is dishonoured on maturity, the bank can recover the payment from the drawer.

(d) Components of Marketing Mix:

1. Product Mix.
2. Price Mix.
3. Place or Physical Distribution Mix.
4. Promotion Mix.

(e) In-Home Market: Marketer carouse door-to-door selling through trained sales force. Initial contact may be made by phone or mailed-in-coupon. This method is costly but effective. In India Eureka Forbes is using this method.

Question 4:

Justify a reason either for or against each of the following:

- (a) Services are not homogeneous. [2]
- (b) Firms live forever (explain with reference to the concept of accounting). [2]
- (c) Public relations is a propaganda. [2]
- (d) The cost of sugarcane is an avoidable cost. [2]
- (e) A cheque is an inconvenient method of making payments. [2]

Answer:

(a) **For:** Services are highly variable. It is difficult to control and measure.

(b) **For:**

- 1. It is assumed that the business will continue to exist for a long period in the future. The transactions are recorded in the books of the business on the assumption that it is a continuing enterprise.
- 2. It is on this concept that we record fixed assets at their original cost and depreciation is charged on these assets without reference to their market value.

(c) **Against:**

- 1. Public Relations is not propaganda which is a instrument of politics and power for social control.
- 2. Propaganda does not necessarily require an ethical content and is guided solely by self-interest.

(d) **For:** The cost of sugarcane can be avoided by closing down the sugar factory for one year. But the cost of factory building cannot be avoided for the year.

(e) **Against:** A cheque is a very convenient method of making payment. There is no need of counting and checking notes when payment is made by a cheque.

Section – B (60 Marks)

*(Attempt any **four** questions from this Section)*

Question 5:

- (a) Distinguish between a Product and a Service citing suitable examples. [5]
- (b) Describe the various steps involved in Personal selling. [5]
- (c) Explain the main principles of Accounting. [5]

Answer:

(a) Difference between Product and Service:

1. **Tangibility:** Products are tangible, i.e., they can be felt, seen, tasted, heard or smelled before they are purchased whereas services are intangible, i.e., they cannot be felt, seen, tasted or smelled before they are purchased. For example, a person wants to purchase a car. He/she can feel and see the car before purchase but a person going for a massage to the parlour, cannot feel the result before getting the massage done.
2. **Variability:** Services are highly variable but products are not. For example, if a patient wants to get his liver transplanted, the services given by a hospital situated in Delhi, which is equipped with all modern amenities for doing So, will be quite different from a hospital situated in rural areas of India.
3. **Separability:** Products are separable, i.e., products are manufactured, put into inventory, then through channel of distribution they reach the ultimate consumer. Thus, product is separable but this is not true in case of services, they are produced and consumed simultaneously. For example, a car is manufactured, put into inventory, distributed through their show-rooms and then it is purchased by the customer but when a person travels by aeroplane, services of aeroplane (transportation) can be taken while it is flying, thus it is inseparable.
4. **Perishability:** Products can be stored whereas services cannot be stored. Thus, products are not perishable but services are. If a showroom keeps twenty scooters for sale during one month and they are not sold, they don't perish. But if a passenger bus has to carry fifty passengers at one time and it carries only 30 then the service meant for 20 passengers perishes.
5. **Homogeneity:** Products are homogeneous in many respects. In case of standardized products, a product is a perfect substitute for another where it is impossible for an individual to distinguish one from another. Thus, if a person has to buy a Gillette shaving gel, he can pick any one lying at the store. But services are not homogeneous, they are heterogeneous. For example, if one wants to take medicine from doctor, he/she cannot choose any, but will choose the one which gives the best satisfaction.

(b) Various Steps in Personal Selling:

1. **Preparation:** First of all a well-trained and motivated sales force is developed. Salespersons must have knowledge of the firm and its products and services, competitors and their products and services, customers and selling techniques. They must be fully aware with the quality, uses, prices, etc., of the goods to be sold.
2. **Prospecting:** Prospecting means locating and identifying the potential buyers. A list of prospective customer can be prepared with the help, of dealers, salespersons, telephone and trade directories etc. Information about the age,

income, education, family background, tastes, preferences, etc., of prospective buyers should be collected.

