CLASS 10 COMMERCIAL STUDIES CH-1

STAKEHOLDERS IN COMMERCIL ORGANISATION

MCQs

1. The term 'Stakeholder' is derived from the word 'Stake', which specifically refers to:

(a) A share in the company's equity capital

(b) An interest or an expected benefit in an organisation

(c) A legal contract between a buyer and a seller

(d) The total assets owned by a business enterprise

2. Which group of stakeholders provides the "mental and physical efforts" required for the successful working of an enterprise?

(a) Employers

(b) Employees

(c) Suppliers

(d) Shareholders

3. External stakeholders are defined as those who:

(a) Are involved in the business from within the organisation

(b) Contribute to the business enterprise from outside the organisation

(c) Own shares in a joint stock company

(d) Participate in the daily management of the firm

4. Identify the correct statement regarding the relationship between stakeholders and shareholders:

(a) Shareholders and stakeholders are synonymous terms

(b) Stakeholders is a much wider term than shareholders

(c) Only joint stock companies have stakeholders

(d) Shareholders do not assume any risk of loss

5. Assertion (A): A commercial organisation must seriously consider the interests of its stakeholders.

Reason (R): If a business disregards stakeholder interests, they can combine to block or delay its operations.

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true but R is NOT the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

6. Assertion (A): Shareholders are considered internal stakeholders.

Reason (R): Shareholders invest money in the company by buying its shares and assume the risk of loss.

(a) Both A and R are true and R is the correct explanation of A.

(b) Both A and R are true but R is NOT the correct explanation of A.

(c) A is true but R is false.

(d) A is false but R is true.

7. Assertion (A): Creditors assume a lesser risk of loss compared to shareholders.

Reason (R): Creditors are members of the company and have voting rights.

(a) Both A and R are true and R is the correct explanation of A.

(b) A is true but R is false.

(c) A is false but R is true.

(d) Both A and R are false.

8. Match the Stakeholder with their primary expectation:

Stakeholder	**Primary Expectation**
1. Employees	P. Fair and regular return (Dividends)
2. Shareholders	Q. Regular and timely payment for supplies
3. Suppliers	R. Security of job and fair remuneration

(a) 1-R, 2-P, 3-Q

(b) 1-P, 2-Q, 3-R

(c) 1-Q, 2-R, 3-P

(d) 1-R, 2-Q, 3-P

9. Match the Stakeholder with their classification:

Stakeholder	**Classification**
1. Board of Directors	X. External Stakeholder
2. Local Community	Y. Internal Stakeholder

3. Competitors Z. External Stakeholder

(a) 1-Y, 2-X, 3-Z

(b) 1-X, 2-Y, 3-Z

(c) 1-Y, 2-Z, 3-X

(d) 1-Z, 2-X, 3-Y

10. A bank provides a loan to a distressed business to help it survive. In this scenario, the bank is acting as:

(a) A customer providing revenue

(b) A stakeholder providing necessary support in times of distress

(c) An internal stakeholder managing the firm

(d) A competitor ensuring healthy market behavior

11. Which of the following is an expectation of the Government from a commercial organisation?

(a) To provide housing and medical care to the public

(b) To pay all taxes honestly, regularly, and in time

(c) To ensure high dividends for all shareholders

(d) To provide regular orders for raw materials

12. If a company produces "socially desirable products" and "helps weaker sections of society," it is fulfilling the expectations of:

(a) Creditors

(b) Associates

(c) General Public / Society

(d) Shareholders

13. Which characteristic distinguishes a "Creditor" from a "Supplier"?

(a) Suppliers provide raw materials; Creditors provide loans/money

(b) Creditors buy finished goods; Suppliers provide labor

(c) Suppliers are internal; Creditors are external

(d) Creditors share in profits; Suppliers do not

14. "Protecting the environment from all types of pollution" is a key expectation of:

(a) The Government

(b) Shareholders

(c) Society / General Public

(d) Suppliers

Case Study 1: The New Factory Project

Scenario: Radhika, the CEO of "Eco-Tech Solutions," is planning to build a new manufacturing unit in a rural area. While the project will create jobs, a local environmental group is concerned about potential water pollution, and the local government is reviewing the company's compliance with land-use regulations.

Questions (1+2 marks):

1. Identify one **internal stakeholder** mentioned or implied in this scenario. (1 Mark)
2. State two expectations the "Government" would have from Radhika's company regarding this new unit. (2 Marks)

Case Study 2: The Financial Crisis

Scenario: "Alpha Textiles" is facing a severe financial crisis due to a sudden drop in market demand. During this period of distress, the company's primary bank agrees to restructure its loans, while the employees agree to a temporary wage freeze to help the firm survive.

Questions (1+2+2):

1. Identify the stakeholder providing "finance" as a resource in this scenario. (1 Mark)
2. Distinguish between the **internal** and **external** stakeholders mentioned in this case. (2 Marks)
3. What is the primary expectation of a "Creditor" (like the bank) during such a crisis? (2 Marks)

Case Study 3: The Supplier-Business Bond

Scenario: Atif is a regular supplier of raw cotton to "Aman Group." He ensures that the cotton is of the highest quality and delivered on time. In return, he relies on Aman Group for regular orders to keep his own processing unit running.

Questions (1+2+2):

1. Define the role of a "Supplier" as a stakeholder. (1 Mark)
2. State two expectations Atif would have from the Aman Group. (2 Marks)
3. If Aman Group disregards Atif's expectations, what "negative impact" could Atif have on the company? (2 Marks)

CHAPTER 2 MARKETING AND SALES CLASS -10

Section 1: Statement-Based & Conceptual MCQs

1. A brand of bathing soap is marketed by promising "radiant and glowing skin" rather than just highlighting its chemical composition. This approach targets which aspect of a product?

(A) Tangible attributes only
(B) Physical characteristics
(C) Psychological aspects and bundle of benefits
(D) Storage utility

(C) Psychological aspects and bundle of benefits

- *Explanation:* Promoting benefits like "radiant skin" targets consumer emotions and total value rather than basic ingredients.

2. In the modern concept of marketing, the process is said to be "customer-oriented" because:

(A) It begins after the production cycle is complete.
(B) It starts and ends with the consumer's needs and satisfaction.
(C) It focuses solely on the physical distribution of goods.
(D) It aims to maximize profit through high sales volume only.

(B) It starts and ends with the consumer's needs and satisfaction.

- *Explanation:* Modern marketing is customer-centric, starting with research into needs and ending with customer satisfaction.

3. Which of the following best describes the "Traditional Concept" of marketing?

(A) Sensing and stimulating consumer needs.
(B) Integrated marketing for long-term growth.
(C) A social process of exchanging value.
(D) Physical process of distributing goods and services after production.

(D) Physical process of distributing goods and services after production.

- *Explanation:* Traditional marketing focuses on pushing finished goods to buyers without prior consumer research.

4. A company reduces the price of its washing machines specifically to attract more buyers in a growing Indian market. Which pricing objective are they pursuing?

(A) Price Stability
(B) Profit Maximization
(C) Market Share
(D) Target Rate of Return

(C) Market Share

- *Explanation:* Lowering prices to capture more buyers in a growing market aims to expand market share.

5. "Market" in the modern sense refers to:

(A) A specific geographical location or building.
(B) A set of all actual and potential buyers of a product.
(C) Only the sellers who are producing goods.
(D) The physical transfer of titles at a trade center.

(B) A set of all actual and potential buyers of a product.

- *Explanation:* Modern marketing defines a market by its buyers rather than just a physical place.

Section 2: True or False Style MCQs

6. Statement: "Marketing is a narrow term that is a part of the selling process." Choose the correct evaluation:

(A) True, because selling is the final goal.
(B) False, because marketing is a wider term that includes selling.
(C) True, because marketing only involves advertising.
(D) False, because they are interchangeable terms.

(B) False, because marketing is a wider term that includes selling.

- *Explanation:* Selling is just one component of the broader marketing process.

7. Statement: "Services can be stored for future use just like physical products." Choose the correct evaluation:
(A) True, services are durable.
(B) False, services are perishable and cannot be stored.
(C) True, provided the service provider is present.
(D) False, services are tangible but not storable.
(B) False, services are perishable and cannot be stored.

- *Explanation:* Services cannot be stored for later use; they are consumed as they are produced.

Section 3: Assertion and Reasoning

8. Assertion (A): Marketing is considered an inter-disciplinary science.
Reason (R): It contains an organized body of knowledge borrowed from economics, psychology, and sociology.
(A) Both A and R are true, and R is the correct explanation of A.
(B) Both A and R are true, but R is not the correct explanation of A.
(C) A is true, but R is false.
(D) A is false, but R is true.
(A) Both A and R are true, and R is the correct explanation of A.

9. Assertion (A): Selling is internally oriented.
Reason (R): Selling seeks to achieve profits through customer satisfaction and long-term stability.
(A) Both A and R are true, and R is the correct explanation of A.
(B) Both A and R are true, but R is not the correct explanation of A.
(C) A is true, but R is false. (Selling seeks profit through sales volume).
(D) A is false, but R is true.
(C) A is true, but R is false.

10. Assertion (A): Pricing is a difficult function of marketing.
Reason (R): It must consider several intangible and interrelated factors, including market forces and government regulations.
(A) Both A and R are true, and R is the correct explanation of A.
(B) Both A and R are true, but R is not the correct explanation of A.
(C) A is true, but R is false.
(D) A is false, but R is true.
(A) Both A and R are true, and R is the correct explanation of A.

Section 4: Match the Following

11. Match the Utility with its Description:

Utility	Description
1. Time Utility	I. Carrying goods to where they are needed most
2. Place Utility	II. Transferring products from producer to customer
3. Possession Utility	III. Preserving goods for future use

(A) 1-III, 2-I, 3-II
(B) 1-I, 2-II, 3-III
(C) 1-II, 2-III, 3-I
(D) 1-III, 2-II, 3-I
(A) 1-III, 2-I, 3-II

12. Match the Marketing Objective with its Definition:

Objective	Definition
1. Goodwill	I. Persuading customers via advertising and sales promotion
2. Creation of Demand	II. Providing new and better quality products to people
3. Standard of Living	III. Building the reputation of the enterprise over time

(A) 1-I, 2-II, 3-III
(B) 1-III, 2-I, 3-II
(C) 1-II, 2-III, 3-I
(D) 1-III, 2-II, 3-I
(B) 1-III, 2-I, 3-II

Section 5: Competency & Case-Based MCQs

13. A patient notices that the quality of treatment at a metro hospital is different from a village clinic, even though both offer "medical services." Which characteristic of service does this highlight?
(A) Inseparability
(B) Intangibility
(C) Heterogeneity (Variability)
(D) Perishability
(C) Heterogeneity (Variability)
14. When you hire a taxi, you do not become the owner of the vehicle; you only pay for the use of the service. This distinguishes a service from a product based on:
(A) Ownership
(B) Tangibility
(C) Technology
(D) After-sale service
(A) Ownership
15. A big firm in an oligopolistic industry acts as a "price leader" to avoid price wars and ensure "live and let live" conditions. This is an example of:
(A) Profit Maximization
(B) Price Stability
(C) Target Rate of Return
(D) Market Share
(B) Price Stability
16. A firm decides to "Meet or Prevent Competition" by matching the prices of its rivals. What is a significant risk of this strategy in the long run?
(A) The firm will capture too much market share.
(B) The firm cannot survive if it charges less than the total cost of the product.
(C) Customers will stop buying the product.
(D) The government will always intervene to raise prices.
(B) The firm cannot survive if it charges less than the total cost of the product.
17. "Marketing begins before production and continues after the sale." This statement implies that:
(A) Marketing is only about market research.
(B) Marketing is a continuous, consumer-oriented process including after-sales service.
(C) Production is the most important part of marketing.
(D) Marketing ends once the ownership is transferred.
(B) Marketing is a continuous, consumer-oriented process including after-sales service.

Picture based questions:
1. Study the diagram showing various "Utilities" created by marketing:

Identify the specific utility labeled as "3" in the description above:
(A) Time Utility
(B) Place Utility
(C) Possession Utility
(D) Service Utility
(C) Possession Utility
Question 2
Observe the following image illustrating the "Modern Concept" of marketing:

Which characteristic of marketing does the "integration" of these departments represent?

(A) Marketing is a narrow process
(B) Marketing is an integrated process
(C) Marketing is a physical process
(D) Marketing is a traditional process

(B) Marketing is an integrated process

Question 3

Examine the "Objectives of Marketing" chart provided in the text:

A company introduces "after-sales service" to build its reputation over time. Which objective from the chart are they fulfilling?

(A) Creation of Demand
(B) Market Share
(C) Standard of Living
(D) Goodwill

(D) Goodwill

Question 4

Observe the image of a consumer buying a specific item:

Which definition of a "Product" does this scenario best illustrate?

(A) Product in a narrow sense (physical attributes only)
(B) Product as a set of only tangible attributes
(C) Product in a broad sense (bundle of benefits)
(D) Product as a purely chemical composition

(C) Product in a broad sense (bundle of benefits)

Question 5

Study the visual representation of "Services":

Why are the activities shown above classified as "Services" rather than "Products"?

(A) Because they are tangible and can be seen
(B) Because they can be stored for future use
(C) Because they are intangible and inseparable from the provider
(D) Because ownership is transferred to the buyer

(C) Because they are intangible and inseparable from the provider

Question 6

Observe the "Difference between Marketing and Selling" visual:

What does the weight difference in this image signify?

(A) Selling is more expensive than marketing
(B) Marketing is a wider term that includes selling as one of its parts
(C) Selling is more important for long-term growth
(D) Marketing only happens after the goods are produced

(B) Marketing is a wider term that includes selling as one of its parts

Competency-Based Questions: Marketing and Sales (ICSE Class 10)

Short Answer Questions (2 Marks Each)

1. A company produces high-quality organic honey but only starts its promotional activities after the jars are packed and stored. Identify this approach and one limitation.

Answer: This is the Traditional Concept of marketing. A major limitation is that it focuses merely on the physical process of distributing goods and ends with their sale, ignoring pre-production consumer research.

2. Why does "marketing begin before production," while "selling begins after"?

Answer: Marketing begins before production to identify customer wants through research. Selling only begins once goods are already produced and the focus shifts to exchanging them for cash.

3. Storing wood during monsoon for winter production creates what utility?

Answer: This creates **Time Utility**. It involves preserving goods or materials for use in the future when they are needed most

4. A firm matching competitors' prices follows which objective?

Answer: The objective is to **Meet or Prevent Competition**. This is often done to maintain the status quo within an industry or prevent new competitors from entering the market.

Competency Based Questions on Merits and Demerits of Advertising

1. A smartphone company spends millions on prime-time television commercials for its new model. According to the manufacturer's perspective, what is the primary benefit of this heavy expenditure?

