

# Commercial Studies

CISCE

Academic Year: 2023-2024

(English Medium)

Date & Time: 27th March 2024, 11:00 am

Duration: 2h

Marks: 100

1. Answers to this Paper must be written on the paper provided separately.
2. You will not be allowed to write during the first 15 minutes.
3. This time is to be spent reading the question paper.
4. The time given at the head of this Paper is the time allowed for writing the answers.
5. This Paper is divided into two Sections.
6. Attempt all questions from Section A and any four questions from Section B.
7. The intended marks for questions or parts of questions are given in brackets [ ]

## SECTION-A (40 MARKS) (Attempt all questions from this section)

Q1. Choose the correct answer to the questions from the given options. (Do not copy the questions. Write the correct answer only.)

1.1. Expenses incurred for construction of a building are classified as \_\_\_\_\_.

1. Revenue Expenditure
2. **Capital Expenditure**
3. Deferred Revenue Expenditure
4. Miscellaneous Expenditure

### Solution

Expenses incurred for construction of a building are classified as Capital Expenditure.

### Explanation:

Capital expenditure refers to an investment that has long-term benefits beyond the present year. Non-recurring expenditures lead to the acquisition of permanent assets.

1.2. Which warehouses are generally located in rural and suburban areas where space is available at low cost?

1. Public
2. Bonded
3. Cold Storage
4. Private

**Solution**

Cold Storage

**Explanation:**

Cold storage warehouses are typically placed in rural and suburban regions due to their large space requirements and low costs.

1.3. The module used for tracking of the stock of items in an organisation is \_\_\_\_\_.

1. Inventory module
2. Purchase module
3. Sales module
4. Finance module

**Solution**

The module used for tracking of the stock of items in an organisation is Inventory module.

**Explanation:**

The inventory module helps businesses and organisations easily track, manage and optimise inventory levels.

1.4. Closing stock appears in the Final Accounts in the \_\_\_\_\_.

1. Trading account only

2. Profit and Loss account and Balance Sheet
3. Balance Sheet only
4. **Trading account and Balance Sheet**

### **Solution**

Closing stock appears in the Final Accounts in the Trading account and Balance Sheet.

### **Explanation:**

The trade account calculates the cost of products sold, whereas the balance sheet presents it as a current asset, representing the value of unsold stock at the conclusion of the accounting period.

1.5. These posters are examples of:



1. Sales promotion
2. Marketing
3. Selling
4. **Social advertising**

### **Solution**

Social advertising

### **Explanation:**

The posters above are examples of social advertising, which uses advertising techniques to promote awareness about various social concerns and causes.

1.6. A social security scheme in which both employer and employee contribute 10% of the basic wages every month is \_\_\_\_\_.

1. Gratuity
2. Pension

### 3. Provident Fund

#### 4. Group Insurance

#### **Solution**

A social security scheme in which both employer and employee contribute 10% of the basic wages every month is Provident Fund.

#### **Explanation:**

Provident fund is a social security plan where both employers and employees contribute 10% of their basic earnings monthly. Employees can save a percentage of their monthly wage for future use, such as retirement or emergencies.

1.7. Which of these is an objective of Pricing?

#### 1. Profit maximization

2. Human Resource Management
3. Checking inventory
4. Fairs and exhibitions

#### **Solution**

Profit maximization

#### **Explanation:**

The primary goal of pricing is to maximise profitability by setting prices that cover costs and generate the highest possible profits within a given market.

1.8. Ramu is a labourer working in 'ABC Constructions'. His expectations from his company are:

1. Appreciation of Capital invested.
2. Timely payment of wages.
3. Timely payment of interest.
4. Safe working environment.

1. 1 and 4
2. 2 and 3

3. 3 and 4

4. 2 and 4

**Solution**

2 and 4

**Explanation:**

Ramu, as a labourer in the company, prioritises his own interests, including timely wage payments and a safe working environment for his well-being.

1.9. Rahim has given a loan of ₹ 5 lakhs to a fertilizer company. The company pays him interest regularly and the company has promised to return his amount after 5 years. Rahim has invested in \_\_\_\_\_.

1. Equity shares
2. Preference shares
3. **Debentures**
4. Ownership securities

**Solution**

Rahim has given a loan of ₹ 5 lakhs to a fertilizer company. The company pays him interest regularly and the company has promised to return his amount after 5 years. Rahim has invested in Debentures.