3. **Approach:** In this step, the salesperson makes face-to-face contact with the prospective buyer. The sales-person should introduce himself, greet the customer and start the conversation with him/her so as to create a good first impression.
4. **Presentation:** Now the salesperson displays and describes the product to be sold. He should tactfully demonstrate the product and explain its quality, utility, performance etc.
5. **Closing:** The salesperson concludes the sale by obtaining the consent of the buyer. Some concessions may be necessary for this purpose. He should assure the customer that he has made a wise choice and should thank the customer. In order to obtain repeat sales, the salesperson should carefully pack and deliver the product.

(c) Main Principles of Accounting:

1. **The Business Entity Concept:** According to this concept, a business firm is treated as a unit separate and distinct from its owners. A completely separate set of books is kept for the firm and business transactions are recorded from the firm's point of view. The capital provided by the owner is treated as a liability of the firm. Interest on capital is treated as an expense of business. Similarly, the money/goods withdrawn by the proprietor from the firm for his personal use is treated as drawings. The concept of separate entity is necessary for ascertaining the true net profits and financial position of a business firm.
2. **The Going Concern Concept:** It is assumed that the business will continue to exist for a long time in the future. Transactions are recorded on the assumption that the business will exist for an indefinite period of time. It is on this assumption that a distinction is made between capital expenditure and revenue expenditure. Fixed assets are recorded at their original cost less depreciation. Market value of fixed assets is not recorded, as these assets are not to be sold in the near future.
3. **Accounting Period Concept:** It is due to this concept that financial statements are prepared at regular intervals, generally one year. This period is called accounting period. The net profit/net loss of business is ascertained separately for each accounting period.
4. **Money Measurement Concept:** On the basis of this concept, only those transactions are recorded in accounts which can be expressed in terms of money. For example, the retirement of the chairman of the company cannot be recorded because it is not possible to measure the monetary effect of retirement except in terms of gratuity and other benefits payable to the chairman.
5. **The Matching Principle:** According to this principle, cost of a particular period should be charged from the revenue of same period only. Only such matching

of cost and revenue can reveal the true profit or loss for a period. When cost is associated with a particular product or service, revenue earned from that product or service should be matched to its cost. This principle provides the guidelines as to how the expenses are to be matched with revenue. It requires that in determining the net profit, all costs which are applicable to revenue of that period should be charged against that revenue.

Question 6:

- (a) Describe any two stages of Marketing. [5]
- (b) 'Advertising is a Social waste'. Give reasons in support of your answer. [5]
- (c) Explain any two causes responsible for the destruction of the ecosystem. [5]

Answer:

(a) From subsistence level and self-sufficiency to modern marketing has been a long journey. Advent of money led to the rise of markets and exchange system. The evolution of modern marketing can be traced through the following stages:

1. **Production-Oriented Stage (1869-1930):** In this stage the motto was 'sell what can be produced'. There was acute shortage of goods and there was no need to create demand. Product was the focus of attention and communication with the buyer was not needed. Products were manufactured on the assumption that customer would search and buy well built and reasonably priced products. This was based on Say's law: 'Supply creates its own demand'. Production oriented stage lasted till the Great Depression.
2. **Sales-Oriented Stage (1930-1950):** Great Depression resulted in drastic changes in buying habits and behaviour of consumers, technological advancements in transportation and communication also changed the thinking. The focus shifted from production to selling. How to sell became a problem and the new motto was 'get rid of what you have'. The focus was on increasing sales rather than on consumer satisfaction. Demand outstripped supply and it was still a seller's market.
In the last stage of marketing, i.e., Marketing oriented stage, customer satisfaction became the principal reason for corporate existence. They realised that in order to survive and grow in this highly competitive world, a company must first determine what consumers want. Then produce that will satisfy consumers.