A. To create brand loyalty and sustain demand in a competitive market
B. To reduce the distribution costs of the product
C. To lower the final price for the end consumer
D. To eliminate the need for personal selling entirely

Answer:A
Advertising helps manufacturers create a distinct brand image and maintain demand even in highly competitive markets.

2. A famous beverage brand uses 'greenwashing' by showing lush forests in ads, despite its factories causing pollution. Which demerit of advertising does this scenario highlight?

A. Creation of artificial needs
B. Multiplication of prices
C. Deceptive and misleading claims
D. Social waste of resources

Answer: C
Deceptive advertising occurs when a brand makes false or exaggerated claims about its environmental impact or product benefits to mislead consumers.

3. An elderly consumer reads a newspaper advertisement that explains the step-by-step process of using a new digital payment app. How is advertising serving the consumer here?

A. By increasing the price of the app
B. By encouraging impulsive buying behavior
C. By creating a monopoly for the app developer
D. By providing education and information on product usage

Answer:D
One of the merits of advertising for consumers is that it provides valuable information and educates them on how to use new and complex products.

4. Luxury Watch Brand X spends 30% of its budget on celebrity endorsements. As a result, the retail price of the watch is significantly higher than its manufacturing cost. This situation illustrates which demerit?

A. Added cost passed on to the consumer
B. Higher standard of living
C. Standardization of products
D. Wasteful competition

Answer:A
Advertising costs are often added to the total cost of production, leading to higher prices for the final consumer.

5. During a recession, a local news channel stays operational primarily because of the revenue generated from local businesses running ads. This reflects which merit of advertising to society?

A. Reduction in social inequalities

B. Promotion of harmful products
C. Support for the press and media outlets
D. Elimination of middleman margins

Answer:C
Advertising is a major source of revenue for newspapers, magazines, and TV channels, helping them remain financially viable.

6. A new startup introduces a biodegradable packaging solution. They use social media ads to reach environmentally conscious shoppers. How does this help the manufacturer?

A. It forces competitors to lower their prices
B. It ensures the product will never face competition
C. It helps in the quick introduction of a new product to the market
D. It guarantees that the product will be available in every retail shop

Answer:C
Advertising is essential for manufacturers to inform the public and generate interest when launching a new product.

7. A young professional feels pressured to buy the latest designer sneakers every month because of constant targeted ads, even though his current shoes are in good condition. This represents:

A. Improved standard of living
B. Customer satisfaction
C. Product differentiation
D. Creation of artificial needs

Answer:D
Advertising often uses psychological tactics to convince people they need things they do not actually require, leading to materialism.

8. Large-scale advertising for a detergent brand results in massive orders from across the country, allowing the factory to produce in huge quantities and reduce the cost per unit. This merit is known as:

A. Economies of scale through mass production
B. Elimination of competition
C. Direct selling to consumers
D. Price discrimination

Answer:A
By increasing demand, advertising enables mass production, which lowers the average cost of production per unit.

9. A tech giant buys up all the prime billboard spaces in a city, preventing smaller competitors from being seen. Critics argue this leads to:

A. Monopoly and restricted competition
B. Market transparency
C. Enhanced consumer choice
D. Lowering of advertising rates

Answer:A
Large firms with massive budgets can dominate the advertising space, making it difficult for small firms to survive, which can lead to a monopoly.

10. An advertisement for a health drink claims it can make a child 'smarter and taller' in one week without any scientific evidence. This is an ethical issue related to:

A. Informative advertising
B. Social responsibility
C. Competitive advertising
D. Misleading and unethical claims

Answer:D
Ads that make scientifically unproven or exaggerated claims are considered misleading and unethical.

11. Which of the following describes how advertising improves the standard of living for society?

A. By encouraging people to save more money
B. By making people aware of better and more modern products
C. By reducing the number of products available in the market
D. By increasing the tax burden on manufacturers

Answer:B
By introducing consumers to better quality and more efficient products, advertising helps upgrade their lifestyle and standard of living.

12. A consumer wants to buy a refrigerator but is confused by 15 different brands all claiming to be 'the best' in their ads. This scenario illustrates which demerit?

A. Consumer education
B. Product standardization
C. Consumer confusion and difficulty in choice
D. Quality assurance

Answer:C
Over-advertising by multiple brands with similar claims can confuse consumers rather than help them make a clear decision.

13. How does advertising provide 'Quality Assurance' to a consumer?

A. A brand that spends on ads is likely to maintain quality to protect its reputation
B. Advertised products are always the cheapest
C. The government inspects every advertised product
D. Ads are legal contracts of performance

Answer:A
Brands that advertise heavily usually try to maintain a certain quality standard because a bad product would lead to the loss of their expensive brand image.

14. A campaign for 'Save Water' is sponsored by a corporate house as a public service announcement. This is an example of:

A. Unethical marketing
B. Direct response advertising

C. Social advertising for public awareness
D. Deceptive advertising

Answer:C
Advertising can be used for social causes to educate the public on important issues like health, safety, and conservation.

15. A toy company uses aggressive advertising on children's cartoon channels, making kids demand expensive toys from their parents. Which demerit is most applicable?

A. Development of unhealthy consumption habits
B. Support for the media
C. Reduction in distribution costs
D. Improved product design

Answer:A
Aggressive advertising targeting children can lead to unhealthy demands and habits that might not be in the child's or parent's best interest.

16. When a firm advertises, it often bypasses wholesalers and sells directly to retailers or consumers because the brand is already well-known. This merit helps in:

A. Increasing the number of middlemen
B. Reducing the distribution chain and costs
C. Reducing the quality of the product
D. Increasing the workload of the manufacturer

Answer:B
Strong advertising can create direct demand, allowing manufacturers to simplify their distribution network and potentially save on middleman commissions.

17. A critic claims that the $500 spent on a single fashion ad could have been better used to improve the product's durability. This critic is pointing toward:

A. Product differentiation
B. Economies of scale
C. Monopoly power
D. Social waste of resources

Answer:D
The demerit of 'social waste' suggests that the money spent on competitive advertising often doesn't add value to the product itself.

18. Why is advertising considered a 'boon' for employment?

A. It requires people to buy more products
B. It creates jobs in agencies, media, and design sectors
C. It reduces the need for manual labor in factories
D. It encourages people to work longer hours to buy goods

Answer:B
The advertising industry itself employs thousands of professionals, including writers, artists, photographers, and market researchers.

19. A company changes its packaging every six months and runs new ads to make the old packaging seem 'outdated'. This is an example of:

A. Planned obsolescence and waste
B. Technological advancement
C. Market research
D. Consumer protection

Answer:A
Frequent changes promoted by advertising can lead to the disposal of perfectly good items, which is a waste of resources.

20. If a consumer sees an ad for a discount at a nearby store and goes there to save money, which merit is being exercised?

A. Standardization
B. Monopoly
C. Artificial need
D. Information and convenience

Answer:D
Advertising provides consumers with information about sales, discounts, and locations, making shopping more convenient and economical.

STD 10 COMMERCIAL STUDIES

CH 3 MARKETING & SALES

1. A pharmacy hands out tiny free bottles of a new cough medicine to doctors so they will try it and recommend it. What is this an example of?
   A) Advertising
   B) Publicity
   C) Sales Promotion
   D) Personal Selling

Answer: C) Sales Promotion

2. Which of these is true for Advertising, but NOT true for Publicity?
   A) It reaches a large group of people.
   B) It does not involve face-to-face contact.
   C) The name of the person or company paying for it is clearly known.
   D) It aims to build a good image for the company.

Answer: C) The name of the person or company paying for it is clearly known.

Explanation: In an ad, you always know who paid for it (the sponsor). In publicity (like a news story), there is no official paying sponsor shown.

3. In advertising, what does "Consumer Surplus" mean?
   A) The extra money a factory owner makes after running an ad campaign.
   B) The extra happiness a buyer gets when an ad helps them find a product that fits their needs.
   C) The extra unsold stock cleared during a holiday sale.
   D) The tax money collected by the government from ads.

Answer: B) The extra happiness a buyer gets when an ad helps them find a product that fits their needs.

Explanation: Ads help buyers learn about products. When buyers pick the product that suits them best, they get more satisfaction out of their money.

4. Which team in an advertising agency makes the physical ad (like print plates or video clips) and ensures it reaches the TV channel or newspaper on time?
   A) Client Services Team
   B) Market Research Team

C) Production Team

D) Finance Team

Answer: C) Production Team

Explanation: The Production team physically creates the ad (audio, video, or graphics) and manages the schedule ("traffic") so it releases on time.

Section II: Assertion & Reasoning Questions (1 Mark Each)

5. ***Assertion (A):*** *Advertising is considered a paid form of communication.*

Reason (R): The advertiser must pay for the space or time hired from the owner of the media.

Answer: A. Both A and R are true, and R is the correct explanation of A.

Reason: Advertising is called "paid" precisely because the firm pays media owners for ad space or airtime.

6. ***Assertion (A):*** *Sales promotion is a routine and recurring activity.*

Reason (R): It involves non-repetitive and one-time communication to increase immediate sales.

Answer: D. A is false, but R is true.

Reason: Sales promotion is **not** a routine/recurring daily activity; it consists of short-term, special, non-repetitive offers to boost immediate sales.

7. ***Assertion (A):*** *Advertising promotes a higher standard of living.*

Reason (R): It educates people about new products and provides information for developing better ways of life.

Answer: A) Both A and R are true, and R is the correct explanation of A.

Reason: By educating consumers about innovative items and health/convenience products, advertising helps raise living standards.

8. ***Assertion (A):*** *Advertising creates a brand monopoly that is permanent.*

Reason (R): Competitors eventually offer different brands to challenge the market leader.

Answer: D. A is false, but R is true.

Reason: Advertising cannot create a *permanent* monopoly because competing brands will always enter the market with their own campaigns.

9. ***Assertion (A):*** *An "In-house agency" is an independent organization.*

Reason (R): It is owned and operated by the advertiser himself.

Answer: D. A is false, but R is true.

Reason: An in-house agency is owned and operated directly by the business itself, meaning it is **not** an independent firm.

Section III: Case Study — "The Monsoon Beverage Shift" (5 Marks)

Case Study: "The Monsoon Beverage Shift" (5 Marks)

A coffee brand typically sees a 40% dip in sales during the summer. To counter this, the Marketing Manager launches a campaign titled "Chill with Coffee," showing various iced-coffee recipes. Simultaneously, they offer a "Buy 1 Family Pack, Get a Stirrer Free" deal at retail outlets.

Questions:

1. Identify the two different promotional methods used in this scenario and justify your answer. (2 Marks)

Advertising: Used in the "Chill with Coffee" campaign (showing iced coffee recipes to change customer habits).

Sales Promotion: Used in the "Buy 1 Family Pack, Get a Stirrer Free" deal (a short-term premium offer at retail outlets).

2. Explain which specific objective of advertising is being addressed by the "Chill with Coffee" campaign. (2 Marks)

Objective: Countering Seasonal Fluctuations / Creating Year-round Demand.

Explanation: Coffee is usually consumed in winter, leading to a 40% sales dip in summer. The campaign repositions coffee as a cool summer drink (iced coffee) to maintain demand throughout the year.

3. What type of sales promotion technique is the "free stirrer" offer? (1 Mark)

Answer: Product Combination / Premium (With-Pack Premium) Offer.

Section IV: Case Study — "The New Smartphone Launch" (5 Marks)

Tech-Giant "X" is launching its new AI-integrated phone. They hire a specialized firm to handle the launch. This firm conducts market research, creates the visuals, and chooses the best TV slots. To ensure people buy the phone on day one, "X" offers a ₹5,000 discount to anyone who brings in their old smartphone.

1. What is the specialized firm called? State any one function they are performing in this scenario. (2 Marks)
Name: Advertising Agency.
Function (Any one):
Marketing Research: Studying market trends before launch.
Creative/Visual Preparation: Creating visual designs and ad copy.
Media Selection: Choosing the best TV slots for broadcasting.
2. Identify and explain the specific sales promotion technique being used by Tech-Giant "X". (2 Marks)
Technique: Exchange Offer (Trade-In Allowance).
Explanation: Customers get an immediate discount (₹5,00,000 off) by handing in their old phone when buying a new one.
3. If the firm uses an "untruthful" claim that the phone can fly, which demerit of advertising does this represent? (1 Mark)
Answer: Deceptive / Misleading Advertising.
Section V: Short Statement Questions (2 Marks Each)
1. How does advertising provide "Incentive to Progress"?
- Advertising creates awareness about advanced, higher-quality products. This pushes competitors to innovate and improve their own products to survive in the market.

2. Distinguish between "Price-off premium" and "Extra quantity premium".
- **Price-off Premium:** Offering a direct cash discount off the printed retail price (e.g., ₹10 off on₹50 soap).
- **Extra Quantity Premium:** Offering more of the same product at no extra charge (e.g., "20% Extra Free" in a toothpaste tube).

3. Why is advertising said to "Sustain the Press"?
- Newspapers, magazines, TV, and radio receive the major share of their income from advertisers. This ad revenue subsidizes costs, making news accessible to the public at low prices.

4. What is the role of "Marketing Research" in an Advertising Agency?
- It gathers data on customer habits, competitor tactics, and market trends so the creative team can design effective, targeted ad campaigns.

5. Define "Social Advertising" in the context of public interest.
- Advertising designed to spread social awareness and drive positive public action (e.g., campaigns on anti-smoking, polio vaccination, or road safety) rather than sell a commercial product.

6. How does advertising create "Economies of Scale"?
- Advertising boosts mass demand. Higher demand leads to mass production, which lowers the fixed manufacturing cost per unit.

7. What is the "Accounting" function in an advertising agency?
- Managing internal agency finances, tracking client billings, paying media houses for ad slots, and collecting payments from clients.

8. Give an example of how advertising can be a "healing force" in society.
- During public health crises or natural disasters, ads inform citizens about hygiene steps, relief centers, and government aid, reducing panic and saving lives.

9. What is "Merchandising Aid"?
- Promotional materials provided by manufacturers to retailers (like display stands, banners, and posters) to attract customer attention inside the store.

Section VI: Long Answer Questions (5 Marks Each)
11. "Advertising is often criticized for being a social waste." Critically evaluate this statement with five points.
1. **Adds to Product Cost:** Critics argue ad expenses are passed directly to buyers through higher retail prices.
2. **Encourages Materialism:** Constant ads tempt people to buy items they do not actually need.
3. **Can Be Misleading:** Some ads make fake or exaggerated claims about performance and quality.
4. **Confuses Buyers:** Too many competing brand ads can confuse consumers rather than help them decide.
5. **Creates Artificial Demand:** Uses psychological pressure to push non-essential luxury items over basic needs.

