

**ICSE Paper 2014**  
**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) Recruitment and Selection. [2]

(b) Receipt and Income. [2]

(c) Cash Credit and Loan. [2]

(d) Apprenticeship and Internship. [2]

(e) Capital Market and Money Market. [2]

**Answer:**

(a)

Recruitment	Selection
It is said to be a positive process because it seeks to attract a large number of candidates from which choice can be made.	It is said to be a negative process because it indulges in eliminating less qualified candidates to select the most suitable ones.

(b)

Receipt	Income

It contains only cash items and does not include accrued income, income received in advance, outstanding or prepaid expenses.	It is prepared on accrual basis and therefore includes all accrued and outstanding items.
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(c)

Cash Credft	Loan
It is a primary method in which Banks lend money against the security of commodities and debt.	Loans are the counterparts of fixed deposits in the Bank. Banks lend money in this mode when the repayment is sought to be made in fixed, pre-determined instalments.

(d) [Refer Ans. 1. \(c\), 2016.](#)

(e)

Capital Market	Money Market
This is a specialised market for providing long term finance to business enterprises. It consists of stock, investment trusts etc.	Money market is a specialised market for providing short term finance to business enterprises. It consists various types of Banks.

**Question 2:**

- (a) Briefly explain how tourism can also lead to destruction of the eco system. [2]
- (b) Describe any two qualities that a salesman selling LCD Televisions should possess. [2]
- (c) Mention any four methods of sales promotion. [2]
- (d) What are fictitious assets? Give an example. [2]
- (e) Mention any two agency functions / services of a Commercial Bank. [2]

**Answer:**

(a) Negative impacts from tourism occur when the level of visitor use is greater than the environment's ability to cope with this use within the acceptable limits of change. Uncontrolled conventional tourism poses potential threats to many natural areas around the world. It can put enormous pressure on an area and lead to impacts such as soil erosion, increased pollution, discharges into the sea, natural habitat loss, increased pressure on endangered species. It also forces local people to compete for the use of critical resources.

(b) The two qualities that a salesman selling LCD Televisions should possess are:

1. The salesman should describe the LCD Television well. He should tactfully demonstrate the television and explain its quality, performance, utility etc.
2. The salesman should be good at his convincing quality. He should understand the causes of objections and should try to convince the customer. For a good sales, the salesman should control his anger and should not argue with the customers.

(c) The four methods of sales promotion are:

1. **Samples:** Many business firms distribute free samples of their product to selected consumers in order to make the products popular.
2. **Trading Stamps:** Trading stamps are issued to customers through the retailers in proportion to the amount of purchase.
3. **Coupons:** Coupon is a certificate that entitles its holder to a specified saving on the purchase of a specified product.
4. **Premium or Bonus Offer:** It implies an offer of a certain quantity of the product, free of cost, on the purchase of a specified quantity of the product.

(d) **Fictitious Assets:** Assets created by an accounting entry (and included under assets in the balance sheet) that has no tangible existence or realization value but represents actual cash expenditure.

**Example:** Preliminary Expenses, discount on issue of debentures not written off.

(e) The two agency functions/services of a commercial bank are:

1. **Collecting Receipts:** Banks collect amount of cheques, bills, promissory notes and hundies on behalf of their customers.
2. **Trustees and Executors:** Commercial banks act as trustees and executors for their customers.

**Question 3:**

(a) Briefly explain the term 'Marketing Oriented Stage'. [2]

(b) Mention any two effects of crossing a cheque. [2]

- (c) Explain in brief Moral Suasion as a tool of credit control. [2]
- (d) What is meant by concept advertising? [2]
- (e) State one advantage and one drawback each of using nuclear power as a form of energy. [2]

**Answer:**

**(a) 'Marketing-Oriented Stage':** A company philosophy focused on discovering and meeting the needs and desires of its customers through its product mix.

Market-oriented stage works in reverse, attempting to tailor products to meet the demands of customers. In essence, market-orientation can be thought of as a coordinated marketing campaign.

**(b)** The two effects of crossing a cheque are:

1. Crossing cheques provides a protection or safeguard against loss to the drawee by securing payment through a bank.
2. It prevents fraudulent encashment.

**(c) Moral Suasion:** Often termed simply 'suasion' it has been used to persuade banks and other financial institutions to keep to official guidelines. Under this method, central bank requests and persuades the commercial banks not to grant credit for speculative and non-essential activities. It is an informal and non- statutory method.