(b) Advertising has been criticised on the following grounds:

1. **Higher Prices:** Advertising increases prices of products to consumers . because the expenses incurred on advertisements are passed on to consumers. However, advertising will not increase prices if it leads to large scale production.

2. **Creation of Monopoly:** Big firms spend huge amounts of money on advertising. Small firms cannot compete with them and ultimately fail. As a result, big firms become monopolies and use their monopoly power to exploit consumers.
3. **Wastage of Resources:** Money spent on advertising is sheer waste because it does not add to the utility of products and services. Most of the advertisements are either ignored or escape the attention of consumers. Advertisements do not create new demand but only shift demand from one product to another.
4. **Deceptive and Untruthful:** In order to impress upon the people, false statements and exaggerated claims are made in advertisements. As a result, innocent people are misled to buy inferior and even worthless products. Advertising offers scope for fraud and deception.
5. **Extravagance:** Advertising tempts people to buy goods which they cannot afford. They become extravagant and do not hesitate even to adopt corrupt practices to earn more. This creates frustration and corruption in society. People become greedy and self-centered, causing unrest and jealousy.

(c) Two Factors Responsible for the Destruction of the Eco System:

1. **Population Growth:** Population is growing rapidly but the land is static, which is a great threat to our eco system. This is resulting in deforestation, destruction of natural resources, soil erosion, falling water table, pollution of water sources and atmosphere.
2. **Industrialisation:** Increase in the number of industries is a great danger to our eco system. It is resulting into deforestation to get more and more land for industries, contamination of water by industrial wastes, air pollution and sound pollution.

Question 7:

(a) Explain any two types of interviews conducted by an Enterprise in the selection of its employees. [5]

(b) "Real investment in today's society is not in plant and machinery: it is in people". With reference to the above statement, examine the importance of Human resources in a business organisation. [5]

(c) Distinguish between a cheque and a Demand draft. [5]

Answer:

(a) (i) **Structured or Patterned Interview:** This interview is systematically planned in advance and is conducted in a pre-planned manner. The questions to be asked and the time to be allowed to a candidate are decided in advance. This is the most common type of selection interview.

(ii) **Panel or Board Interview:** In this type of interview, the candidate is 'interviewed by a panel or board of selectors. Different interviewers ask questions on different topics. The candidates is judged on the basis of combined rating by the panel.

(b) The role of human resource in a business organisation: Human resource management can help an business organisation in achieving its goals more efficiently and effectively in the following ways:

1. Attracting and retaining the required talent through effective human resource planning, recruitment, selection, placement orientation, compensation and promotional policies.
2. Developing the necessary skills and right attitudes among the employees through training, development, performance appraisal etc.
3. Securing willing cooperation Of employees through motivation, participation, grievance handling etc.
4. Utilising effectively the available human resources.
5. Ensuring that the enterprise will have in future a team of competent and dedicated employees.

(c) Distinction between a Cheque and a Demand Draft

Basis of distinction	Cheque	Demand Draft
1. Drawer	A cheque is drawn by a person.	A demand draft is always drawn by a bank.
2. Bearer	A cheque can be drawn payable to bearer.	A demand draft cannot be made payable to bearer.
3. Charges	In case of a cheque the person who receives the payment has to pay collection charges.	In case of a demand draft commission is paid in advance by the sender of money.
4. Dishonour	In case of a cheque the A cheque is dishonoured if the, funds in the drawer's account are insufficient.	The draft amount is taken in advances by the bank. There is no question of dishonour of a draft.

5. Stop payment	The payment of a cheque can be stopped by giving a written notice to the concerned bank.	The payment of a demand draft cannot be so easily stopped.
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Question 8:

Write short notes on:

(a) Persuasion and Empathy as elements of Public Relations. [5]

(b) Benefits of Training to a Business Enterprise. [5]

(c) Uses of Income and Expenditure Accounts. [5]

Answer:

(a) (i) **Empathy:** Empathy means looking at things and events from the other's point of view. It requires that the communicator be intune with communicate.