12. Discuss the importance of advertising to producers and traders.

1. **Drives Mass Sales:** Creates wide demand, allowing businesses to sell goods on a national scale.
2. **Introduces New Products:** Informs the public quickly about newly launched items.
3. **Builds Brand Loyalty:** Continuous advertising establishes a strong brand identity and retains customers.
4. **Supports Sales Teams:** Educates customers in advance, making personal selling easier for retailers.
5. **Stabilizes Revenues:** Keeps demand steady throughout seasonal changes.

13. Explain five different techniques of sales promotion used to influence consumers.

1. **Free Samples:** Distributing small sample sizes for free so customers can try the product without risk.
2. **Rebates / Discounts:** Offering products at reduced prices for a limited time to clear stock.
3. **Contests & Lucky Draws:** Inviting buyers to enter competitions or scratch cards to win prizes with a purchase.
4. **Product Combinations:** Giving a free secondary item with a main product (e.g., buy a toothbrush, get a small toothpaste free).
5. **Instant Scratch Cards / Coupons:** Providing immediate hidden discount cards inside product packaging.

14. Describe any five key functions of an Advertising Agency.

Five Key Functions:

1. **Account Planning:** Understanding the client's goals and developing campaign strategy.
2. **Creative Services:** Designing ad visuals, slogans, scripts, and artwork.
3. **Media Selection & Buying:** Choosing media channels (TV, radio, print, digital) and negotiating slot prices.
4. **Market Research:** Studying target audiences and testing ad ideas before release.
5. **Ad Production:** Manufacturing print materials and filming or recording final ads.

15. Distinguish between Advertising and Sales Promotion on five bases.

Basis	**Advertising**	**Sales Promotion**
Primary Objective	Build brand image and long-term demand.	Drive quick, short-term sales increases.
Duration	On-going, continuous activity.	Short-term, temporary offers.
Cost Per Unit	Low cost per person reached (mass media).	Relatively high cost per participant.
Primary Target	Mass audience (broad public).	Specific consumers and store buyers.
Main Tools	TV, print, billboards, radio ads.	Discounts, free samples, coupons, gifts.

Additional Case Studies

Case 1: Samsung & Boat Offer

During Diwali, a mobile shop banner says "Buy Samsung Phone, Get Boat Earbuds Free. Offer till stock lasts". Many customers buy even if they didn't plan.

Q(a): Identify the element of Promotion Mix used. What is its main purpose?

Element: Sales Promotion.

Main Purpose: To boost short-term sales quickly and clear inventory.

Q(b): Explain 2 ways this offer pushes customers to buy now.

1. Perceived Extra Value: Getting free premium earbuds adds high instant value to the phone purchase.
2. Sense of Urgency: The phrase *"Offer till stock lasts"* creates a fear of missing out (FOMO).

Q(c): State 1 disadvantage to the shop from this offer.

Disadvantage: Reduced profit margins due to the cost of providing free ear buds, or customers waiting only for free deal periods.

Case 2: Sugar-Free Biscuits (Company X vs. Company Y)

Company X first does survey, finds people want sugar-free biscuits. It makes and sells them. Company Y makes normal biscuits and gives 50% discount to clear stock.

Q(a): Identify which company follows 'Marketing Concept' and which follows 'Selling Concept'. Define Marketing Concept.
Company X: Follows the **Marketing Concept** (surveys customer needs first, then makes the product).
Company Y: Follows the **Selling Concept** (makes standard products first, then uses discounts to push sales).
Definition: The *Marketing Concept* is a business approach focused on identifying target customer needs first and delivering products that satisfy those needs better than competitors.
Q(b): Give 2 differences in approach of X and Y from the case.
1. Starting Point: Company X starts with market research; Company Y starts with existing product inventory.
2. Sales Strategy: Company X attracts buyers by matching product features to customer demand; Company Y relies on price discounts to clear stock.
Q(c): Which company will get loyal customers long term? Why?
Company X.
Reason: Because Company X addresses real customer needs (sugar-free preference), creating genuine satisfaction and long-term repeat purchases rather than one-time discount buys.

Merits and Demerits of Advertising - ICSE Commercial Studies

1. A company produces a high volume of goods and uses advertising to ensure mass consumption. How does this specifically benefit the manufacturer in terms of production cost?

A. It increases the per-unit cost by adding marketing expenses.
B. It allows the manufacturer to ignore quality control due to high demand.
C. It leads to economies of scale, reducing the average cost of production.
D. It eliminates the need for any middleman in the distribution chain.

Answer: C
Advertising facilitates mass production by creating mass demand, which allows the firm to achieve economies of scale and lower the per-unit cost of production.

2. Which of the following scenarios best illustrates the educational merit of advertising for a consumer?

A. A consumer buying a product because a celebrity endorsed it.
B. A consumer learning about the features and uses of a new water purifier through a TV commercial.
C. A consumer switching brands because the new one is cheaper.
D. A consumer feeling pressured to buy a luxury car they cannot afford.

Answer:B
One merit of advertising is that it provides information about new products, their uses, and features, thereby educating the consumer and helping them make informed choices.

3. Critics argue that advertising can lead to 'Social Wastage'. Which situation best represents this demerit?

A. A company investing in research to improve product safety.
B. Advertising promoting the use of eco-friendly paper bags.
C. Frequent changes in fashion induced by ads causing people to discard usable clothes.
D. A local brand expanding its reach to international markets.

Answer:C
Social wastage occurs when advertising encourages the 'throw-away' culture or artificial obsolescence, where consumers discard functional items to keep up with trends.

4. How does advertising contribute to a higher standard of living in a society?

A. By introducing new products and creating a desire for better quality of life.
B. By discouraging people from saving their income.
C. By promoting only the most expensive luxury goods.
D. By ensuring that all products have the same price across the country.

Answer:A
Advertising introduces consumers to a variety of goods and modern conveniences, stimulating the desire for a better lifestyle and improving the overall standard of living.

5. A small startup finds it impossible to compete with a multinational firm because the latter spends millions on advertising. This highlights which demerit of advertising?

A. Promotion of harmful products.
B. Deceptive and misleading claims.
C. Creation of monopolies and barriers to entry.
D. Improvement in product quality.

Answer:C
Large-scale advertising can create such strong brand loyalty that it becomes a barrier for new or small firms to enter the market, leading to a monopoly-like situation.

6. From the perspective of the economy, how does advertising support the press and media?

A. It allows the government to control what the media publishes.
B. It provides a major source of revenue, making newspapers and TV channels cheaper for the public.
C. It ensures that only commercial news is broadcasted.
D. It reduces the number of channels available to avoid confusion.

Answer:B
Advertising revenue subsidizes the cost of magazines, newspapers, and electronic media, making them accessible and affordable to the general public.

7. A cosmetic ad claims to make a person '10 shades fairer in 3 days'. This is an example of which ethical concern in advertising?

A. Economies of scale.
B. Market expansion.
C. Deceptive or misleading advertising.
D. Consumer sovereignty.

Answer:C
Deceptive advertising involves making false, exaggerated, or unproven claims about a product's performance to entice consumers.

8. How does advertising assist in 'Price Stability' over time?

A. By creating a direct link between the producer and consumer, reducing fluctuations.
B. By allowing manufacturers to fix prices without competition.
C. By discouraging consumers from comparing prices.
D. By forcing retailers to hide the Maximum Retail Price (MRP).

Answer:A
Advertising helps in maintaining steady demand and creates price awareness among consumers, which prevents retailers from overcharging and leads to price stability.

9. When advertising creates 'Artificial Needs', it is often criticized for:

A. Reducing the gap between the rich and the poor.
B. Helping companies manage their inventory effectively.
C. Providing useful information to rural consumers.
D. Encouraging materialism and unnecessary spending.

Answer:D
Critics argue that advertising manipulates psychology to make people feel they 'need' products that are actually luxuries, promoting a materialistic outlook.

10. A manufacturer uses advertising to build a 'Brand Image'. What is the primary merit of this for the manufacturer?

A. It makes the product invisible to competitors.
B. It creates goodwill and consumer loyalty, making sales more predictable.
C. It guarantees that the product will never fail.
D. It allows the company to stop paying taxes.

Answer:B
A strong brand image through advertising creates consumer trust (goodwill), leading to repeat purchases and long-term business stability.

11. Which of the following is an economic demerit of advertising related to the 'Price' of goods?

A. Advertising costs are often passed on to the consumer, increasing the final price.
B. Advertising makes products so cheap that they lose value.
C. Advertising ensures that prices are always changing.
D. Advertising prevents manufacturers from making any profit.

Answer:A
A major demerit is that the high cost of advertising is added to the cost of production and distribution, which eventually results in higher prices for consumers.

12. Advertising creates employment opportunities in which of the following sectors?

A. Only in the manufacturing of heavy machinery.
B. Only for government officials.
C. In creative fields like copywriting, designing, and media planning.
D. It actually reduces employment by automating sales.

Answer:C
The advertising industry generates massive employment for artists, writers, photographers, actors, and marketing professionals.

13. How does advertising act as a 'Tool for Market Competition'?

A. It prevents other companies from entering the market.
B. It allows firms to highlight their product's superiority over others.
C. It encourages companies to stop innovating.
D. It ensures that only one brand exists in the market.

Answer:B
Advertising allows firms to compete by showcasing their unique selling propositions (USPs), which encourages product differentiation and healthy competition.

14. If an advertisement promotes the consumption of tobacco or alcohol, which demerit is being highlighted?

A. High cost of production.
B. Promotion of harmful products.
C. Wastage of national resources.
D. Creation of unnecessary variety.

Answer:B
Advertising is often criticized when it is used to promote products that are injurious to health, like cigarettes or liquor, especially targeting vulnerable groups.

15. Advertising helps in 'Smooth Flow of Production' by:

A. Allowing the factory to shut down during holidays.
B. Increasing the price of raw materials.
C. Reducing the number of workers needed.
D. Creating permanent and steady demand throughout the year.

Answer:D
By maintaining consistent demand, advertising enables manufacturers to plan their production schedules effectively and maintain a steady flow of goods.

16. Which of the following is a merit of advertising for 'Salesmen'?

A. It makes their job harder because customers know too much.
B. It prepares the ground for them by creating product awareness before they visit a customer.
C. It replaces the need for salesmen entirely.
D. It reduces the commission they earn.

Answer:B
Advertising performs the 'pre-selling' work. When a salesman approaches a customer who has seen the ad, half the task of convincing is already done.

17. The demerit 'Multiplicity of Brands' refers to:

A. Too many high-quality products in the market.
B. The government owning all the brands.
C. A shortage of products in the market.
D. Consumers being confused by too many similar products with minor differences.

Answer:D
Advertising often creates an unnecessary variety of similar products, which confuses consumers and leads to an inefficient allocation of resources.

18. Why is advertising considered a 'Waste of National Resources' by some economists?

A. Because money spent on competing ads for similar products doesn't add real value to the goods.
B. Because it uses paper and electricity.
C. Because it encourages people to work harder.
D. Because it makes the country too famous.

Answer: A

When different companies spend vast sums just to cancel out each other's influence (competitive advertising), it is seen as a waste of capital that could be used for production.

19. How does advertising promote 'Product Quality'?

A. By forcing the government to check every product.
B. By making the product look better in pictures than it actually is.
C. By making a public promise of quality that the manufacturer must keep to retain customers.
D. By increasing the tax on low-quality goods.

Answer:C
When a brand is advertised, its reputation is at stake. To maintain the brand image and repeat sales, the manufacturer is pressured to maintain or improve quality.

20. A company uses 'Emotional Appeal' in an ad to make parents feel guilty if they don't buy a specific health drink. This is a critique of advertising because:

A. It helps children grow taller.
B. It is an ethical merit of the industry.
C. It psychologically manipulates consumers instead of providing facts.
D. It reduces the cost of the health drink.

Answer: C
A common demerit is that advertising often bypasses rational logic and uses emotional manipulation to force consumers into buying products.

Sales Promotion Techniques - ICSE Class 10 Commercial Studies

1. A detergent brand offers a 'Buy 3, Get 1 Free' deal during a festival sale. Which technique of sales promotion is being used here?

- **A.** Quantity Gift/Bonus Offer
- **B.** Price-off Discount
- **C.** Free Samples
- **D.** Exchange Scheme

Answer: A

Quantity Gift or Bonus Offer involves giving extra quantity of the same product at no additional cost.

2. A new skincare company distributes small 5ml bottles of its face wash at a local mall to allow customers to try the product. This is an example of:

- **A.** Refunds
- **B.** Sampling
- **C.** Coupons

- **D.** Lucky Draw

Answer: B

Sampling involves distributing small quantities of a product for free to potential customers to encourage them to try it.

3. During the New Year, a furniture store offers a flat 20% reduction on the marked price of all sofas. What is this technique called?

- **A.** Discount
- **B.** Rebate
- **C.** Exchange Offer
- **D.** Premium

Answer: A

A discount is a direct reduction in the price of a product offered by the manufacturer or retailer.

4. An electronics shop allows customers to bring in their old television sets and get a deduction of Rs 5,000 on the purchase of a new LED TV. Identify the technique.

- **A.** Full Refund
- **B.** Product Combination
- **C.** Exchange Scheme
- **D.** Sampling

Answer: C

Exchange schemes involve deducting a specific amount from the price of a new product in exchange for an old one.

5. Inside a box of health drinks, a company places a small plastic toy for children. Which type of sales promotion is this?

- **A.** Lucky Draw
- **B.** Container Premium
- **C.** Price-off
- **D.** Product Combination

Answer: D

Product combination involves providing a related or unrelated gift item along with the main product.

6. A brand of coffee includes a scratch card inside the pack, giving customers a chance to win a smartphone. This represents:

- **A.** Discount
- **B.** Refund
- **C.** Quantity Gift
- **D.** Lucky Draw

Answer: D

Lucky draws involve offering gifts or prizes to customers through a random selection or contest.

7. A customer finds a voucher in the Sunday newspaper that allows them to get Rs2 off on their next purchase of a specific brand of toothpaste. This is known as:

- **A.** A Coupon
- **B.** A Rebate
- **C.** A Sample
- **D.** An Exhibition

Answer: A

Coupons are certificates that entitle the holder to a specified saving on the purchase of a specific product.

8. What is the primary objective of using sales promotion techniques for a short period?

- **A.** To increase long-term brand image
- **B.** To decrease production costs
- **C.** To stimulate immediate sales
- **D.** To replace personal selling

Answer: C

Sales promotion is designed to provide short-term incentives to encourage immediate purchase or boost sales quickly.

9. A manufacturer of luxury cars sets up a large stall at an International Trade Fair to showcase their latest models to the public. This is:

- **A.** Sampling
- **B.** Premium Offer
- **C.** Rebate
- **D.** Fairs and Exhibitions

Answer: D

Fairs and exhibitions are organized to display products to a large audience, creating awareness and generating leads.