**Explanation:**

Rahim has invested in the debentures of the company, as his investment is considered a loan on which interest is paid at a fixed rate.

1.10. A budget is a statement that can be expressed:

1. in monetary units only
2. **both in monetary terms and physical units**
3. in physical units only
4. as an estimate of events only

**Solution**

both in monetary terms and physical units

**Explanation:**

A budget can be expressed in monetary or physical terms. This provides a thorough understanding of both the financial and operational sides of a plan.

1.11. Which sales promotion technique includes training in stores layout, product demonstration, advertising, etc.?

1. **Fairs and Exhibitions**

2. Prize Contests
3. Merchandising Aids
4. Trading Stamps

**Solution**

Fairs and Exhibitions

**Explanation:**

Fairs and exhibits provide sales promotion opportunities such as store layout training, product demonstrations, and advertising. They are beneficial for firms seeking market research and an immediate response from the public.

1.12. Under which right will Mr. Mohit get a compensation for a faulty product?

1. **Right to seek redressal**
2. Right to information
3. Right to consumer education
4. Right to choose

**Solution**

Right to seek redressal

**Explanation:**

Consumers have the right to seek redressal for damages caused by a product or service. This might include compensation by replacement, repair, or refund.

1.13. Faking accidents, faking death, concealing information for health care are examples of \_\_\_\_\_ fraud.

1. Insurance
2. False Accounting
3. Credit Card
4. Internet and Cyber

### Solution

Faking accidents, faking death, concealing information for health care are examples of Insurance fraud.

### Explanation:

Insurance fraud refers to criminal measures taken to defraud the insurance procedure. Examples of insurance fraud include inflating claims, faking accidents or deaths, and withholding details to obtain healthcare benefits.

1.14. A voluntary payment made by an employer to an employee who retires after long and dedicated services is \_\_\_\_\_.

1. Pension
2. Group insurance
3. Gratuity
4. Provident fund

### Solution

A voluntary payment made by an employer to an employee who retires after long and dedicated services is Gratuity.

### Explanation:

A gratuity is a payment provided by an employer to an employee upon retirement to show appreciation for their long and loyal service to the company.

1.15. Mr. 'P' has been selected for a mission to go to the moon. Before he goes into space he is trained to survive in 'Zero Gravity' Identity the training used.

1. Job rotation

2. Apprenticeship
3. Classroom
4. Vestibule

### **Solution**

Vestibule

### **Explanation:**

Vestibule training simulates real-world experiences for astronauts. This sort of training takes place in a simulated environment that closely resembles the job. Vestibule training is often known as "On-the-Job Training."

1.16. A firm manufactures defense equipment. In order to ensure that only authorized personnel enter the secured area they install a high-tech retina scanner:

What does the above portray?

1. E-advertising
2. E-security
3. E-commerce
4. E-marketing

### **Solution**

E-security

### **Explanation:**

E-security covers authentication methods such as passwords, biometrics, and multifactor authentication. The security measure employed to scan the retina is called E-security.

Q2.

2.1. Write any two differences between Marketing and Sales.

### **Solution**

S. No.	Basic of Distinction	Marketing	Selling
1.	<b>Meaning</b>	Identifying and Satisfying wants.	Exchanging goods for money.
2.	<b>Orientation</b>	Customer oriented, let the seller beware.	Production oriented, let the buyer beware.

2.2. Write any two differences between Internal stakeholders and External stakeholders.

Distinguish between internal and external stakeholders.

### Solution

Basis of Distinction	Internal Stakeholders	External Stakeholders
<b>Position</b>	They operate from inside the organisation.	They operate from outside the organisation.
<b>Role</b>	They actively participate in the management and work of the organisation.	They do not participate actively in the management and work of the organisation.
<b>Constituents</b>	They consist of employers (owners and managers) and employees.	They consist of suppliers, customers, competitors, the government and the general public.

2.3. Write any two differences between Shares and Debentures.

### Solution

Point of Distinction	Shares	Debentures
<b>Nature</b>	Part of capital owned funds.	Debt or loan, borrowed funds.
<b>Status of holders</b>	Owners	Creditors
<b>Right to return</b>	Dividends cannot be claimed as a matter of right.	Interest can be claimed as a matter of right.
<b>Security</b>	No charge on assets.	Generally, a charge on assets.