**(d) Advertising:** Advertising consists of all the activities involved in presenting to a group a non-personal, oral, visual, openly sponsored message regarding a product, service or idea; this message called an advertisement, is disseminated through One or more media and is paid for by the identified sponsor. It is a non-personal presentation and promotion of ideas, goods or services.

**(e) Nuclear power as a form of energy:**

**Advantage:** The great advantage of using nuclear energy is the ratio of the amount of fuel used and the energy obtained. This also translates into savings in transport, water etc.

**Disadvantage:** One of the main drawbacks is the generation of nuclear waste and the difficulty to manage them as they take many years to lose its radioactivity and dangerous.

**Question 4:**

Justify either **for** or **against** by giving two reasons for each of the following:

- (a) Vestibule training is better than on-the-job training. [2]
- (b) Skimming pricing policy is ideal for introducing a product in the FMCG sector.
- (c) Closing stock is always valued at market price. [2]
- (d) All membership fees collected by a non-trading concern must be entered in the assets side of the Balance Sheet. [2]
- (e) Abnormal costs are not recorded as part of production costs. [2]

**Answer:**

**(a) For:** Yes, vestibule training is better than on-the-job training, because:

1. This training method helps the trainees to overcome initial nervousness before working on the actual job. Trainees get accustomed to the work routine whereas, on-the-job training method gets difficult for the trainees because in the course of training, employees may cause damage to expensive equipments and rate of accidents may increase.
2. Vestibule training helps the trainees to get specialised in their skills under expert trainers and special instructors.

**(b) Against:** Skimming pricing policy is not ideal for introducing a product in the FMCG sector, because:

1. In FMCG sector, the goods are sold at a low price for quick sales, but in skimming pricing, the initial price of the goods are very high.
2. In FMCG sector, the aim is not to 'sell to classes' who don't care how much they pay for a novel product, but the price strategy, skimming pricing strategy follows this aim which is not ideal for any product to be introduced in FMCG sector.

**(c) Against:** Rather closing stock is valued at market price or at cost, whichever is less. This rule is based on the principle of conservatism which states that probable losses are taken into account, but not the probable gains. It is also necessary to be careful while valuing closing stock correctly. Otherwise gross profit, thus ascertained, would not be correct one.

**(d) For:** Yes, all membership fees collected by a non-trading concern should not be entered in the asset side of the Balance Sheet because:

1. This is an income reported in the income and expenditure account.
2. This is a revenue income but not a capital income.

**(e) For:** Yes, abnormal costs are not recorded as a part of production costs, because:

1. It is cost which is not normally incurred at a given level of output in the conditions in which that level of output is normally attained.
2. Abnormal cost is charged to profit and loss account.

### **Section – B (60 Marks)**

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

#### **Question 5:**

- (a) What is meant by the term 'services'? Explain its main characteristics. [5]
- (b) Explain the role of branding in the Indian Industry. [5]
- (c) What is 'Cost Plus' Pricing Policy? State two advantages and two disadvantages of it. [5]

**Answer:**

(a) Service means an intangible act or performance that can satisfy some human need and can be offered for sale. Beauty parlour, dry cleaning, nursing home, courier firm, cinema theatre, auto repair shop all provide services. It can be classified into the following categories: (a) Financial services, (b) Insurance service, (c) Transport service, (d) Warehousing service, (e) Communication services, (f) Food and Lodging service, (g) Entertainment service, (h) Personal services, (i) Repair services.

The main characteristics of service are:

1. **Intangibility:** Services are intangible as they cannot be seen or touched. They have no physical shape. They are invisible.
2. **Perishability:** Services cannot be stored for future use. For example if a bus having 45 seats is carrying 35 passengers, the 10 vacant seats cannot be utilized in future.
3. **Inseparability:** Services are produced and consumed at the same time. The service cannot be separated from the service provider. For example, the driver and conductor of the bus have to be in the bus whenever the bus provides service to passengers.
4. **Variability:** Services can rarely be standardised or made uniform. For example, the quality of service which a waiter provides in a hotel or restaurant may differ from customer to customer or from one time period to another.

(b) Brand means any identification mark (such as trade name, mark, symbol, picture, design, colour etc) used to identify the product of a seller and to differentiate it from the products of competitors. A registered brand is known as a 'trademark'. Branding is the process of assigning a distinctive name to the product by which it is to be known and remembered. It is the process by which a product is branded.