10. If a company offers to return a part of the price paid by a customer upon producing proof of purchase of three packs of biscuits, it is called a:

- **A.** Discount
- **B.** Premium
- **C.** Rebate/Refund
- **D.** Quantity Gift

Answer: C

A refund or rebate involves returning a part of the price paid by the consumer on providing proof of purchase.

Social Advertising Media - Competency Based Questions

1. A local NGO releases a series of posters to encourage people to donate blood during emergencies. Which category of advertising does this belong to?

- **A.** Commercial Advertising
- **B.** Social Advertising
- **C.** Industrial Advertising
- **D.** Direct Mail Advertising

Answer: B

Social advertising is used by NGOs or government bodies to promote causes that benefit society, such as blood donation.

2. The government launches a campaign 'Beti Bachao, Beti Padhao'. What is the primary objective of this social advertisement?

- **A.** To increase the sales of school supplies
- **B.** To promote a specific private school
- **C.** To change social attitudes towards the girl child
- **D.** To earn profit through television airtime

Answer: C

Social advertising aims to bring about a positive change in social behavior and mindset rather than selling a product.

3. Which of the following is a major merit of using Social Media as a platform for social advertising?

- **A.** It reaches only people without internet
- **B.** High cost of printing physical flyers
- **C.** It is completely ignored by the youth
- **D.** Ability to share information quickly and virally

Answer: D

Social media allows social causes to spread rapidly among a large audience through sharing and engagement.

4. A commercial for a new brand of soap focuses on fragrance, while a social ad on handwashing focuses on preventing diseases. What is the key difference?

- **A.** Commercial ads have no images
- **B.** Social ads focus on public welfare
- **C.** Commercial ads are always free
- **D.** Social ads only use black and white colors

Answer: B

The fundamental difference is that social advertising serves the public interest, whereas commercial advertising serves private profit.

5. Which of these is a common 'demerit' or limitation of social advertising campaigns?

- **A.** They are too colorful for the public
- **B.** Results are often difficult to measure immediately
- **C.** They only reach wealthy people
- **D.** They always increase product prices

Answer: B

Unlike commercial ads where sales can be tracked, the impact of social ads on human behavior is slow and hard to quantify.

6. If the Health Ministry wants to reach rural areas with low literacy for a polio vaccination drive, which medium is most effective?

- **A.** Radio and Loudspeakers
- **B.** English Newspapers
- **C.** Email Newsletters
- **D.** LinkedIn Advertisements

Answer: A

Audio-based media like radio are effective in rural areas where people may not be able to read print advertisements.

7. What is the main reason celebrities are often used in social advertisements like 'Anti-Smoking' campaigns?

- **A.** To make the ad look like a movie
- **B.** To use their influence to motivate public action
- **C.** To ensure the celebrity gets a free vacation
- **D.** To increase the price of cigarettes

Answer: B

Celebrities have a mass following, and their endorsement adds credibility and persuasive power to a social message.

8. In a social advertisement about water conservation, the phrase 'Save Water, Save Life' is used. This is known as a:

- **A.** Price Tag
- **B.** Trademark
- **C.** Slogan
- **D.** Invoice

Answer: C

A slogan is a short, catchy phrase used in advertising to make the message memorable.

9. A demerit of social advertising is 'Message Fatigue'. What does this mean?

- **A.** The electricity goes out while watching the ad
- **B.** The advertiser forgets to post the ad
- **C.** The audience gets bored or ignores the message due to repetition
- **D.** The ad is too short to understand

Answer: C

Message fatigue occurs when the audience sees the same social message so often that they stop paying attention to it.

10. Which of the following topics would definitely fall under 'Social Advertising'?

- **A.** Buy one get one free offer on shoes
- **B.** Launch of a new 5G smartphone
- **C.** Discount on air tickets
- **D.** Traffic safety rules awareness

Answer: D

Traffic safety is a matter of public welfare and safety, making it a subject of social advertising.

11. How does social advertising help in national development?

- **A.** By increasing the import of luxury goods
- **B.** By educating citizens on health and hygiene
- **C.** By promoting competition between brands
- **D.** By reducing the number of schools

Answer: B

Educated and healthy citizens contribute more effectively to the growth and development of a nation.

12. A company sponsors a marathon for 'Cancer Awareness'. While they are doing social advertising, they also get brand visibility. This is an example of:

- **A.** Unethical behavior
- **B.** False advertising
- **C.** Corporate Social Responsibility (CSR)
- **D.** Personal selling

Answer: C

CSR is when businesses contribute to social goals while also maintaining their brand presence.

13. One merit of social advertising is that it can create 'Public Opinion'. What does this imply?

- **A.** It forces people to buy products they don't need
- **B.** It builds a collective mindset towards a social issue
- **C.** It tells people which political party to join
- **D.** It makes people stop talking to each other

Answer: B

Social advertising helps build a common understanding and opinion in society regarding issues like cleanliness or equality.

14. Why might a social advertisement fail despite having a good message?

- **A.** Because of deep-rooted social taboos or resistance to change
- **B.** Because it uses too much logic
- **C.** Because the actors are too famous
- **D.** Because it is shown on television

Answer: A

Changing human behavior is difficult, especially when the message contradicts long-held traditional beliefs or habits.

15. Which media is best for a social campaign targeting urban professionals about 'Mental Health Awareness'?

- **A.** Digital platforms and office magazines
- **B.** Wall paintings in remote areas
- **C.** Loudspeakers in village squares
- **D.** Radio announcements at 4 AM

Answer: A

Urban professionals are most likely to be reached through digital media and professional publications.

16. Which of these is NOT a goal of social advertising?

- **A.** Maximizing the profit of a garment factory
- **B.** Environmental protection
- **C.** Family planning awareness
- **D.** Anti-dowry education

Answer: A

Maximizing profit is the goal of commercial advertising, not social advertising.

17. What is a demerit of using print media (like newspapers) for social advertising in a country with high illiteracy?

- **A.** The message cannot reach those who cannot read
- **B.** Newspapers are too cheap
- **C.** Newspapers are only printed in one language
- **D.** There are no pictures in newspapers

Answer: A

Print media relies on literacy; therefore, its reach is limited in populations with low literacy rates.

18. An advertisement showing the harmful effects of plastic on marine life is an example of:

- **A.** Informative Social Advertising
- **B.** Financial Advertising
- **C.** Wholesale Advertising
- **D.** Classified Advertising

Answer: A

It informs the public about an environmental issue to encourage better habits.

19. What role does the 'Target Audience' play in social advertising?

- **A.** They are the group of people the message is intended for
- **B.** They are the people who pay for the ad
- **C.** They are the actors in the advertisement
- **D.** They are the people who hate the advertisement

Answer: A

Identifying the target audience helps in choosing the right media and language for the social message.

20. Social advertising is often criticized for being 'too preachy'. This means:

- **A.** It is too funny for the audience
- **B.** It is not loud enough
- **C.** It uses too many songs
- **D.** It sounds like a lecture, making people defensive

Answer: D

If a social ad is too moralistic or lecturing, people may react negatively and refuse to change their behavior.

CHAPTER 4: Consumer Protection Act, 2019

Part I — Multiple Choice Questions (1 mark each)

1. The Consumer Protection Act, 2019 came into force on:

(a) 1st January 2019
(b) 20th July 2020
(c) 15th March 2019
(d) 1st April 2020

Answer: (b) 20th July 2020

2. Which of the following is NOT a right of a consumer under the Consumer Protection Act, 2019?

(a) Right to be heard
(b) Right to seek redressal
(c) Right to unlimited compensation
(d) Right to consumer awareness

Answer: (c) Right to unlimited compensation

3. The Central Consumer Protection Authority (CCPA) has been established to:

(a) Manufacture consumer goods
(b) Regulate and protect consumer rights
(c) Provide loans to consumers
(d) Conduct consumer research only

Answer: (b) Regulate and protect consumer rights

4. Product liability means the responsibility of:

(a) Consumer for misuse of product
(b) Manufacturer/seller for defective products
(c) Government for product pricing
(d) Retailer for advertising

Answer: (b) Manufacturer/seller for defective products

5. Which of the following is an example of an unfair trade practice?

(a) Selling goods at MRP
(b) False advertisement about quality
(c) Providing warranty cards
(d) Displaying price tags

Answer: (b) False advertisement about quality

6. The term 'consumer' under the Act includes a person who:

(a) Buys goods for resale
(b) Buys goods for commercial purpose

(c) Hires services for consideration
(d) Obtains goods for manufacturing

Answer: (c) Hires services for consideration

7. The Consumer Protection Act, 2019 replaced which earlier legislation?

(a) Sale of Goods Act, 1930
(b) Consumer Protection Act, 1986
(c) Indian Contract Act, 1872
(d) Competition Act, 2002

Answer: (b) Consumer Protection Act, 1986

8. E-commerce transactions are covered under:

(a) Consumer Protection Act, 1986 only
(b) Consumer Protection Act, 2019
(c) Neither of the above
(d) Information Technology Act only

Answer: (b) Consumer Protection Act, 2019

Part II — Short Answer Questions (2 marks each)

9. Define 'consumer' as per the Consumer Protection Act, 2019.

Answer: A consumer is any person who buys goods or hires services for personal use in exchange for payment (consideration). It excludes anyone who buys goods for **resale** or **commercial purposes**.

10. What is meant by 'defect' in goods under the Act?

Answer: A 'defect' means any fault, imperfection, or shortcoming in the quality, quantity, purity, or standard of goods required by law or contract.

11. What is the significance of the 'Right to Information' for consumers?

Answer: It protects consumers against unfair trade practices by giving them the right to know details like the quality, quantity, potency, purity, standard, and price of goods or services so they can make informed buying decisions.

12. What is meant by 'deficiency in service'? Give one example.

Answer:

- **Meaning:** Any fault, imperfection, or inadequacy in the quality or manner of performance of a service provided by a professional or company.
- **Example:** A bank losing important property documents stored in a locker, or a flight delayed for hours without proper reason or communication.

13. Why are e-commerce platforms specifically covered under the Consumer Protection Act, 2019?

Answer: E-commerce platforms were included to protect online shoppers from rising digital frauds, fake product descriptions, non-delivery of items, lack of refund policies, and misleading online reviews.

14. State any two reliefs that a Consumer Commission can grant to a complainant.

Answer:

1. Removal of defects from the goods or deficiency in services.
2. Replacement of the defective product with a new, defect-free product.

Part III — Application-Based/Case Study Questions (4 marks each)

16. Rajan purchased a laptop online from an e-commerce website. Upon delivery, he found that the laptop had a cracked screen and the configuration did not match the description given on the website.

(a) Identify the type of defect involved.
(b) Which consumer right has been violated?
(c) Name any one relief Rajan can claim.

Answers: a) Manufacturing/physical defect (cracked screen) and incorrect product specification (mismatched configuration).

b) Right to be Informed (misleading description) and Right to Safety.

c) Free replacement of the laptop with the correct model or a full refund of the money paid.

17. A company advertised that its health drink would increase a child's height by 3 inches in 2 months. Mrs. Sharma bought the product for her son, but there was no such result even after 6 months of consumption.

(a) What type of trade practice is this an example of?
(b) Which consumer right has been violated?

Answers: a) Unfair Trade Practice (Misleading Advertising).

b) Right to be Informed and Right to Protection against Unfair Trade Practices.

18. Meera hired a courier service to deliver an important parcel containing valuable documents. The parcel was lost in transit, and the company refused to take responsibility.

(a) What is this situation called under the Consumer Protection Act?
(b) Can Meera file a complaint? Give reason.
(c) Name any one duty Meera should have fulfilled while hiring the service.

Answers: a) Deficiency in Service.

b) **Yes**, because she paid for the courier service, and losing valuable documents due to negligence constitutes a clear deficiency in service.

c) Obtaining and preserving the original booking receipt/consignment note as proof.

19. An automobile company sold a car with faulty brakes that led to an accident causing injuries to the buyer.

(a) Who can be held liable in this case?

Answers: a) The automobile manufacturer and the authorized car seller/dealer under **Product Liability**.

20. Anil saw an advertisement claiming a mobile phone was 'waterproof'. He bought the phone and it got damaged when accidentally exposed to water. The company refused to repair it under warranty claiming 'water damage'.

(a) Has the company committed any wrongful act? Identify it.
(b) Which consumer right is relevant here?
(c) What action can be taken against such misleading claims?

Answers: a) **Yes**, the company engaged in **Misleading Advertising / Unfair Trade Practice** by making a false claim.

b) Right to Seek Redressal and Right to be Informed.

c) Filing a complaint with the Central Consumer Protection Authority (CCPA) or District Commission to enforce repair/replacement, compensation, and penalty on false claims.

21. A hospital charged a patient ₹50,000 for a surgery but provided substandard post-operative care, leading to complications.

(a) What type of complaint can be filed?

Answers: a) A complaint for **Deficiency in Service** and medical negligence against the hospital to claim compensation for harm caused.

22. Priya purchased a refrigerator worth ₹28,000 which stopped working after 15 days. The dealer refused to replace or repair it despite it being under warranty.

(a) What consumer right has been violated?
(b) What remedies are available to Priya?

Answers: a) Right to Seek Redressal (refusing warranty service) and Right to Safety.

b) • directing the dealer to repair or replace the refrigerator free of cost.

• claiming a full refund with monetary compensation for mental agony and inconvenience.

23. A coaching institute promised 100% placement assistance but failed to provide any job opportunities to students after course completion.

(a) What type of practice is this?
(b) Can the students file a complaint under the Consumer Protection Act? Justify.

Answers: a) Unfair Trade Practice (Misleading promise/advertisement).

b) **Yes.** Educational institutes and coaching centers providing services for a fee fall under the Act, and failing to fulfill advertised commitments constitutes an unfair trade practice and deficiency in service.

Part IV — Long Answer Questions

24. What are the rights of a consumer under the Consumer Protection Act, 2019? Explain any four rights with examples.

Answer:

- The Consumer Protection Act, 2019 provides six basic rights to safeguard consumers against market exploitation:

1. **Right to Safety:** The right to be protected against goods and services that are hazardous to health or life.
   - *Example:* Protection against substandard electrical appliances that can cause electrical fires or shocks.
2. **Right to be Informed:** The right to be informed about the quality, quantity, purity, price, and standard of goods to prevent unfair practices.
   - *Example:* Displaying ingredients, expiry dates, and MRP clearly on food packets.
3. **Right to Assured:** The right to access a variety of goods and services at competitive prices without being forced to buy a specific brand.
   - *Example:* A shopkeeper cannot force a buyer to purchase a specific brand of notebook along with textbooks.
4. **Right to Seek Redressal:** The right to claim compensation or fair remedies against unfair trade practices or exploitation.
   - *Example:* Getting a full refund or replacement for a defective television that broke down within the warranty period.