Empathy involves seeing and feeling matters as others see and feel. It enables an executive to be sensitive and sympathetic to the attitudes, expectations and problems of his workers and clients. A person with empathy can be receptive and appreciative of the ideas and opinions of others. Empathy contributes to success of public relations in several ways. It fosters greater understanding and improves relationship with the client. Empathy tells an executive when he should talk and when he should remain silent. It tells when to be firm and when to be restrained. An empathic executive is more accurate in interpreting what a client says or does.

(ii) **Persuasion:** Persuasion is an important element of public relations. It is through some kind of communication that persuasion takes place. To persuade means to convince another person of some idea, product, service or institution, to induce a person or group or to do something.

A message becomes persuasive when people behave in the source of the message. Messages coming from credible sources are generally accepted without any questions being asked. Reasonable messages presented in an attractive manner tend to be more persuasive. A flexible approach is helpful in persuading others. A sense of human interest is necessary for anyone indulging in persuasion. The speaker has to ensure that people understand, approve and accept him and his words.

(b) **Need and Importance of Training:** Training is necessary and useful for a Business enterprise. A trained work force is a very valuable asset to an organisation. For main advantages of training:

Increased productivity: Training helps to improve the quantity and quality of work performance. Well-trained employees produce more and better goods.

1. **Better Utilisation or Resources:** By training, employees learn new and better methods of doing jobs. They make better use of materials and machinery. As a result, wastage of resources and cost of production are reduced.

2. **Better Safety:** Training helps to improve the job knowledge and skills of employees. Trained employees operate machines and equipment more carefully and cause fewer accidents.
3. **Less Supervision:** Well-trained employees are less dependent on supervision. They are more disciplined, self-dependent and responsible. Therefore, need and cost of supervision are reduced.
4. **Reduce Turnover and Absenteeism:** As trained employees feel more satisfied and interested in jobs, labour turnover and absenteeism are reduced.
5. **Expansion and Growth:** With the help of trained staff, an enterprise can expand and grow easily and rapidly. Loss of a few employees does not threaten its survival. Trained employees can adapt more easily to technological advancements and competitive environment. Flexibility of the enterprise is improved.

(c) Use of Income and Expenditure Accounts:

1. Income and Expenditure Account shows the surplus or deficit arising from the activities of a non-trading concern during a year.
2. It shows all items of income and expenditure. With the help of this information, the organisation can take steps to increase income and reduce expenditure.
3. It serves as the basis for preparing the Balance Sheet of a non-trading organisation.
4. It fulfils the statutory requirements because non-trading organisation are legally required to prepare it.

Question 9:

Case Study

With a glorious history of more than 50 years blended with a futuristic outlook, 'The Presidency Bank has become a leading financial institution. The Bank with its customer centric approach values transparency and nurtures knowledge and learning. It believes in the quality of its people and their efforts and therefore takes continuous initiatives for hiring the best talent and ensuring their development, motivation and growth through intensive training.

The Bank offers excellent career opportunities to dynamic individuals. In addition to exposure to a variety of banking segments, the Bank also provides personal growth opportunities for its employees.

With reference to the above:

(a) Suggest a suitable source of recruitment for the Bank. Give reasons to support your answer. [5]

(b) What Employment tests should be conducted by the Bank to select its employees? [5]

(c) What type of Training methods should be adopted by the Bank to train its employees? Why? [5]

Answer:

(a) Sources of Recruitment:

1. **Advertisements:** Advertisements in newspaper and journals are the most widely used methods of attracting persons for jobs in banks. The requirement of the job and qualification of candidates are given in newspapers. This method helps to bring talented employees.
2. **Placement Agencies:** Another sources of recruitment for the bank can be placement agencies. Bank can engaged private employment agencies for recruiting staff. These agencies advertise the vaccancies, receive applications, conduct interviews and short list candidates on behalf of bank.
3. **Educational Institutions:** Management institutes and universities can be another source of recruitment. Here bank can find out best talent among the students.
4. **Promotion:** For personal growth of its employees bank can transfer a performing and dynamic individuals from one banking segment to another.