Brand India is a phrase used to describe the campaign India is using to attract business. Basically the campaign is to project the attractiveness of India as an emerging destination for business in the fields of service sector, manufacturing, information technology, infrastructures, information technology etc. The campaign uses both India as a huge market for products and services as well as a lucrative destination for investment.

Branding helps consumers to identify and recognise the product. It is a means of differentiating the product from the competitor's product. It is a basis of advertising and other techniques of mass selling. Branding helps to minimise selling costs by reducing dependence on middlemen. It tends to widen the market as need for inspection and sample is eliminated.

Therefore, branding is very important in the Indian industry.

(c) The basic idea underlying this approach is that the selling price of a product must cover its full cost and yield a reasonable margin of profit. The margin may be a fixed amount per unit or a percentage of cost. The margin is known as 'Mark-up' and therefore, cost plus pricing is also known as 'mark up pricing'. The following formula is generally used to fix prices under this approach:

**Selling Price** = Total cost per unit + Desired profit per unit

**Advantages:**

1. Cost plus pricing ensures full coverage of costs and helps in achieving a reasonable return on capital employed.
2. The method is logical and can be defended on moral grounds. It discourages cut-throat competition in the market.

**Disadvantages:**

1. It is very often difficult to determine accurately the cost per unit due to common overheads and joint products. The method involves arbitrary allocation of costs in such areas.
2. The mark-up on the cost of the product is not fixed but may change with changes in demand. In practice, the rule of thumb methods are used to determine the mark-up.

**Question 6:**

(a) What does GAAP stand for? Explain 'Matching concept' of GAAP. [5]

(b) Explain the following: [5]

(i) Material costs.

(ii) Semi-fixed costs.

(c) Explain any five functions of the RBI in context with the Indian economy. [5]

**Answer:**

(a) GAAP stands for 'Generally Accepted Accounting Principles'. Accordingly, Accounting principles refer to the concepts, conventions, and standards which are widely accepted and adopted by accounting formation. According to Robert Anthony, "the rules and conventions of accounting are commonly referred to as principles".

Accounting is the language of business. In order to make this language precise, accounting authorities have developed certain basic rules. These man-made rules of accounting are called Generally Accepted Accounting Principles. The Principles are accepted and used by accountants all over the world so that financial statements become comparable and useful to the users.

**'Matching Concept' of GAAP:** Revenue must be ascertained first for a period and then the cost of that period should be charged to it. 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.

While matching, costs with revenues, the following points must be considered:

1. When an item of revenue is included in the profit and loss account, all expenses incurred on it whether paid or not, should be included in the profit

and loss account. Outstanding expenses are debited in the profit and loss account on this basis.

2. If an amount is spent, but revenue from it will be earned in the next year, the amount should be carried down as an asset and should be shown as an expense next year. Prepaid expenses, are shown as assets in the Balance Sheet on this basis.
3. Cost of goods remaining unsold at the end of the year together with expenses incurred on them must be carried forward to the next year. Therefore, closing stock is carried over to the next year as opening stock.
4. Incomes received in advances must be treated as a liability, while income earned but not received should be recognised as revenue.

**(b) (i) Material Costs:** The amount of money invested in the production of a product. The ingredients of a meal or the parts of a machine would be things that incur material costs. This cost is apart from the cost of labour to produce the product. The material cost together with the cost of labour helps determine the total cost of a product and its eventual sale price.

The manufacture of products or goods required material as the prime element. In general, these materials are divided into two categories. These categories are direct materials and indirect materials.

1. **Direct Material:** All materials which become an integral part of the finished product and which can be easily measured and directly charged to the product are called direct material.
2. **Indirect-Material:** Indirect materials are those materials which cannot be directly assigned to the specific product but which can be apportioned.

**(ii) Semi-fixed Costs:** Semi fixed costs are those costs which vary but not in direct proportion to changes in the volume of production. They are the combination of fixed and variable costs. In other words, semi fixed costs are partly variable and partly fixed. Such costs are neither perfectly fixed nor absolutely variable. The fixed component of such costs represents the cost of providing capacity and the variable component is carried by using the capacity. For example, the rent of a telephone is a fixed cost whereas the charges for calls made during a month are a variable cost.