Part V — Reasoning and Analysis Questions

25. Rohit purchased a mixer-grinder for his restaurant business. The product turned out to be defective. Can Rohit file a complaint under the Consumer Protection Act, 2019? Give reasons for your answer.

- **Answer: No, Rohit cannot file a complaint under this Act.**

- **Reason:** Rohit bought the mixer-grinder for his restaurant business, which is a **commercial purpose**. Under the Consumer Protection Act, 2019, any person who purchases goods or services for commercial/business expansion is **not** considered a 'consumer'.

26. Seema received a promotional message on her phone about a 'free gift' from a company. When she went to claim it, she was asked to buy another product first. Is this practice legal under the Consumer Protection Act? Explain with the relevant provision.

- **Answer: No, this practice is illegal.**

- **Reason:** Offering a "free gift" while hiding mandatory purchase conditions is an **Unfair Trade Practice** under the Act. Misleading consumers with trick promotions to force sales violates the consumer's right to honest information and transparent trade.

27. Aarti purchased expired medicines from a pharmacy which caused her health complications. The pharmacist claims he is not liable as he did not manufacture the medicines. Evaluate this claim under the concept of product liability.

- **Answer: The pharmacist's claim is INVALID.**

- **Reason:** Under the provision of **Product Liability** in the Consumer Protection Act, 2019, a product seller/retailer **can be held liable** if:

1. They sold a product whose expiry date had passed.
2. They failed to exercise reasonable care in inspecting/storing the product.

Selling expired medicine directly creates retailer liability, so Aarti can claim damages from both the pharmacist and the manufacturer.

CLASS 10 COMMERCIAL STUDIES CH -5 E-COMMERCE

Section A: Multiple Choice Questions (1 Mark Each)

1.Which ERP module is specifically designed to manage the end-to-end process of sourcing, procurement, vendor selection, and purchase order tracking?

- A) Inventory Module
- B) Purchase Module
- C) Supply Chain Management (SCM) Module
- D) Finance and Accounting Module

Answer: B) Purchase Module

2. How is online shopping (E-tailing) different from shopping in a physical store?

- **A)** Physical stores only take cash, while online stores only take crypto.
- **B)** Online stores use websites and digital payments without you needing to be there in person, unlike physical stores.
- **C)** Online stores don't need any stock, warehouses, or shipping.
- **D)** Physical stores are not allowed to use digital payments.

Answer: B) Online stores use websites and digital payments without you needing to be there in person, unlike physical stores**.**

3. A local clothing shop finds that paying for TV ads is becoming too expensive and isn't bringing in many buyers. They switch to running ads on Google and Facebook so they can easily track how many people see and click on their ads. What are they using?

- **A)** E-security
- **B)** E-tailing
- **C)** E-advertising
- **D)** Enterprise Resource Planning

Answer: C) E-advertising

4. An E-commerce company experiences frequent stock outs despite high customer demand. Simultaneously, their warehouse holds excess unsellable stock of non-trending items. Which two ERP modules need immediate integration and data synchronization to fix this issue?

- A) Human Resource Module & Finance Module
- B) Sales Module & Inventory Module
- C) Production Module & Human Resource Module
- D) E-security Module & Purchase Module

Answer: B) Sales Module & Inventory Module

5. Company X receives repeated complaints that products ordered online are missing during delivery, and customer refund requests take weeks to process. To resolve both customer satisfaction and backend coordination, which pair of systems/modules must share data seamlessly?

- A) E-advertising and Production Module
- B) Consumer Relationship Management (CRM) and Supply Chain Management (SCM)
- C) Human Resource Module and Finance Module
- D) E-security and Purchasing Module

Answer: B) Consumer Relationship Management (CRM) and Supply Chain Management (SCM)

Explanation: CRM tracks customer complaints and refund requests, while SCM controls order fulfillment and logistics tracking. Syncing both ensures resolution speed and tracking accuracy.

6. In the context of electronic transactions, what does the term 'E-security' fundamentally refer to?

- A) The process of marketing products on social media securely.
- B) The set of protocols, technologies, and practices protecting online data and financial transactions from unauthorized access or fraud.
- C) Physical security measures implemented in fulfillment warehouses.
- D) The automated calculation of profit margins within an ERP system.

Answer: B) The set of protocols, technologies, and practices protecting online data and financial transactions from unauthorized access or fraud.

7. A automotive factory needs to schedule daily raw material deliveries based on real-time assembly line speeds and finished car sales orders. Which ERP module drives this material requirement schedule?

- A) Human Resource Module
- B) Production Module
- C) E-marketing Module
- D) Finance and Accounting Module

Answer: B) Production Module

Explanation: The Production Module manages material requirements planning (MRP), shop-floor scheduling, and production capacity alignment based on sales demands.

8. Statement 1: E-advertising is the big overall plan that includes studying the market, building relationships with customers, and setting prices.

Statement 2: E-marketing just means paying for online ads on sites like social media or search engines.

Which option is correct?

- **A)** Statement 1 is True, Statement 2 is False
- **B)** Statement 1 is False, Statement 2 is True
- **C)** Both statements are False
- **D)** Both statements are True

Correct Answer: C) Both statements are False

Explanation: The definitions are swapped.

Section B: Short Answer Questions (2 Marks Each)

Q1. Define E-commerce and state one major difference between traditional transaction methods and e-commerce transaction methods.

- **Answer:**
  - **Definition:** E-commerce (Electronic Commerce) refers to the buying, selling, and exchanging of goods, services, or information over an electronic network, primarily the Internet.
  - **Difference:** Traditional transactions require physical presence, manual processing (cash/cheque), and face-to-face interaction during fixed business hours, whereas e-commerce transactions occur digitally, remote, automated, and operational 24/7.

Q2. Distinguish between E-marketing and E-advertising in terms of scope and objective.

- **Answer:**
  - **Scope:** E-marketing is a broad, overarching strategy covering product strategy, market research, customer engagement, and pricing online. E-advertising is a specific *component* of E-marketing focused strictly on paid promotional activities (e.g., banner ads, PPC).
  - **Objective:** E-marketing aims to build long-term customer relationships and brand equity; E-advertising aims to drive immediate attention, clicks, or short-term conversions.

Q3. Briefly explain the primary function of the Human Resource (HR) Module within an ERP system.

- **Answer:** The HR module automates and centralizes workforce management functions, including employee records management, payroll processing, attendance and leave tracking, recruitment, performance evaluations, and training schedules across the enterprise.

Q4. What is E-security?

- **Answer:** E-security refers to technical and operational measures (like encryption, firewalls, and SSL certificates) designed to protect digital networks, platforms, and transactions from unauthorized access, fraud, or cyber threats.

Section C: Case Study Based Questions (5 Marks)

Case Study 1: Artisanal Crafts Online

Urban Crafts Ltd. used to be a small local shop selling handmade crafts. They decided to start selling online to customers all over the world. Sales grew very fast, but they ran into two big problems:

a) Customers get angry because the website says an item is "In Stock," but it actually takes 3 weeks to ship out.

b) Many customers are scared to type their credit card numbers on the website because they worry about security.

1. What is going wrong in their business, and which software tool can fix the stock problem? *(***2 Marks***)*
2. What technology can make customers feel safe paying online, and what does it mean? **(2 Marks)**
3. How does selling online help Urban Crafts compared to their old physical shop? **(1 Mark)**

Answers:

1. **What is going wrong:** Their website and their actual store warehouse do not talk to each other. So, the website doesn't know when items run out of stock.
   How to fix it: Use an **ERP Inventory Module** connected to their **Sales Module**. This instantly updates stock numbers on the website every time a product is sold.

2. **Concept: E-security** (Electronic Security).
   What it means: It means using safety tools—like encrypted payment systems, secure websites, and fraud protection—so hackers cannot steal customer card details.

3. **Benefit:** They can now sell to buyers **all across the world, 24 hours a day**, without having to pay for expensive physical shop locations.

Case Study 2: ElectroMart's Customer Churn

ElectroMart is an online electronics store. They spend a lot of money on paid web ads (Google Banner Ads) to get new buyers. However, people who buy from them once almost never come back.To make matters worse, whenever customers call for help, the customer service team has no idea who they are or what they bought in the past, leading to angry customers and bad reviews.

1. What is the difference between what ElectroMart is currently doing (E-advertising) and what they are missing (E-marketing)? (2 Marks)

2. Which software tool do they need to manage customer interactions and keep buyers happy? (2 Marks)

3. What specific customer information should this system save to help keep buyers loyal? (1 Mark)

Answers:

1. **What they are doing (E-advertising):** They are just paying money for online ads to get quick, one-time sales.
What they are missing (E-marketing): They lack a complete plan to keep customers happy after the sale, build trust, and encourage them to come back and buy again.

2. **Name: CRM Module** *(Customer Relationship Management)*.

What it does: It stores all customer details in one central place—like what they bought, past phone calls, and complaints. This way, support staffs instantly know the customer's history when they call.

3. Past purchase details, records of support calls/complaints, customer preferences, and product feedback..

Case Study 3: The Cyber Attack at FinPay

FinPay is an online payment company that recently ran into two major problems:

a) Hackers stole customer passwords because the company stored them without any security protection (unencrypted).

b) The HR team accidentally paid employees too much money because they tracked attendance using pen and paper in physical notebooks.

1. Identify the missing technical safeguard at FinPay and explain the term 'E-security' in this context. (2 Marks)

2. **Explain how implementing an ERP Human Resource (HR) Module prevents salary overpayment errors. (2 Marks)**

3. Which ERP module sends out the actual salary payments after HR approves attendance? ***(1 Mark)***

Answers:

1. FinPay forgot to **protect** their secret information. **E-security** means using digital safety tools—like passwords, encryption, and access controls—to protect private information and keep it safe from hackers.
2. **How it helps:** It tracks employee attendance automatically (for example, using fingerprint scanners) and calculates exact pay based on real working hours. This removes human counting errors and paper mistakes.
3. The Finance and Accounting Module.

Section D: Long Answer Questions (5 Marks Each)

Q1. Define E-commerce. Detailed contrast E-commerce transaction methods with Traditional transaction methods across five distinct operational dimensions.

- **Answer:**
  - **Definition:** E-commerce is the buying, selling, and trading of goods, services, and information using computer networks and the Internet.

Dimension	**Traditional Transaction Methods**	**E-Commerce Transaction Methods**
Physical Presence	Requires face-to-face interaction at a physical location (store/office).	Fully remote; executed via digital store interfaces or apps.
Operating Hours	Restricted to physical business operating hours (e.g., 9 AM - 8 PM).	Operates continuously 24/7/365.
Payment Channels	Primarily physical cash, cheques, or POS card swipes.	Digital payments (UPI, credit/debit cards, net banking, digital wallets).
Geographical Reach	Limited to local, physical walk-in catchment areas.	Global reach without geographic physical boundaries.

Dimension	Traditional Transaction Methods	E-Commerce Transaction Methods
Transaction Velocity	Instant exchange of physical goods upon cash payment.	Instant financial settlement; physical delivery requires time/logistics.

Q2. An expanding e-commerce enterprise wants to streamline its operations. Describe the core functions of the following ERP modules

1. Sales Module

2. Inventory Module

3. Finance and Accounting Module

4. Supply Chain Management (SCM) Module

- **Answer:**
  - **Core Functions:**
    1. **Sales Module:** Manages customer orders, quotations, pricing strategies, and order tracking.
    2. **Inventory Module:** Tracks stock levels, product locations, warehouse movements, and reorder levels.
    3. **Finance & Accounting Module:** Handles general ledger, accounts payable/receivable, billing, and financial reporting.
    4. **Supply Chain Management (SCM) Module:** Manages supplier procurement, warehousing logistics, shipping, and distribution routes.

       (explain briefly)

STD 10 COMMERCIAL STUDIES

CH- 6 CAPITAL AND REVENUE EXPENDITURE/INCOME

.Section A: Multiple Choice Questions (1 Mark Each)

1. Which of the following is a key characteristic of a Capital Expenditure?

- A) It is incurred for the day-to-day running of the business.
- B) It yields benefits spread across multiple financial years.
- C) It is recorded entirely on the debit side of the Profit & Loss Account.
- D) It is recurring in nature and occurs frequently.

Answer: B) It yields benefits spread across multiple financial years.

2. How does a Revenue Receipt fundamentally differ from a Capital Receipt?

- A) Revenue receipts create a liability, whereas capital receipts reduce liabilities.
- B) Revenue receipts arise from regular business operations, while capital receipts do not arise from day-to-day operations.

- C) Revenue receipts are shown in the Balance Sheet, while capital receipts go to the Trading Account.
- D) Revenue receipts are non-recurring, while capital receipts are recurring.

Answer: B) Revenue receipts arise from regular business operations, while capital receipts do not arise from day-to-day operations.

3. A firm spends ₹15,000 to repaint its old factory building as part of annual maintenance. How should this expenditure be classified in the books of accounts?

- A) Capital Expenditure
- B) Deferred Revenue Expenditure
- C) Revenue Expenditure
- D) Capital Loss

Answer: C) Revenue Expenditure

Explanation: Repainting for annual maintenance maintains the current working condition of the asset without increasing its original earning capacity or lifespan.

4. Consider the following two transactions:

Transaction 1: ₹ 5,000 paid for installing a newly purchased machine.

Transaction 2: ₹ 5,000 paid for overhauling an existing machine to double its production speed.

How should these two expenditures be categorized?

- A) Transaction 1 is Capital Expenditure; Transaction 2 is Revenue Expenditure.
- B) Transaction 1 is Revenue Expenditure; Transaction 2 is Capital Expenditure.
- C) Both transactions are Capital Expenditures.
- D) Both transactions are Revenue Expenditures.

Answer: C) Both transactions are Capital Expenditures.

Explanation: Installation costs for new machinery are capital expenditures (ready-to-use cost). Overhauling cost that increases original production capacity is also capitalized.

5. An online store spends ₹200,000 on a big launch advertising campaign. The benefits of these ads are expected to last for 4 years. What type of expenditure is this?

- **A)** Revenue Expenditure
- **B)** Deferred Revenue Expenditure
- **C)** Capital Expenditure
- **D)** Capital Receipt

Correct Answer: B) Deferred Revenue Expenditure

Explanation: It is a **Deferred Revenue Expenditure** because it is spent on advertising (no physical asset like machinery is bought), but the benefit will last for more than one year.

6. Which of the following is an example of a Capital Receipt?

- A) Interest received on fixed deposits
- B) Rent received from subletting a warehouse
- C) Capital contributed by the proprietor
- D) Commission received from sales agencies

Answer: C) Capital contributed by the proprietor

Explanation: Fresh capital injected by owners increases long-term equity/liabilities and is non-recurring, making it a capital receipt.