<b>Voting rights</b>	Full voting rights.	No voting rights.
<b>Redemption</b>	Not repayable during lifetime of a company (except redeemable preference shares).	Generally repayable after a specified period.
<b>Order of repayment</b>	After all claims of creditors are settled.	Prior to all types of shareholders.
<b>Frequency of return</b>	Uncertain and fluctuating depending on profits.	Absolutely certain or fixed irrespective of profits.
<b>Risk to holders</b>	Complete risk borne by holders.	Minimum risk in case of secured debentures.

2.4. Write any two differences between Recruitment and Selection.

**Solution**

<b>Points of Difference</b>	<b>Recruitment</b>	<b>Selection</b>
<b>Meaning</b>	Searching prospective employees and stimulating them to apply for jobs.	Choosing the candidates having necessary qualifications.
<b>Nature</b>	Positive process.	Negative process.
<b>Aim</b>	To create a large pool of candidates.	To eliminate all unsuitable candidates.
<b>Process</b>	Simple as candidates are not required to cross many hurdles.	Complex as the candidates are required to cross several hurdles.
<b>Number</b>	No restriction upon the number of candidates.	Only a limited number of candidates are selected.
<b>Order</b>	It is done prior to selection.	It is made only after recruitment.

Q3.

3.1. What are Preference Shares?

**Solution**

Preference shares are a type of share that combine the features of both equity shares and debentures bonds.

Some key characteristics of preference shares are:

1. Preference shares receive priority dividend payments.
2. They are given dividends at a defined rate from profits. Priority in repayment upon liquidation of the company.
3. Preference shares might be convertible, nonconvertible, redeemable, or nonredeemable.
4. Preference shares are regarded an investment option by cautioned investors due to their minimal risk.

3.2. What is Cash Credit?

**Solution**

Banks offer cash credit, a short-term loan against current assets like bonds, stocks, and shares. For cash credit, the bank opens a second current account in the borrower's name, allowing them to withdraw the borrowed money as needed. The bank only charges interest on the amount withdrawn, not the whole amount sanctioned.

3.3. What is a Central Bank?

**Solution**

The central bank is a country's leading banking organisation. The central bank is responsible for creating and implementing monetary policy, as well as regulating the financial sector.

1. The central bank is solely responsible for currency issuance.
2. It also provides banking services to both government and commercial banks.

3. It regulates and supervises all other financial institutions in the country. The central bank promotes economic growth and financial stability, ensuring the general health of the economy.

#### 3.4. What is Fire Insurance?

##### **Solution**

Fire insurance is a written contract that indemnifies the insured (property owner) against loss or damage caused by an unintentional fire in exchange for a premium payment. A fire insurance policy is typically for a year. Fire insurance coverage covers damage to buildings and structures caused by fires. It covers residential dwellings, factories, and personal belongings inside insured property. It also covers damage from smoke, lighting, and explosions.

#### Q4.

##### 4.1. What is a Master Budget?

##### **Solution**

A master budget includes all lower-level budgets created by a company's many functional units. The financial strategy directs decision-making by connecting financial goals with operational plans. The document covers specific budgets for numerous departments and functions, including sales, production, marketing, and finance. It provides a holistic perspective of the company's financial performance and helps management monitor progress and make educated strategic decisions to ensure the achievement of organisational goals.

##### 4.2. What is a Capital Market?

##### **Solution**

The capital market is a financial market for trading long-term financial securities. This market allows people, corporations, and governments to buy and sell long-term securities like shares, debentures, and bonds. This market enables enterprises to raise long-term capital for various growth operations. Capital markets are governed by their separate financial regulators, such as SEBI (Securities Exchange Board of India). Capital markets provide effective allocations of financial resources, promoting economic progress.

##### 4.3. What is Variable cost?

### **Solution**

Variable costs are those borne by a corporation that fluctuate with output levels. These costs climb with increased production and decline with decreased production.

4.5. Give one example of Variable cost.

### **Solution**

Examples of variable costs are:

1. Raw Material: It is a significant factor in production activity. As the unit of production increases, so does the need for raw materials.
2. Labour cost: Labour wages are calculated based on the number of hours worked or units produced. As output increases, the company's labour costs will rise.