**(c)** The five functions of the RBI in context with the Indian economy are:

1. **Issue of Currency Notes:** The central bank has monopoly over issuing currency notes in the country. In order to inspire public confidence in paper currency, the central bank keeps reserves of gold, silver, etc., for issuing currency notes.
2. **Banker to the Government:** The central bank acts as a banker, agent and advisor to the Government. As a banker, it receives and makes payments on behalf of the Government. The Central Bank serves as the Government's agent in financial matters. It advises the Government in matters relating to



monetary and banking policies. It manages the national debt and issue of Government securities. It also represents the Government in international conferences on monetary and banking matters.

3. **Banker's Bank:** The central bank acts as the bank for all commercial banks in the country. When a commercial bank needs funds it can obtain loans and rediscount its bills with the central bank. Commercial banks are required to keep a cash reserve with the central bank so as to control credit in the country. The central bank advises commercial banks on matters relating to their business.
4. **Lender of the last resort:** The central bank helps commercial banks in times of emergency. Sometimes, a large number of depositors want to withdraw their deposits from a commercial bank at the same time. Under such circumstances, the commercial bank will have to borrow from other banks. But the other banks, due to some difficulty, may not be able to help the bank in trouble. At this time, the central bank is the lender of the last resort. The Central Bank helps commercial banks either by granting loans or by buying their securities.
5. **Credit Control:** The central bank exercises both qualitative and quantitative control over credit granting capacity of commercial banks in order to maintain stability in prices and foreign exchange. In the absence of such control, commercial banks may lend too much or too little. They may lend to wrong parties or for unproductive purposes. They may also charge very high rates of interest.
6. **Custodian of Foreign Currency Reserves:** The central bank is the sole custodian of gold, foreign exchange and all other reserves judiciously so as to overcome difficulties in balance of payments and to stabilize the exchange rates.

#### Question 7:

- (a) Explain the compensation function of Human Resource Management. [5]
- (b) Explain 'Empathy' and 'Dialogue' as elements of Public Relations. [5]
- (c) Explain the two types of 'Employment Tests' conducted to select employees. [5]

#### Answer:

(a) Compensation management is more than just the means to attract and retain talented employees. In today's competitive labour market, organizations need to fully leverage their human capital to sustain a competitive position. This requires integrating employee processes, information and programs with organizational processes and strategies to achieve optimal organizational results. It consists of the following activities:

1. **Job Evaluation:** It is the process of determining the relative worth of a job.
2. **Wage and Salary Administration:** It implies developing and operating a suitable wage and salary programme. Surveys are conducted to determine wage and salary structure for various jobs in the organization.
3. **Bonus:** It involves payment of bonus under the payment of Bonus Act 1965, as well as non-statutory bonus and other incentives.

(b) Refer Ans. 6. (b), 2016.

(c) The two types of employment tests are:

(i) **Proficiency Tests:**

1. **Achievement Tests:** Achievement 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. The candidate is asked to perform the job and his actual test performance indicates his proficiency.
2. **Dexterity Tests:** These tests are designed to ascertain how swiftly and efficiently a candidate uses his hands, fingers, eyes and other parts of the body. These tests are useful for judging candidates for a job which requires use of different parts of the body in a coordinated manner.
3. **Intelligence Tests:** These tests measure a person's capacity for listening and comprehension in terms of his vocabulary, mental alertness, memory, reasoning etc. An applicant's intelligence quotient (IQ) can be judged through intelligence tests.

(ii) **Aptitude Tests:** Aptitude means an individual's potential for learning the skills required for a job. Aptitude tests measure a candidate's capacity and his potential for development.

1. **Personality Tests:** Personality tests are designed to judge the emotional balance, temperament and maturity of a candidate. They reveal the ability of an applicant to adjust to new situations and new persons. They are helpful for selecting persons for managerial jobs.
2. **Interest Tests:** These tests are aimed at assessing the type of work in which a candidate shows special interest and involvement. The type of jobs which will be satisfying to the employees can be identified with the help of interest tests.

**Question 8:**

(a) In order to exercise their rights, consumers must make correct choices and fulfil certain duties. Enumerate five such responsibilities. [5]

(b) With the help of examples, explain how consumption can be reduced by using the 5'R's. [5]

(c) Write short notes on the: [5]

(i) Business Entity Concept of Accounting.

(ii) Maturity stage of a 'Product Life Cycle'.