These source of recruitment are suitable for bank because of following reasons:

1. **Wide Choice:** It offer a wider choice in the selection of candidates because a large number of persons apply for jobs.
2. **Fresh Outlook:** Recruitment of persons from outside brings in new ideas and fresh thinking.
3. **Familiarity:** The internal employees are already aware of the policies, rules and working conditions of the bank.

(b) (i) Proficiency Tests:

1. **Achievement Tests:** These tests measure the skills and knowledge which the candidate already possesses at the time of testing. These tests help to determine whether the claims made by the candidate about his knowledge and skills are correct or not.
2. **Intelligence Tests:** These tests measure a person's capacity for listening and comprehension in terms of his vocabulary, mental alertness, memory, etc.

(ii) Aptitude Tests:

1. **Personality Tests:** These tests are designed to judge the emotional balance, temperament and maturity of a candidate. They reveal the ability of the person to adjust to new surrounding.

2. **Interest Tests:** These tests are aimed at assessing type of work in which a candidate shows special interest and involvement.

(c) Banks adopt various methods of imparting training to its employees so that their efficiency improves and enhances the productivity of the organisation. These are:

1. **Induction Training:** It is an On-the-job training method. It involves providing relevant information about the organisation, its key personnel, terms and conditions of employment, rules and procedures of the organisation, etc.
2. **Internship:** This programme of training is a combination of theory and practice. It involves practical training of theoretical knowledge. During this period, only stipend is paid to them.
3. **Vestibule Training:** It is an off-the-job training method. In this method, the workers are trained in a separate working away from the job place in almost a similar working environment using same type of technology.
4. **Apprentivesting Programmes:** This programme involves putting the trainee under the guidance of skilled worker. During this period, trainee is paid less than the skilled worker. It is on-the-job training method.

Question 10:

Case Study

Mbees Tec Ltd. has added its latest addition the Zt and Zht smartphones to its smartphone family. These have created a record of sorts by selling more than 1 lac phones in three days since they were launched.

However Mr. Pawan, CEO of Mbees Tec Ltd, believes that the Company could have bettered their sales if the supply was met as per the demand for its exciting new range of smartphones.

Mr. Pawan also added that the company stands to deliver on its promises and hence the production capacity has been increased to meet the ever rising demands of its newly launched smartphones that have unmatched features at highly competitive prices.

With reference to the above:

- (a) Explain the pricing strategy the Company has adopted to sell its new smartphones. [5]
- (b) Suggest a suitable media to advertise the newly launched smartphones of M/s Mbees Tech Ltd. [5]
- (c) Explain the stage of the product lifecycle of the smartphones as mentioned in the above case study with the help of a diagram. [5]

Answer:

(a) Mbees Tec Ltd. has adopted the skimming the cream pricing strategy to sell its new smartphones. This strategy involves charging high prices in the initial stages of the life of the product. The initial high prices serve to skim the cream of the inelastic market and the initial investment is recovered quickly. The producer sets high price of his product to

obtain high immediate profits for fear of competition at a later stage. This pricing policy has the following merits:

1. In the early stages the product is distinctive and imitations has not taken effect. Therefore, price is less likely to effect sales volume.
2. High price in the initial stages will provide funds for expansion into the big volume segments of the market.
3. By setting initial price at a high level the producer can restrict demand to the level which he can meet.

(b) The most suitable media to -advertise the newly launched smartphones can be visual advertising i.e., television advertising. It is very popular and effective due to the combined force of picture and sound. It has a dramatic impact on the minds of viewers. On television, products can be demonstrated and their use can be explained. The message has a wide appeal and geographical selectivity is possible.

(c) The PLC concept consists of four stages i.e., Introduction, Growth, Maturity and Decline. And the company is in its launching period thus it is in introduction stage. This stage starts when the new product is first launched. Introduction takes 00 time, and sales growth is apt to be slow.