4.6. What are Campus Interviews?

### **Solution**

Campus recruitment is very convenient and inexpensive. The employer gets help from the educational institute's placement cell in recruitment and selection. Well-educated people become available very quickly without any advertisements. The educational institution gains because its students get jobs even before they leave the institution. That is why campus recruitment has become very popular, particularly in cases where prior job experience is not required.

## **SECTION-B (40 MARKS) (Attempt any four questions from this Section)**

Q5.

5.1. Explain in brief any five objectives of Marketing.

### **Solution**

Marketing is the process by which manufacturers make goods available to consumers. It involves the transfer of goods and services from producers to consumers for value.

The five objectives of marketing are:

1. Customer satisfaction: Marketing aims to meet client needs by generating and delivering desired products or services at the appropriate time and price.

Marketing efforts aim to understand client wants and preferences and produce goods or services accordingly.

2. **Profitability:** A business, as an economic institution, seeks to generate profits. Marketing allows a business to generate demand and capture a respectable piece of the market. It also helps to build and market the enterprise's reputation. Thus, it contributes to the firm's profitability.
3. **Creating brand awareness:** Marketing also seeks to establish a brand and raise public awareness about it. So that buyers become familiar with the product.
4. **Coordination and integration:** Marketing seeks to achieve effective coordination and integration of product, price, marketing, and distribution. It must also provide coordination between marketing and business activities, as customers can only be satisfied through the collaborative efforts of all divisions within an organisation.
5. **Standard of living:** Marketing strives to improve people's living standards by
  - a. offering a wide range of products and services,
  - b. introducing new and higher-quality products, and
  - c. creating more job possibilities.

5.2. (a) Write short note on Life insurance.

### **Solution**

Life insurance is a contract between the insured and the insurer. The insurer agrees to pay a specific sum of money in exchange for a premium, either upon the insured's death or after a set period of time. Life insurance protects individuals and their families in the case of death or disability. There are various types of life insurance policies, including term, whole life, universal, and variable. Life insurance helps individuals plan for the future and safeguard their loved ones from financial troubles, ensuring expenses are paid even in their absence.

5.2. (b) Write a short note on NEFT.

### **Solution**

NEFT (National Electronic Fund Transfer) is a system that allows individuals, firms, and companies to transfer payments electronically between bank branches throughout the country. NEFT transactions are settled in batches. NEFT transactions

occur 7 times per day on weekdays (8 am to 7 pm) and 6 times per day on Saturdays (8 am to 1 pm).

Some key features of NEFT are as follows:

1. A bank branch must be NEFT enabled to become a part of the NEFT funds transfer network.
2. An individual, firm or company can make use of NEFT even without having a bank account by depositing cash at a NEFT enabled bank branch.
3. In order to receive funds through the NEFT system, an individual, firm, or company must have an account with a NEFT enabled bank branch.
4. If one does not have a bank account, the maximum amount that can be transferred through NEFT system is 49999.
5. There is no minimum amount that can be transferred through NEFT when one has a bank account, but the maximum is ₹ 10,00,000 under retail Internet banking.
6. NEFT transactions take place in batches.
7. NEFT cannot be used to receive foreign remittances.
8. The sender of funds has to pay some charges for NEFT.
9. The receiver of funds has to pay no charges.

Q6.

6.1. (a) What are Industrial Relations?

What is meant by Industrial Relations?

What do you mean by industrial relations?

### **Solution**

1. Industrial relations are the connection between employers, employees, and their representatives in an industrial setting.
2. According to Professor Dunlop, "Industrial relations are the complex interrelations among managers workers and agencies of the government." Employment relations cover negotiation, conflict resolution, and regulation of working conditions.

6.1. (b) State any three objectives of Industrial Relations.

Give two objectives of industrial relations.

Mention two objectives of industrial relations.

Explain the characteristics of industrial relations.

Explain the objectives of industrial relations.

Explain any five objectives of industrial relations.

### **Solution 1**

Three objectives of industrial relations are as follows:

1. Promoting Industrial Peace: The fundamental goal is to maintain and where necessary, restore industrial harmony. The goal is to minimise industrial conflicts, such as strikes or lockouts, and instead resolve problems by peaceful measures like negotiation and arbitration.
2. Improving Economic Performance: Effective industrial relations improve an enterprise's economic efficiency by reducing non-productive time and disruptions from labour conflicts. They also build a stable work environment that promotes productivity.
3. Securing Fair Wages: Fair and equitable remuneration for employees is a crucial goal. Collective bargaining and negotiation are used to ensure a living wage, market conditions, and industrial profitability.