**Answer:**

(a) The five responsibilities of a consumer are:

1. The responsibility to be aware of the quality and safety of goods and services before purchasing.

2. The responsibility to gather all the information and facts available about a product or service as well as to keep abreast of changes and innovations in the market place.
3. The responsibility to complain and inform business and other consumers of dissatisfaction with a product or service in a fair and honest manner.
4. The responsibility to be an ethical consumer and to be fair by not engaging in dishonest practices which cost all consumers today.
5. The responsibility to speak, to inform manufacturers and governments of needs and wants.

**(b)** The waste hierarchy is a classification of waste management. The waste we create have to be carefully managed to minimize its effects on our personal health and the health of our planet. Here is a quick review of the 5R's of managing waste, inciting simple steps you can take:

1. **Reuse:** Reusing means getting the most out of things in their original form before you toss or recycle them. Reusing is a pretty simple once you get into the habit, like Waiting a shopping list or an opened envelope or the back of office paper rather than on a brand new sheet. Plastic bags can be reused several times before they are recycled.
2. **Recycle:** Recycling is the 'R' that has caught on the best. However recycling is not as easy as one would like or even available in some Montana location. Recycling, like using cans to make new cans, is better than throwing them into the landfill, but it still takes energy to collect, crush and remake them.
3. **Reject:** Rejecting is the one of the newer. Some people also call it precycling. In terms of smart waste management, this is the simple act of rejecting excessive or unnecessary packaging. You can reject—choose to not buy—foods, beverages, or other products in fancy, multilayer packaging that you will just have to throw into the trash as soon as you open them.
4. **Respond/React/Reward:** This R goes by several different names, but still they ail come down to one thing: letting manufacturers and businesses know what you think about their waste management. Using the grocery bag example, you would thank your grocery store manager for selling inexpensive cloth bags and/or providing a way to recycle plastic bags.
5. **Reduce:** Reducing means producing less waste so that you throw away less trash and garbage into landfills. It is the most effective way to manage waste. For example, bring your own bags, cloth or mesh bags, so you don't take either paper or plastic.

**(c) Business Entity Concept:** In accounting, we treat a business or an organisation and its owners are two separately identifiable parties. This concept is called business entity concept. It means that personal transactions of owners are treated separately from those of the business.

Business are organised either as a proprietorship, a partnership, or a company. They differ on the level of control the ultimate owners exercise on the business, but in all forms the

personal transactions and accounts of the business.

**Maturity stage of a 'Product Life Cycle':** After the introduction and growth stages, a product life cycle stages can be quite a challenging time for manufacturers. In the first two stages companies try to establish a market and then grow sales of their product to achieve as large a share of that market as possible. However, during the maturity stage, the primary focus for most companies will be maintaining their market share in the face of a number of different challenges.

#### **Challenges of the Maturity Stage:**

1. Sales Volume Peak.
2. Decreasing market Share.
3. Profits start to Decrease.

#### **Benefits:**

1. Continued Reduction in Costs.
2. Increased Market share through differentiation.

#### **Question 9:**

#### **Case Study**

Harish Sharma and Surendra Doshi have decided to start a Private Limited Company to carry out repairs and renovation of buildings. They call their company 'S D Renovators (P) Ltd. Company. For their investment in tools, equipments and office space they have decided to take a loan for 8 years. They also approach a bank to open an account in the name of the company.

They need a manager to oversee their operations efficiently. They place an advertisement in the newspaper for this purpose. They also need to hire a labour force for execution of repair work.

With reference to the above:

- (a) What type of account should be opened? Explain any four features of that Account. [5]
- (b) Explain any two external sources of recruitment that are required to hire labour. [5]
- (c) On receiving applications for the manager's post, describe the procedure to select the right candidate. [5]

#### **Answer:**

(a) The type of account should be opened is current A/c. Current A/c is one into which money may be deposited and out of which it may be drawn at any time. Current A/c is basically operated by the business houses.

#### **Features of Current A/c:**

1. Deposits in current account are payable on demand. Money from these deposits can be withdrawn by cheques without any restriction on the amount and number of withdrawals made.
2. Generally, banks do not provide interest on these accounts.
3. Overdraft facilities are available only on this type of account.
4. Banks provide various services to the current account holders, such as making payment through cheques, collection of cheque payments, issuing drafts on behalf of the account holders, etc. For providing these services, bank charged services charges.

(b) The two external sources of recruitment that are required to hire labour are:

1. **Gate Hiring:** Small firms make recruitment at the factory gate. Workers gather at the factory gate after reading the notice of vacancies. The suitable candidates are selected. This method is used to fill temporary and casual vacancies.
2. **Unsolicited Applicants:** Persons in search of employment visit offices of companies. They carry their resume and certificates. These persons may be considered if there is a vacancy. Unsolicited applicants are also known as casual callers.