7. What is the core meaning of 'Deferred Revenue Expenditure'?

- A) A heavy capital purchase paid for in installments.
- B) A revenue expense incurred during the current year whose benefit extends beyond the current accounting period.
- C) An expense that reduces the long-term liabilities of a business.
- D) Income earned but not yet received by the business.

Answer: B) A revenue expense incurred during the current year whose benefit extends beyond the current accounting period.

Explanation: It is revenue in nature (no physical asset created) but deferred because the benefit spans multiple future accounting periods.

8. A heavy machinery exporter receives ₹ 50,000 from the sale of old scrap iron produced during daily manufacturing. How should this income be classified?

- A) Capital Receipt

- B) Revenue Receipt
- C) Deferred Revenue Receipt
- D) Capital Profit

Answer: B) Revenue Receipt

Explanation: Scrap generated from daily operational processes is part of ordinary business activity, making its proceeds a revenue receipt.

Section B: Short Answer Questions (2 Marks Each)

Q1. Define Capital Receipt and Revenue Receipt with one example each.

- **Answer:**
  - **Capital Receipt:** A non-recurring receipt that either creates a financial liability or reduces a fixed asset (e.g., bank loan taken or proceeds from selling factory land).
  - **Revenue Receipt:** A recurring receipt arising from normal day-to-day business operations (e.g., revenue from goods sold or interest received on investments).

Q2. State two main points of difference between Capital Expenditure and Revenue Expenditure.

- **Answer:**

Parameter	Capital Expenditure	Revenue Expenditure
Benefit Duration	Yields benefits over multiple financial years.	Exhausted within the current accounting year.
Impact on Capacity	Increases or expands earning capacity.	Maintains current earning capacity and keeps assets working.

Q3. Explain the term 'Deferred Revenue Expenditure' with a suitable example.

- **Answer:**
  - **Meaning:** It is an expenditure of revenue nature incurred during an accounting period, but its benefit spreads over several upcoming accounting years.
  - **Example:** $100,000 spent on launch advertising for a new product, written off over 5 years ($20,000 per year).

Q4. How are legal fees classified when: (a) paid to defend a suit for land ownership vs. (b) paid to acquire property title deeds?

- **Answer:**
  - **(a) Defending land ownership suit: Revenue Expenditure** (incurred to maintain and defend existing rights without adding asset value).
  - **(b) Acquiring title deeds: Capital Expenditure** (essential cost incurred to acquire the clear legal title of a fixed asset).

Section C: Case Study Based Questions (5 Marks Each)

Case Study 1: Zenith Auto Repairs

Zenith Logistics bought a secondhand delivery van for ₹ 12,000. Before putting it on the road, they spent ₹ 3,000 to overhaul the engine and repainted it with company branding for ₹ 1,000. In the third month of operation, they spent ₹ 400 on routine servicing and fuel.

1. **Analyze the treatment of the ₹ 3,000 engine overhaul and state its classification. (2 Marks)**
2. **Classify the ₹ 400 spent on servicing/fuel and explain why it is treated that way. (2 Marks)**
3. **3. Is buying the delivery van a recurring (frequent) expense or a non-recurring (one-time) expense?** ***(1 Mark)***

Answers:

1. The ₹ 3,000 overhaul cost is a **Capital Expenditure** because it was necessary to put a secondhand asset into working/roadworthy condition.
2. The ₹ 400 spent on routine servicing/fuel is a **Revenue Expenditure** because it represents recurring maintenance required for day-to-day operations.
3. **Non-recurring (one-time) expense**.

Case Study 2: Horizon Tech Solutions

Horizon Tech took a long-term bank loan of ₹50,000 to build a new research lab. During the year, they also received ₹8,000 in software subscription fees from clients and ₹15,000 by selling an old office printer.

1. **Identify and classify the ₹ 50,000 bank loan and the ₹15,000 printer sale. (2 Marks)**
2. **Classify the ₹ 8,000 subscription income and explain its accounting treatment. (2 Marks)**
3. **Is taking a long-term bank loan a recurring (frequent) activity or a non-recurring (one-time) activity for a business? *(1 Mark)***

Answers:

1. Both are **Capital Receipts**: the ₹50,000 loan and the ₹15,000 printer sale.
2. The ₹ 8,000 subscription fee is a **Revenue Receipt** because it comes from core business operations and is credited to the Trading/P&L Account.
3. It is a **non-recurring (one-time)** activity.

Case Study 3: Metro Cinemas Upgrade

Metro Cinemas spent ₹80,000 replacing old manual seats with motorized recliner seats. To accommodate the wider recliners, total seating capacity dropped from 300 to 200 seats, but ticket prices were doubled, resulting in higher overall profits.

1. **Evaluate whether replacing the seating is a Capital or Revenue expenditure. Justify your answer. (2 Marks)**
2. **If Metro Cinemas simply repaired 20 broken old seats for ₹2,000 instead, how would that cost be classified? (2 Marks)**
3. **Does repairing 20 broken seats increase the theater's earning capacity or just maintain its current condition? *(1 Mark)***

Answers:

1. It is a **Capital Expenditure**. Even though total seat count dropped, the upgrade permanently increased the overall earning capacity and profit margin of the hall.
2. Repairing broken seats for ₹2,000 is a **Revenue Expenditure** because it merely maintains existing seating in working order.
3. It just maintains its current condition.

CH 7 FINAL ACCOUNTS OF A SOLE PROPRIETORSHIP
Question 1 (10 Marks)
From the following Trial Balance of **M/s Sunrise Enterprises**, prepare a **Trading and Profit & Loss Account** for the year ended 31st March 2025 and a **Balance Sheet** as on that date.
Trial Balance as on 31st March 2025

Particulars	**Debit (₹)**	**Credit (₹)**
Capital Account	—	1,50,000
Drawings	10,000	—
Opening Stock	25,000	—
Purchases & Sales	90,000	1,80,000
Carriage Inward	3,000	—
Wages	12,000	—
Salaries	18,000	—
Rent & Rates	6,000	—
Discount Received	—	2,000
Sundry Debtors & Sundry Creditors	40,000	25,000
Cash in Hand	8,000	—
Bank Balance	15,000	—
Furniture & Fixtures	20,000	—
Machinery	80,000	—
Closing Stock	45,000	—
Total	**3,57,000**	**3,57,000**

Solution 1
Trading and Profit & Loss Account of M/s Sunrise Enterprises
For the year ended 31st March 2025

Dr. Particulars	**Amount (₹)**	**Cr. Particulars**	**Amount (₹)**
To Opening Stock	25,000	By Sales	1,80,000
To Purchases	90,000	By Closing Stock	45,000
To Carriage Inward	3,000		
To Wages	12,000		

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To **Gross Profit c/d**	95,000		
Total	**2,25,000**	**Total**	**2,25,000**
To Salaries	18,000	By **Gross Profit b/d**	95,000
To Rent & Rates	6,000	By Discount Received	2,000
To **Net Profit** *(transferred to Capital)*	73,000		
Total	**97,000**	**Total**	**97,000**

Balance Sheet of M/s Sunrise Enterprises
As on 31st March 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Fixed Assets:**	
Add: Net Profit	73,000	Furniture & Fixtures	20,000
Less: Drawings	(10,000)	2,13,000	Machinery
Current Liabilities:		**Current Assets:**	
Sundry Creditors	25,000	Closing Stock	45,000
		Sundry Debtors	40,000
		Cash in Hand	8,000
		Bank Balance	15,000
Total	**2,38,000**	**Total**	**2,38,000**

Question 2 (10 Marks)
Prepare the **Trading and Profit & Loss Account** and **Balance Sheet** of **Shri Anand** for the year ended 31st March 2025 from the given Trial Balance.
Trial Balance as on 31st March 2025

Particulars	Debit (₹)	Credit (₹)
Capital	—	2,00,000
Drawings	15,000	—
Stock (01.04.2024)	30,000	—
Purchases and Sales	1,20,000	2,40,000

Particulars	Debit (₹)	Credit (₹)
Returns (Inward & Outward)	5,000	4,000
Freight & Duty	6,000	—
Manufacturing Wages	18,000	—
Office Salaries	22,000	—
Trade Expenses	4,000	—
Bad Debts	2,000	—
Commission Received	—	3,000
Debtors & Creditors	60,000	35,000
Land & Buildings	1,00,000	—
Plant & Machinery	50,000	—
Cash at Bank	20,000	—
Closing Stock	30,000	—
Total	**4,82,000**	**4,82,000**

Solution 2
Trading and Profit & Loss Account of Shri Anand
For the year ended 31st March 2025

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	30,000	By Sales: 2,40,000	
To Purchases: 1,20,000		Less: Sales Returns: (5,000)	2,35,000
Less: Purchase Returns: (4,000)	1,16,000	By Closing Stock	30,000
To Freight & Duty	6,000		
To Manufacturing Wages	18,000		
To **Gross Profit c/d**	95,000		
Total	**2,65,000**	**Total**	**2,65,000**
To Office Salaries	22,000	By **Gross Profit b/d**	95,000
To Trade Expenses	4,000	By Commission Received	3,000

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Bad Debts	2,000		
To **Net Profit** *(transferred to Capital)*	70,000		
Total	**98,000**	**Total**	**98,000**

Balance Sheet of Shri Anand
As on 31st March 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Fixed Assets:**	
Add: Net Profit	70,000	Land & Buildings	1,00,000
Less: Drawings	(15,000)	2,55,000	Plant & Machinery
Current Liabilities:		**Current Assets:**	
Sundry Creditors	35,000	Closing Stock	30,000
		Sundry Debtors	60,000
		Cash at Bank	20,000
Total	**2,90,000**	**Total**	**2,90,000**

Question 3 (10 Marks)
From the given Trial Balance of **Gupta Traders**, prepare a **Trading Account**, **Profit & Loss Account**, and **Balance Sheet** for the year ended 31st March 2025.
Trial Balance as on 31st March 2025

Particulars	Debit (₹)	Credit (₹)
Capital	—	1,80,000
Opening Stock	40,000	—
Purchases	1,10,000	—
Sales	—	2,10,000
Dock Chages & Custom Duty	5,000	—
Factory Power & Fuel	7,000	—
Wages	15,000	—
Establishment Expenses	12,000	—

Particulars	Debit (₹)	Credit (₹)
Printing & Stationery	3,000	—
Insurance	2,500	—
Interest Received	—	1,500
Sundry Debtors	45,000	—
Bills Payable	—	15,000
Bank Overdraft	—	23,000
Motor Van	50,000	—
Building	90,000	—
Closing Stock	50,000	—
Total	**4,29,500**	**4,29,500**

Solution 3
Trading and Profit & Loss Account of Gupta Traders
For the year ended 31st March 2025

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	40,000	By Sales	2,10,000
To Purchases	1,10,000	By Closing Stock	50,000
To Dock Charges & Duty	5,000		
To Factory Power & Fuel	7,000		
To Wages	15,000		
To **Gross Profit c/d**	83,000		
Total	**2,60,000**	**Total**	**2,60,000**
To Establishment Expenses	12,000	By **Gross Profit b/d**	83,000
To Printing & Stationery	3,000	By Interest Received	1,500
To Insurance	2,500		
To **Net Profit** *(transferred to Capital)*	67,000		
Total	**84,500**	**Total**	**84,500**

Balance Sheet of Gupta Traders

As on 31st March 2025

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital		**Fixed Assets:**	
Add: Net Profit	67,000	2,47,000	Building
Current Liabilities:		Motor Van	50,000
Bills Payable	15,000	**Current Assets:**	
Bank Overdraft	23,000	Closing Stock	50,000
		Sundry Debtors	45,000
Total	**2,85,000**	**Total**	**2,85,000**

Question 4 (10 Marks)
The following Trial Balance has been extracted from the books of **Modern Stores** on 31st March 2025. Prepare the final accounts.
Trial Balance as on 31st March 2025

Particulars	**Debit (₹)**	**Credit (₹)**
Owner's Capital	—	1,20,000
Drawings	8,000	—
Opening Stock	18,000	—
Purchases & Sales	75,000	1,50,000
Return Inward / Outward	3,000	2,000
Import Duty	4,000	—
Direct Wages	10,000	—
Salaries	14,000	—
Rent Paid	8,000	—
Rent Received	—	3,000
Postage & Telegram	1,500	—
Debtors & Creditors	32,000	20,000
Cash in Hand	4,500	—
Office Furniture	18,000	—

Particulars	Debit (₹)	Credit (₹)
Premises	1,00,000	—
Closing Stock	40,000	—
Total	**2,95,000**	**2,95,000**

Solution 4
Trading and Profit & Loss Account of Modern Stores
For the year ended 31st March 2025

Dr. Particulars	**Amount (₹)**	**Cr. Particulars**	**Amount (₹)**
To Opening Stock	18,000	By Sales: 1,50,000	
To Purchases: 75,000		Less: Return Inward: (3,000)	1,47,000
Less: Return Outward: (2,000)	73,000	By Closing Stock	40,000
To Import Duty	4,000		
To Direct Wages	10,000		
To **Gross Profit c/d**	82,000		
Total	**1,87,000**	**Total**	**1,87,000**
To Salaries	14,000	By **Gross Profit b/d**	82,000
To Rent Paid	8,000	By Rent Received	3,000
To Postage & Telegram	1,500		
To **Net Profit** *(transferred to Capital)*	61,500		
Total	**85,000**	**Total**	**85,000**

Balance Sheet of Modern Stores
As on 31st March 2025

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital		**Fixed Assets:**	
Add: Net Profit	61,500	Premises	1,00,000
Less: Drawings	(8,000)	1,73,500	Office Furniture
Current Liabilities:		**Current Assets:**	
Sundry Creditors	20,000	Closing Stock	40,000

Liabilities	Amount (₹)	Assets	Amount (₹)
		Sundry Debtors	32,000
		Cash in Hand	4,500
Total	**1,93,500**	**Total**	**1,93,500**

Question 5 (10 Marks)
From the given Trial Balance of **Ramesh Bros.**, prepare the **Trading Account**, **Profit & Loss Account**, and **Balance Sheet** as on 31st March 2025.
Trial Balance as on 31st March 2025

Particulars	Debit (₹)	Credit (₹)
Proprietor's Capital	—	2,50,000
Stock on 1st April 2024	50,000	—
Purchases and Sales	1,60,000	3,00,000
Coal, Gas & Water	8,000	—
Factory Wages	22,000	—
Office Salaries	30,000	—
Advertising Expenses	10,000	—
Sundry Expenses	5,000	—
Dividend Received	—	5,000
Sundry Debtors & Creditors	70,000	40,000
Bills Receivable	20,000	—
Plant & Machinery	1,20,000	—
Cash at Bank	10,000	—
Closing Stock	90,000	—
Total	**5,95,000**	**5,95,000**