### **Solution 2**

The main objectives of industrial relations are as follows.

1. Developing and maintaining harmonious relations between management and labour is essential for higher productivity of labour and industrial progress in the country.
2. To safeguard the interests of labour as well as management by securing the highest level of mutual understanding and goodwill between all sections of industry.
3. Establish and maintain industrial democracy based on the participation of labour in the management and gains of industry so that the personality of every individual is fully recognised and developed.

4. To avoid all forms of industrial conflict to ensure industrial peace by providing workers better working and living standards.
5. To raise productivity in an era of full employment by reducing the tendency of higher labour turnover and absenteeism.
6. To bring about Government control over such industrial units which are running at losses for protecting employment or where production needs to be regulated in public interest.
7. To ensure a healthy and balanced social order through recognition of human rights in industry and adaptation of complex social relationships to the advancements in technology.

6.2. (a) Write short note on Central Pollution Control Board (CPCB)

### **Solution**

Established under the Ministry of Environment, forests and Climate Change in September 1974, Central Pollution Control Board is a legislative body. It is in charge of organising nation-wide pollution control and environmental protection projects. For pollution control in India, it is the apex regulating body.

Some key functions of CPCB are:

1. It develops rules and policies for pollution control and applies several laws and regulations concerning environmental protection. By means of data on air quality, water quality, etc., it tracks and evaluates environmental quality.
2. It establishes norms and rules for emissions, pollutants, etc. in terms of materials.
3. Lays policies and instructions for pollution control initiatives.

Overall, CPCB plays an important role in safeguarding the environment and public health and fostering environmental governance in India.

6.2. (b) Write short note on Equity shares.

### **Solution**

Equity shares are firm ownership expressed differently. They comprise the company's owner's fund or capital. Equity shares are those that do not have any special or preferential privileges in the payment of yearly dividends or capital repayment.

Some key points highlighting the characteristics of equity shares are as follows:

1. The company grants voter rights to holders. The holders help the business make decisions. As their return on investment, they receive dividends out of profits.
2. The dividend rate is not set-forth. High dividend in case of big gains and none in case of loss.
3. They still retain residual interests on corporate liquidation.
4. They help to share firm residual earnings.

All things considered; Equity shares constitute a kind of long-term corporate ownership-based investment. Given their great risk profile as well, there is a well-known adage regarding equity owners: "They sink and swim with the company".

**Q7.**

7.1. (a) Explain in brief two merits of Water transport.

State the merits of water transport.

**Solution**

1. **Low cost:** Water transport is the cheapest and oldest mode of transport. Rivers and oceans are natural tracks, and no capital investment is required for construction and maintenance. The cost of fuel is low due to the force of the water and the smooth surface of the sea.
2. **Large capacity:** A ship has a large carrying capacity and, therefore, water transport is highly suitable for heavy cargo. Bulky and heavy goods like coal, iron ore, timber, etc., can be carried over long distances. Economies of scale can be secured.
3. **Suitability:** In water transport, fragile goods like glassware can be carried without much risk of damage because of the natural flow and slow speed. There is not much shaking or jolting.
4. **Less congestion:** Due to the greater capacity for traffic on the sea, the possibility of traffic congestion is comparatively less.
5. **Flexibility:** water transport can be adjusted to meet individual requirements, and therefore, it provides flexible service.

6. Safety: The risks of accidents and breakdowns in water transport are comparatively less. However, goods are exposed to the 'perils of the sea'.
7. Indispensable for trade: Overseas shipping is essential to foreign trade. Railways and motor vehicles cannot carry goods from one continent to another. Shipping serves as the 'unifier of the world' by bringing different countries closer.

7.1. (b) Explain in brief three demerits of Water transport.

State two disadvantages of water transport.

State the demerits of water transport.