(c) After receiving application for the manager's post, the procedure to select the right candidate is as follows:

1. **Preliminary Interview:** Preliminary interview is the first occasion when candidates come into the contact with the company's officials. The list of job-seekers are received by the receptionist or some other official who conducts a brief interview of the candidates to determine whether it is worthwhile for the candidate to fill up the application form. The candidates who are unfit for the job are rejected.
2. **Application form:** The candidates who succeed in preliminary interview are asked to fill in the prescribed application form. The application form provides a written record of the name, address, age, qualifications, work, experience etc. of a candidate.
3. **Employment Tests:** These tests are based on the assumption that work behaviour of a person can be practised by sampling it. Tests are more useful for identifying unsuitable candidates than for selecting appropriate candidates.
4. **Selection Interview:** Interview serves as a means of checking the information obtained through application form and tests. It also provides an opportunity to the candidate to get information about the job and the company.
5. **Checking References:** Candidates are generally required to give names and addresses of two or three persons from whom information about the candidate may be obtained. These persons are called 'references'.

6. **Medical Examination:** A physical examination of the candidates is necessary to ensure that they are physically fit for the job. Such an examination also helps to protect the employer against the risk of claims for compensation from individuals who already suffer from disabilities and disease.
7. **Final Approval:** The candidates who are short listed after medical examination are finally approved by the head of the department in which they are to work.. They are issued appointment letters and/or service agreements are made with them.

**Question 10:**

**Case Study**

Beauty Solutions Ltd., a reputed firm producing cosmetics chose the simplest channel of distribution. It opened its own retail shops throughout the country to sell a wide range of cosmetics and beauty products.

This channel of distribution has become very popular today as producers experience several benefits.

With reference to the above:

- (a) State the type of distribution channel used by Beauty Solutions Ltd. and explain why this channel has become increasingly popular? [5]
- (b) Discuss any three methods that can be used as channels of distribution other than retail outlets. [5]
- (c) Mention five factors that Beauty Solutions Ltd. must consider while deciding its channel of distribution. [5]

**Answer:**

(a) The type of distribution channel used by Beauty Solutions Ltd. is Direct Selling i.e., short-channel. Direct selling means the producer directly sells goods to ultimate consumers and there is no middleman or intermediary.

Short channel of distribution has become increasingly popular because this provides an easy base to the manufacturers to promote their goods to a large bunch of customers. This channel helps them to get direct contact with their customers through their address and telephones and through this they get a proper and an appropriate feedback. The maximization of profit also becomes possible because no other handling or transportation costs are included. Therefore, short channel distribution is good for the market-competition as well and helps the customers to find their perfect choice.

(b) The other three methods that can be used as channels of distribution other than retail outlets are:

1. **Door-to-Door Salespersons:** The producer employs sales force who approach customers at their residences/offices, book orders and deliver the goods. Sales

call is the original and the oldest form of direct marketing. Many companies such as Avon, Amway are also using this method.

2. **Tele marketing:** The product is heavily advertised on T.V. The customers who watch the advertisements and feel interested can place their orders by telephone, mail or fax. It has become a major direct marketing tool.
3. **Catalogue Selling:** In this method, the seller mails one or more product catalogues to selected persons who are likely to place an order. Direct mail is a popular medium because it permits high degree of selectivity.

(c) The five factors are:

1. **Perishability:** The cosmetics are of perishable nature, that is they get destroyed soon and cannot handle repeated handling. So for this, the Beauty Solution Ltd. should choose short channels i.e., selling channel of distribution.
2. **Bulk and Weight:** Beauty Solution Ltd. will choose short channel for distribution, because cosmetic goods are bulky and weighted because they are manufactured on large stock basis. This also minimized handling costs.
3. **Promotion:** Beauty Solutions Ltd. can promote its products well among the customers. With the short channel of distribution, promotion of cosmetics becomes easier.  
Maximizing the Profit: Short channel of distribution i.e., direct selling helps to maximize the profit by not including any expenses.
4. **Financial Resources:** A large and reputed firm like Beauty solution Ltd. with sufficient funds can established its own retail shops to sell directly to consumers. But a small or weak enterprise which cannot invest money in distribution has to depend on middlemen for marketing its product.