Solution 5
Trading and Profit & Loss Account of Ramesh Bros.
For the year ended 31st March 2025

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	50,000	By Sales	3,00,000

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Purchases	1,60,000	By Closing Stock	90,000
To Coal, Gas & Water	8,000		
To Factory Wages	22,000		
To **Gross Profit c/d**	1,50,000		
Total	**3,90,000**	**Total**	**3,90,000**
To Office Salaries	30,000	By **Gross Profit b/d**	1,50,000
To Advertising Expenses	10,000	By Dividend Received	5,000
To Sundry Expenses	5,000		
To **Net Profit** *(transferred to Capital)*	1,10,000		
Total	**1,55,000**	**Total**	**1,55,000**

Balance Sheet of Ramesh Bros.
As on 31st March 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Fixed Assets:**	
Add: Net Profit	1,10,000	3,60,000	Plant & Machinery
Current Liabilities:		**Current Assets:**	
Sundry Creditors	40,000	Closing Stock	90,000
		Sundry Debtors	70,000
		Bills Receivable	20,000
		Cash at Bank	10,000
Total	**4,00,000**	**Total**	**4,00,000**

Question 6 (10 Marks)
Prepare **Trading & Profit and Loss Account** and **Balance Sheet** of **Standard Agencies** as on 31st March 2025.
Trial Balance as on 31st March 2025

Particulars	Debit (₹)	Credit (₹)
Capital Account	—	1,10,000

Particulars	Debit (₹)	Credit (₹)
Opening Stock	22,000	—
Purchases and Sales	68,000	1,35,000
Carriage on Purchases	2,500	—
Productive Wages	9,500	—
Management Salaries	15,000	—
Discount Allowed & Received	2,000	1,000
Audit Fees	3,000	—
Sundry Debtors & Creditors	28,000	18,000
Freehold Property	85,000	—
Cash in Hand	2,000	—
Bank Balance	27,000	—
Closing Stock	35,000	—
Total	**2,64,000**	**2,64,000**

Solution 6
Trading and Profit & Loss Account of Standard Agencies
For the year ended 31st March 2025

Dr. Particulars	**Amount (₹)**	**Cr. Particulars**	**Amount (₹)**
To Opening Stock	22,000	By Sales	1,35,000
To Purchases	68,000	By Closing Stock	35,000
To Carriage on Purchases	2,500		
To Productive Wages	9,500		
To **Gross Profit c/d**	68,000		
Total	**1,70,000**	**Total**	**1,70,000**
To Management Salaries	15,000	By **Gross Profit b/d**	68,000
To Discount Allowed	2,000	By Discount Received	1,000
To Audit Fees	3,000		

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To **Net Profit** *(transferred to Capital)*	49,000		
Total	**69,000**	**Total**	**69,000**

Balance Sheet of Standard Agencies
As on 31st March 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Fixed Assets:**	
Add: Net Profit	49,000	1,59,000	Freehold Property
Current Liabilities:		**Current Assets:**	
Sundry Creditors	18,000	Closing Stock	35,000
		Sundry Debtors	28,000
		Cash in Hand	2,000
		Bank Balance	27,000
Total	**1,77,000**	**Total**	**1,77,000**

Question 7 (10 Marks)
From the following information extracted from the books of **Pawan Kumar**, prepare the final accounts for the year ended 31st March 2025.
Trial Balance as on 31st March 2025

Particulars	Debit (₹)	Credit (₹)
Capital	—	1,60,000
Personal Drawings	12,000	—
Opening Stock	32,000	—
Purchases & Sales	1,05,000	2,00,000
Freight Inwards	4,000	—
Carriage Outwards	2,000	—
Factory Lighting	3,000	—
General Office Expenses	9,000	—
Bank Interest Received	—	1,000

Particulars	Debit (₹)	Credit (₹)
Trade Debtors & Creditors	48,000	22,000
Delivery Van	40,000	—
Office Equipment	30,000	—
Cash at Bank	8,000	—
Closing Stock	42,000	—
Total	**2,93,000**	**2,93,000**

Solution 7
Trading and Profit & Loss Account of Pawan Kumar
For the year ended 31st March 2025

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	32,000	By Sales	2,00,000
To Purchases	1,05,000	By Closing Stock	42,000
To Freight Inwards	4,000		
To Factory Lighting	3,000		
To **Gross Profit c/d**	98,000		
Total	**2,42,000**	**Total**	**2,42,000**
To Carriage Outwards	2,000	By **Gross Profit b/d**	98,000
To General Office Expenses	9,000	By Bank Interest Received	1,000
To **Net Profit** *(transferred to Capital)*	88,000		
Total	**99,000**	**Total**	**99,000**

Balance Sheet of Pawan Kumar
As on 31st March 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Fixed Assets:**	
Add: Net Profit	88,000	Delivery Van	40,000
Less: Drawings	(12,000)	2,36,000	Office Equipment
Current Liabilities:		**Current Assets:**	

Liabilities	Amount (₹)	Assets	Amount (₹)
Trade Creditors	22,000	Closing Stock	42,000
		Trade Debtors	48,000
		Cash at Bank	8,000
Total	**2,58,000**	**Total**	**2,58,000**

Question 8 (10 Marks)
Prepare **Trading Account**, **Profit & Loss Account**, and **Balance Sheet** of **Vanguard Services** for the year ended 31st March 2025.
Trial Balance as on 31st March 2025

Particulars	Debit (₹)	Credit (₹)
Capital	—	1,00,000
Stock on 1st April 2024	15,000	—
Purchases and Sales	60,000	1,20,000
Manufacturing Expenses	8,000	—
Wages	12,000	—
Office Rent	6,000	—
Director Fees	4,000	—
Commission Received	—	2,500
Sundry Debtors & Creditors	25,000	16,000
Bills Payable	—	11,500
Plant & Machinery	70,000	—
Cash in Hand	5,000	—
Bank Balance	45,000	—
Closing Stock	28,000	—
Total	**2,50,000**	**2,50,000**

Solution 8
Trading and Profit & Loss Account of Vanguard Services
For the year ended 31st March 2025

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	15,000	By Sales	1,20,000
To Purchases	60,000	By Closing Stock	28,000
To Manufacturing Expenses	8,000		
To Wages	12,000		
To **Gross Profit c/d**	53,000		
Total	**1,48,000**	**Total**	**1,48,000**
To Office Rent	6,000	By **Gross Profit b/d**	53,000
To Director Fees	4,000	By Commission Received	2,500
To **Net Profit** *(transferred to Capital)*	45,500		
Total	**55,500**	**Total**	**55,500**

Balance Sheet of Vanguard Services
As on 31st March 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Fixed Assets:**	
Add: Net Profit	45,500	1,45,500	Plant & Machinery
Current Liabilities:		**Current Assets:**	
Sundry Creditors	16,000	Closing Stock	28,000
Bills Payable	11,500	Sundry Debtors	25,000
		Cash in Hand	5,000
		Bank Balance	45,000
Total	**1,73,000**	**Total**	**1,73,000**

Question 9 (10 Marks)
From the given Trial Balance of **Vijay Traders**, prepare the **Trading and Profit & Loss Account** for the year ending 31st March 2025 and a **Balance Sheet** as on that date.
Trial Balance as on 31st March 2025

Particulars	Debit (₹)	Credit (₹)
Capital	—	2,20,000
Drawings	16,000	—

Particulars	Debit (₹)	Credit (₹)
Opening Stock	35,000	—
Purchases & Sales	1,30,000	2,60,000
Returns (Inward & Outward)	6,000	4,000
Royalty on Production	5,000	—
Factory Rent	8,000	—
Salaries	25,000	—
Traveling Expenses	4,000	—
Rent & Taxes	7,000	—
Sundry Debtors & Creditors	50,000	28,000
Land & Building	1,50,000	—
Cash at Bank	26,000	—
Closing Stock	45,000	—
Total	**5,12,000**	**5,12,000**

Solution 9
Trading and Profit & Loss Account of Vijay Traders
For the year ended 31st March 2025

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	35,000	By Sales: 2,60,000	
To Purchases: 1,30,000		Less: Return Inward: (6,000)	2,54,000
Less: Return Outward: (4,000)	1,26,000	By Closing Stock	45,000
To Royalty on Production	5,000		
To Factory Rent	8,000		
To **Gross Profit c/d**	1,25,000		
Total	**2,99,000**	**Total**	**2,99,000**
To Salaries	25,000	By **Gross Profit b/d**	1,25,000
To Traveling Expenses	4,000		

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Rent & Taxes	7,000		
To **Net Profit** *(transferred to Capital)*	89,000		
Total	**1,25,000**	**Total**	**1,25,000**

Balance Sheet of Vijay Traders
As on 31st March 2025

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Fixed Assets:**	
Add: Net Profit	89,000	Land & Building	1,50,000
Less: Drawings	(16,000)	2,93,000	**Current Assets:**
Current Liabilities:		Closing Stock	45,000
Sundry Creditors	28,000	Sundry Debtors	50,000
		Cash at Bank	26,000
Total	**3,21,000**	**Total**	**3,21,000**

Question 10 (10 Marks)
From the following Trial Balance of **M/s Global Goods**, prepare a **Trading Account**, **Profit & Loss Account**, and **Balance Sheet** as on 31st March 2025.
Trial Balance as on 31st March 2025

Particulars	Debit (₹)	Credit (₹)
Capital	—	1,75,000
Drawings	10,000	—
Opening Stock	28,000	—
Purchases	85,000	—
Sales	—	1,90,000
Octroi Duty	2,000	—
Gas, Power & Water	5,000	—
Direct Factory Wages	14,000	—
Salaries	16,000	—

Particulars	Debit (₹)	Credit (₹)
Bank Charges	1,000	—
Discount Received	—	1,500
Sundry Debtors & Creditors	42,000	22,000
Plant & Machinery	90,000	—
Furniture	15,000	—
Cash in Hand	5,500	—
Bank Balance	75,000	—
Closing Stock	38,000	—
Total	**3,88,500**	**3,88,500**

Solution 10
Trading and Profit & Loss Account of M/s Global Goods
For the year ended 31st March 2025

Dr. Particulars	Amount (₹)	Cr. Particulars	Amount (₹)
To Opening Stock	28,000	By Sales	1,90,000
To Purchases	85,000	By Closing Stock	38,000
To Octroi Duty	2,000		
To Gas, Power & Water	5,000		
To Direct Factory Wages	14,000		
To **Gross Profit c/d**	94,000		
Total	**2,28,000**	**Total**	**2,28,000**
To Salaries	16,000	By **Gross Profit b/d**	94,000
To Bank Charges	1,000	By Discount Received	1,500
To **Net Profit** *(transferred to Capital)*	78,500		
Total	**95,500**	**Total**	**95,500**

Balance Sheet of M/s Global Goods
As on 31st March 2025

Liabilities	Amount (₹)	Assets	Amount (₹)

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		**Fixed Assets:**	
Add: Net Profit	78,500	Plant & Machinery	90,000
Less: Drawings	(10,000)	2,43,500	Furniture
Current Liabilities:		**Current Assets:**	
Sundry Creditors	22,000	Closing Stock	38,000
		Sundry Debtors	42,000
		Cash in Hand	5,500
		Bank Balance	75,000
Total	**2,65,500**	**Total**	**2,65,500**

CLASS 10 COMMERCIAL STUDIES

CHAPTER 8 FUNDAMENTAL OF COST

Section A: Multiple Choice Questions (1 Mark Each)

Question 1

A furniture manufacturer purchases teak wood to craft dining tables. How is the cost of this teak wood classified based on its nature?

a) Indirect Material Cost

b) Direct Material Cost

c) Fixed Cost

d) Semi-Variable Cost

Answer: b) Direct Material Cost

Explanation: Direct material is an essential raw material that becomes a physically identifiable part of the finished product and can be directly traced to a specific unit of production.

Question 2

The factory building rent for a bicycle manufacturing unit remains ₹50,000 per month regardless of whether the factory produces 100 bicycles or 1,000 bicycles in that month. This cost is a classic example of a:

a) Variable Cost

b) Semi-Variable Cost

c) Fixed Cost

d) Direct Overhead

Answer: c) Fixed Cost

Explanation: Fixed costs remain constant in total amount over a given period, irrespective of fluctuations in the volume of output.

Question 3

As a factory increases its production volume, what happens to the Fixed Cost per unit of output?

a) It increases proportionately

b) It remains unchanged

c) It decreases

d) It fluctuates randomly

Answer: c) It decreases

Explanation: Total fixed cost is constant, so as total output increases, that fixed total is spread over more units, causing the fixed cost *per unit* to fall.

Question 4

A baker uses sugar, flour, and butter to bake cakes. However, she also uses small greaseproof paper wrappers for individual cupcakes. The cost of these small paper wrappers is generally treated as an:

a) Direct Cost

b) Indirect Material Cost

c) Fixed Production Cost

d) Prime Cost

Answer: b) Indirect Material Cost

Explanation: Auxiliary materials used in small quantities that cannot be conveniently or economically traced to a specific unit of output are treated as indirect materials (overheads).

Question 5

Which of the following cost components comprises Prime Cost?

a) Direct Material + Direct Labor + Direct Expenses

b) Direct Material + Factory Overhead

c) Fixed Costs + Variable Costs

d) Indirect Material + Indirect Labor + Indirect Expenses

Answer: a) Direct Material + Direct Labor + Direct Expenses

Explanation: Prime cost is the total aggregate of all direct costs directly traceable to product creation.

Question 6

An internet bill consists of a fixed rental charge of ₹500 per month plus ₹1 for every additional GB consumed beyond the free limit. Based on behavior, how is this bill classified?

a) Fixed Cost

b) Variable Cost

c) Semi-Variable Cost

d) Direct Expense

Answer: c) Semi-Variable Cost

Explanation: Semi-variable (or mixed) costs contain both a fixed element (base rental) and a variable element (usage charge per GB).

Question 7

How does total Variable Cost behave in response to changes in output level?

a) It remains constant in total amount

b) It changes in direct proportion to changes in output volume

c) It decreases as production increases

d) It fluctuates independently of production levels

Answer: b) It changes in direct proportion to changes in output volume

Explanation: Total variable cost moves directly alongside output—if output doubles, total variable cost doubles (while variable cost *per unit* remains constant).

Question 8

The wages paid to a machine operator who is directly involved in stitching leather shoes in a shoe factory are classified as:

a) Indirect Labor Cost

b) Direct Labor Cost

c) Administrative Overhead

d) Fixed Labor Cost

Answer: b) Direct Labor Cost

Explanation: Wages paid to workers actively engaged in converting raw materials into finished products are direct labor costs.