### Solution

1. Slow speed: Water transport is relatively slow. The speed of vessels is limited; therefore, water transport is unsuitable for goods requiring quick delivery over short distances.
2. Limited area of operation: Water transport provide services to limited areas. Goods have to be brought to the ports and special packing is necessary. Services are available only between the terminal points.
3. Unreliable: Water transport is unreliable. Waterways may not be navigable due to several reasons. During winter, rivers and canals may get frozen and during summer water may not be sufficiently deep. Water transport has a seasonal character.
4. Round about: The distance between places increases because the routes followed by water transport may be quite circuitous.
5. Corrosion: Sea water is corrosive. Goods may deteriorate during transit and their quality and flavour may be adversely affected. Water transport is not suitable for carrying perishable goods as its speed is low.
6. Sea perils: Perils of the sea involve considerable risk of loss during transportation. There is also risk of pilferage of cargo in the absence of proper packing.

7.2. 'Rita' was using a plastic card to withdraw money from a machine set up outside the bank.

- a. Identify the card.

b. Write any four precautions that must be taken while using such a card.

### **Solution**

a. The card used by Rita is Debit Card.

b. Four precautions that must be taken while using such a card are as follows:

1. Memorise your Personal Identification Number (PIN) of card and do not use guessable PINs.
2. Do not share your card or PIN with others.
3. Shield the keypad while entering PIN at ATMs.
4. Report lost or stolen cards or unauthorised transactions on your account to the concerned bank on an immediate basis.

Q8.

8.1. (a) What is an Advertising Agency?

### **Solution**

An advertising agency, sometimes called an ad agency or creative agency, is a company involved in the task/work of designing, planning, running, and supervising advertising campaigns on behalf of its clients. The businesses pay these ad agencies for marketing, branding, and promotional campaigns.

For creative and developmental purposes, these advertising firms staff graphic designers, art directors, etc., as creative experts. These companies also assist customers in choosing the most efficient media outlets, including print, digital media, television, radio, etc.

8.1. (b) Explain any two functions of Advertising agency.

Describe any two functions of the Advertising Agency.

Discuss five functions of an advertising agency.

### **Solution**

The following are the functions of Advertising Agency:

1. **Planning:** The advertising agency plans the advertising campaign. A client firm delegates the responsibility of advertising planning and execution to the agency. The agency must have a fair knowledge of the firm's products, its

history, the present market conditions, distribution methods, price level and other conditions. A successful advertising programme is built on the basis of these data.

2. **Creation and Execution:** Specific advertisements are created. The advertising copy is written; the layout is prepared; illustrations are drawn; photographs are finalised; and a correct mechanical form for running it in the selected media is produced. The advertising agency prepares a suitable advertising copy for insertion in all the media.
3. **Co-ordination:** The advertising agency co-ordinates several activities. It often works with the client's sales force and distribution network to ensure the long-run success of the advertising programme. The combined efforts of salespeople, distributors, and retailers ensure maximum sales. Ideas, media, copy, and decisions are co-ordinated properly to project and implement the advertising programme.
4. **Accounting:** The advertising agency maintains proper accounts in cooperation with the client. The account executives see to it that the agency keeps to the stated plan. The accountant is in charge of the administration of the advertising programme on the agency side. The accountant resolves a misunderstanding that might have arisen between the agency and the client. The amount of fees received from the client and the payment of taxes, bills and other charges are accounted for by the accountant.
5. **Media Planning:** The advertising agency selects the media or a set of suitable media for the client to reach the right type of audience, which is an important factor in media selection. Rates, circulation, population, audience, income, and other important information are collected for this purpose.
6. **Research:** Research is a key function in an advertising campaign. The decisions on creativity and media selection are taken on the findings uncovered for research. Research makes every decision systematic and logical, based as it is on facts and figures.
7. **Internal Control:** The advertising agency manages its employees, finances and other resources effectively and economically. It conducts the business behind the scenes and exercises proper control over activities and funds. Public relations, sales promotion functions and client contacts are maintained by the management for the effective operations of the advertising agency.

8.2. State any two expectations of the Government from a business concern.

### **Solution**

The expectations of the Government from a business concern are:

- i. To follow the laws and regulations of the country.
- ii. To pay all taxes honestly, regularly and in time.
- iii. To avoid corrupting public servants.
- iv. To make proper use of scarce resources of the nation.
- v. To assist in solving national problems like poverty, unemployment, unbalanced regional growth, etc.
- vi. To avoid monopoly and concentration of economic power.

Q9.

9.1. (a) What is Consumer Exploitation?

### **Solution**

Consumer exploitation is the use of unethical or unfair methods by different companies to profitably take advantage of their consumers. Lack of understanding, lack of negotiating force or weakness causes consumers to be exploited.

9.1. (b) Mention any three ways in which consumers are exploited.

### **Solution**

Three ways in which consumers are exploited are:

1. Adulteration: Adulterating is the mixing of low quality goods with premium products and marketing them for the price of the premium products in order to maximise earnings.
2. Deceptive advertising: Many times, companies use misleading or false advertising to highlight the advantages of their products or cover the negative impacts. For instance, Vimal Panmasala's advertisement does not either emphasises or dismiss the adverse effects of chewing panmasala or tobacco.
3. Monopolistic Practices: Many companies are working to have monopoly on the goods they offer. Monopolists thus charge more for the goods they sell, so abusing the weak consumer.

9.2. (a) Explain in brief two merits of Advertising.

### **Solution**

1. Builds Brand Awareness and Recognition: Advertising enables companies to raise consumer knowledge of a brand, good, or service so, facilitating their recognition of the product.
2. Increased Sales and Revenue: By drawing in new business and motivating current clients to return for repeated purchases, advertising can help to raise sales and income.

9.2. (b) State any two demerits of advertising.

Explain in brief three demerits of Advertising.

Give two limitations of advertising.

### **Solution**

The demerits of advertising are as follows:

1. Higher Price: It is argued that large amounts spent on advertising increase the cost of distribution, which is transferred to customers in the form of higher prices. This objection may be valid in case of inelastic demand, when advertising merely transfers demand from one producer to another. However, effective advertising often creates demand and increases the scale of production. Large-scale operations result in lower costs and lower prices.
2. Wasteful Consumption: Advertising multiplies people's needs and encourages unhealthy consumption. By exploiting human sentiments, it persuades people to buy products they do not need or cannot afford. Advertising promotes artificial living and extravagance and creates demand for trivial goods. Modern society has become a society of Chocolate, Campa Cola, and Lollipops instead of natural and wholesome food largely because of advertising.
3. Misleads the Consumer: It is said that advertising is often deceptive and misrepresents facts to the consumer. Exaggerated or tall claims and flowery language are used to dupe unwary consumers. They are induced or defrauded through bogus testimonials and false comparisons to buy goods of doubtful value. There is no denying the fact that some firms indulge in false and

misleading advertising and that their unscrupulous use of advertising destroys public confidence in advertising.

4. **Creates Monopoly:** Advertising creates brand preferences and restricts free competition. Large firms that can afford to spend a huge amount of money on advertising eliminate small firms by creating brand monopolies. Advertising thus encourages the survival of the mightiest rather than the best. But advertising creates only a temporary brand monopoly, as after some time, other brands offer competition.
5. **Wastage of National Resources:** In order to make use of advertising, producers create trivial differences in their products. Valuable resources that can be used to create new industries are wasted in the production of needless varieties and designs. Vance Packard, in his book 'The Waste Makers', gives several interesting examples of how producers in America coax consumers to replace their cars, radios, etc., much before their useful life comes to an end.
6. **Undermines Social Values:** Modern advertising exerts such a corrupting influence on cultural and social life that it is not only wasteful but immoral. Despite its limitations, advertising is an essential marketing function in modern business. If advertising were wasteful and unnecessary, it would have been discarded long ago. It becomes wasteful and objectionable only when it is used dishonestly for antisocial ends. In fact, advertising is the cheapest selling tool, and its abolition will require the use of more expensive selling techniques.

**Q10.** Given below is the Trial Balance of M/s. Krishna & Sons Pvt. Ltd. as on 31st March, 2023. Prepare a Trading and Profit and Loss account for the year ending 31st March, 2023 and a Balance Sheet as on the same date.

Trial Balance of M/s. Krishna & Sons Pvt Ltd. as on 31st March 2023.

Particulars	Dr.	Cr.
Capital	-	50,000
Drawings	1,000	-
Debtors and Creditors	25,000	15,000
Loan	-	20,000
Discounts	4,750	300

Purchases and Sales	90,000	1,72,000
Land and Buildings	88,000	-
Salaries	33,000	-
Cash in hand	2,700	-
Stock as on 01-04-2022	28,000	-
Commission Received	-	18,550
Sales Return and Purchase Return	750	550
Carriage inward	1,200	-
Bills receivable and Bills payable	7,500	5,500
<b>Total</b>	<b>2,81,900</b>	<b>2,81,900</b>

Closing Stock was valued at ₹ 25,000