Question 9

In a garment manufacturing unit, thread, buttons, and machine lubricating oil are examples of:

a) Direct Materials

b) Indirect Materials

c) Selling Expenses

d) Fixed Overhead

Answer: b) Indirect Materials

Explanation: Lubricating oil, buttons, and thread are minor items where tracing exact per-unit costs is difficult or economically impractical, making them indirect materials.

Question 10

Which of the following items is an Indirect Expense?

a) Royalty paid per unit of output produced

b) Salary paid to the factory storekeeper

c) Rent and rates of the central administrative office

d) Custom duty paid on imported raw materials

Answer: c) Rent and rates of the central administrative office

Explanation: Office rent is an indirect expense because it supports overall operations rather than being tied directly to producing a specific unit of product.

Section B: Short Answer Questions (2 Marks Each)

Question 11

Scenario: A car manufacturer pays a royalty of ₹2,000 to a patent holder for every engine manufactured in its plant.

Question: Classify this cost based on nature (Direct vs. Indirect) and justify your answer in one sentence.

Answer & Solution:

Classification: Direct Expense. *(1 Mark)*

Justification: It is a direct expense because it can be specifically identified with and directly attributed to the production of each engine unit. *(1 Mark)*

Question 12

Explain why the salary paid to a factory supervisor is considered an Indirect Labor Cost, whereas wages paid to an assembly line worker are a Direct Labor Cost.

Answer & Solution:

Assembly line workers physically transform raw materials into finished goods, so their labor is directly traceable to the product (Direct Labor). *(1 Mark)*

A supervisor oversees the entire workshop floor rather than making individual goods; their effort supports general production, making it untraceable to a single unit (Indirect Labor). *(1 Mark)*

Question 13

"Variable costs are variable in total, but fixed per unit." Explain this statement with a brief example.

Answer & Solution:

If raw material costs ₹10 per notebook, producing 1 notebook costs ₹10 and 10 notebooks cost ₹100; hence, total cost varies with volume. *(1 Mark)*

However, the cost per notebook remains constant at ₹10, making the per-unit variable cost fixed regardless of production volume. *(1 Mark)*

Question 14

Define Semi-Variable Cost and give one real-world business example of it.

Answer & Solution:

Definition: A semi-variable cost is a cost that contains both a fixed component (which remains constant regardless of output) and a variable component (which changes with production volume). *(1 Mark)*

Example: Electricity charges consisting of a fixed minimum meter rent plus an extra charge per unit of power consumed. *(1 Mark)*

Section C: Distinguish Between (3 Marks Each)

Question 15

Distinguish between Direct Costs and Indirect Costs on the basis of:

(a) Traceability to a product

(b) Composition / Elements

(c) Allocation method

Answer & Solution:

Basis of Distinction	Direct Costs	Indirect Costs
(a) Traceability	Can be easily and economically traced to a specific product or cost center.	Cannot be conveniently or directly traced to a specific product unit.
(b) Composition	Comprises Direct Materials, Direct Labor, and Direct Expenses (Prime Cost).	Comprises Indirect Materials, Indirect Labor, and Indirect Expenses (Overheads).

Basis of Distinction	Direct Costs	Indirect Costs
(c) Allocation Method	Allocated wholly and directly to the specific job or product.	Apportioned/absorbed across multiple products using estimation bases.

Question 16

Distinguish between Fixed Costs and Variable Costs on the basis of:

(a) Relationship with production volume

(b) Per-unit cost behavior

(c) Controllability in the short run

Answer & Solution:

Basis of Distinction	Fixed Costs	Variable Costs
(a) Production Volume	Total cost remains unchanged as production increases or decreases.	Total cost varies in direct proportion with changes in production volume.
(b) Per-Unit Behavior	Fixed cost *per unit* decreases as production output increases.	Variable cost *per unit* remains constant despite changes in production volume.
(c) Controllability	Generally uncontrollable by management in the short run.	Highly controllable in the short run by adjusting production output.

Question 17

Distinguish between Direct Material Cost and Indirect Material Cost on the basis of:

(a) Physical presence in the final product

(b) Value and significance

(c) Example in garment manufacturing

Answer & Solution:

Basis of Distinction	Direct Material Cost	Indirect Material Cost
(a) Physical Presence	Forms a major, identifiable part of the finished physical product.	May or may not be physically present; used to assist the process.

Basis of Distinction	Direct Material Cost	Indirect Material Cost
(b) Value & Significance	Represents a significant, high-value portion of total production cost.	Usually consists of low-value, minor auxiliary items.
(c) Example (Garments)	Cloth/Fabric used to stitch a shirt.	Sewing thread, buttons, or machine maintenance oil.

Section D: Case Studies (5 Marks Each: 2 + 2 + 1 Format)

Case Study 3: Furniture Workshop Cost Breakdown

Scenario:

Modern Living Ltd. manufactures wooden study tables. During an audit, the cost accountant identified the following expense items incurred during the quarter:

Wood and ply boards: ₹4,00,000

Carpenter piece-rate wages: ₹1,50,000

Special design software license fee (paid per table model produced): ₹20,000

Glue, nails, and sandpaper: ₹5,000

Factory supervisor’s monthly salary: ₹45,000

Questions & Solutions:

Differentiate between the Direct Costs and Indirect Costs in the scenario above by listing them under two categories. (2 Marks)

Answer:

Direct Costs: Wood & ply boards (Direct Material), Carpenter wages (Direct Labor), Special design license fee (Direct Expense). *(1 Mark)*

Indirect Costs: Glue, nails & sandpaper (Indirect Material), Factory supervisor salary (Indirect Labor). *(1 Mark)*

Explain why glue, nails, and sandpaper are classified as Indirect Material even though they physically exist in the final tables. (2 Marks)

Answer: Their monetary value per table is very small, and calculating the exact quantity of glue or nails used per individual table is impractical and inefficient. Therefore, for accounting convenience, they are grouped as indirect materials.

Name the combined term used in cost accounting to describe the sum of all indirect materials, indirect labor, and indirect expenses. (1 Mark)

Answer: Overheads (or Total Indirect Costs).

Case Study 1: The Clothing Boutique

Scenario:

Riya owns a boutique called *Fashion Hub*. She pays a fixed monthly shop rent and purchases cloth material for each dress she stitches. She also pays her tailor wages based on the number of dresses stitched. To keep the workshop running, she pays a monthly electricity bill that consists of a fixed meter charge plus additional charges based on units consumed.

Questions:

(2 Marks) Identify one Fixed Cost and one Variable Cost in Riya's boutique from the scenario above.

(2 Marks) Classify the electricity bill based on cost behavior and justify your answer.

(1 Mark) How are the tailor's per-dress wages classified based on the nature of cost (Direct vs. Indirect)?

Answers & Solutions:

Identification of Costs:

Fixed Cost: Monthly shop rent (remains constant regardless of dresses stitched). *(1 Mark)*

Variable Cost: Cost of cloth material / Tailor's per-dress wages (changes directly with output). *(1 Mark)*

Classification of Electricity Bill:

Classification: Semi-Variable Cost. *(1 Mark)*

Justification: It contains a fixed component (fixed meter charge) and a variable component (charges based on units consumed). *(1 Mark)*

Classification of Tailor's Wages:

Direct Labor Cost (Direct Cost). *(1 Mark)*

Case Study 2: Furniture Manufacturing Workshop

Scenario:

Anand runs a workshop that manufactures wooden dining tables. He uses teak wood as the main material and purchases nails, glue, and wood polish for finishing touches. He also pays a monthly fixed salary to a factory supervisor who oversees all the carpenters working on the floor.

Questions:

(2 Marks) Differentiate between the Direct Material and Indirect Material used in the workshop based on the scenario.

(2 Marks) Explain why the supervisor's monthly salary is classified as an Indirect Labor Cost rather than a Direct Labor Cost.

(1 Mark) Under which main cost heading are nails, glue, and wood polish collectively grouped in cost accounting?

Answers & Solutions:

Direct vs. Indirect Material:

Direct Material: Teak wood (the primary raw material easily traceable to each finished table). *(1 Mark)*

Indirect Material: Nails, glue, and wood polish (auxiliary materials used in small/untraceable quantities per unit). *(1 Mark)*

Explanation of Supervisor's Salary:

The supervisor oversees overall factory floor operations rather than physically crafting individual tables. Because their work cannot be directly traced to a specific unit of product, it is an Indirect Labor Cost. *(2 Marks)*

Collective Heading:

Factory Overheads (or Total Indirect Costs). *(1 Mark)*

Case Study 3: Printing Press Operations

Scenario:

Apex Printers prints custom notebooks for schools. The owner pays a fixed yearly license fee for the printing software and purchases paper and ink for every batch of notebooks printed. In addition, the firm pays a royalty fee to a cover-design artist for every notebook printed using their artwork.

Questions:

(2 Marks) Identify the Direct Material and Direct Expense in this printing business.

(2 Marks) State how the total cost of paper and ink behaves when the volume of printed notebooks increases or decreases.

(1 Mark) Is the yearly software license fee classified as a Fixed Cost or a Variable Cost?

Answers & Solutions:

Identification of Direct Costs:

Direct Material: Paper and ink (raw materials that form the finished notebook). *(1 Mark)*

Direct Expense: Royalty fee paid to the cover-design artist per notebook. *(1 Mark)*

Cost Behavior of Paper & Ink:

Total paper and ink cost increases in direct proportion as output increases and decreases as output decreases (it behaves as a Variable Cost). *(2 Marks)*

Classification of License Fee:

Fixed Cost. *(1 Mark)*

Section A: Multiple Choice Questions (1 Mark Each)

1. Which type of budget serves as an overall summary that combines all other functional budgets into one complete financial plan?

- A) Cash Budget
- B) Purchase Budget
- C) Master Budget
- D) Sales Budget

Answer: C) Master Budget

2. What is the main difference between Budgeting and Forecasting?

- A) Budgeting predicts future events without setting goals, while forecasting sets strict targets.
- B) Forecasting estimates expected future events, while budgeting creates a planned commitment to achieve specific targets.
- C) Budgeting applies only to government bodies, while forecasting applies only to private companies.
- D) Forecasting is done after the financial year ends, while budgeting is done every day.

Answer: B) Forecasting estimates expected future events, while budgeting creates a planned commitment to achieve specific targets.

3. A factory manager checks the actual factory output at the end of the month against the targets set in the budget. She finds a delay and immediately takes corrective steps. Which benefit of budgeting is shown here?

- A) Source of Motivation
- B) Effective Control
- C) Delegation of Authority
- D) Sound Planning

Answer: B) Effective Control

Explanation: Effective control happens when actual performance is compared against budgeted standards so that management can identify differences and correct them quickly.

4. Observe the two organizational scenarios below:

Scenario 1: A manager guesses that shoe sales will go up by 10% next year based on market trends.

Scenario 2: A business gives ₹50,000 to the marketing team with strict limits on how to spend it to get 500 new customers..

Identify which scenario represents a "Forecast" and which represents a "Budget".

- A) Scenario 1 is a Budget, Scenario 2 is a Forecast.
- B) Both scenarios are Forecasts.
- C) Scenario 1 is a Forecast, Scenario 2 is a Budget.
- D) Both scenarios are Budgets.

Answer: C) Scenario 1 is a Forecast, Scenario 2 is a Budget.

Explanation: Scenario 1 is an opinion/prediction of future trend (Forecast), while Scenario 2 sets specific targets, limits, and resource allocations (Budget).

5. A supervisor was given complete freedom to spend up to ₹20,000 on minor machine maintenance without asking top management every time. Which utility of budgeting is demonstrated here?

- A) Higher Efficiency
- B) Delegation of Authority
- C) Comparison with Forecasting
- D) Preparation of Master Budget

Answer: B) Delegation of Authority

Explanation: Delegating authority means top managers give lower managers the power to spend money within an approved budget limit..

6. Which budget is usually prepared FIRST because most other budgets (like production and purchase) depend on it?

- A) Cash Budget
- B) Production Budget
- C) Sales Budget
- D) Master Budget

Answer: C) Sales Budget

7. What is the main purpose of preparing a Cash Budget in advance?

- A) To calculate the total profit made at the end of the year.
- B) To predict cash shortages or extra cash early so the business can plan ahead.
- C) To calculate how much tax the company needs to pay.
- D) To count the physical stock of goods stored in the warehouse.

Answer: B) To predict cash shortages or extra cash early so the business can plan ahead.

Explanation: A Cash Budget helps a business see ahead of time if it will run short of cash (to arrange a loan) or have extra cash (to invest it wisely).

8.Ravi is calculating how many units of raw materials his factory needs to buy next month to fulfill the production target. Which specific budget is he preparing?

- A) Sales Budget
- B) Purchase Budget
- C) Cash Budget
- D) Master Budget

Answer: B) Purchase Budget

Explanation: The Purchase Budget estimates the quantity and cost of raw materials or stock that must be bought to meet production requirements.

9. When lower-level managers are given clear budget targets and rewarded when they meet them, they feel involved and work harder. Which utility of budgeting does this highlight?

- A) Source of Motivation
- B) Sound Planning
- C) Cash Management
- D) Forecasting

Answer: A) Source of Motivation

Explanation: Clear, achievable targets give employees a sense of purpose and push them to perform better, acting as a direct source of motivation.

10. The production manager and sales manager meet to ensure the factory does not manufacture 10,000 units when the sales team can only sell 4,000 units. This prevents wasted resources. Which benefit of budgeting is shown here?

- A) Delegation of Authority
- B) Coordination
- C) Forecasting
- D) Cash Inflow

Answer: B) Coordination

Explanation: Budgeting forces different departments (like sales and production) to talk and work together, harmonizing their individual efforts to avoid mismatches.

Section B: Short Answer Questions (2 Marks Each)

Q1. Define "Budgeting" in simple words.

- **Answer:**
  - **Meaning:** Budgeting is the process of creating a formal financial plan in advance for a specific future period.

    - **Key Feature:** It sets clear targets for income, expenses, and resource use to help achieve business goals.

Q2. Distinguish between a Sales Budget and a Production Budget.

- **Answer:**

Feature	**Sales Budget**	**Production Budget**
Focus	Estimates expected sales units and sales revenue.	Estimates the number of units to be manufactured.
Sequence	Prepared first (starting point).	Prepared after the sales budget is finalized.

Q3. Explain how budgeting acts as a "Source of Motivation" for employees.

- **Answer:**
    - Budgets give employees clear, written targets to aim for rather than vague goals.
    - Knowing exactly what is expected of them gives employees confidence, a sense of ownership, and a drive to achieve or exceed those goals.

Q4. What is a "Cash Budget"? State its main purpose.

- **Answer:**
    - **Meaning:** A Cash Budget is a statement showing projected cash inflows (money coming in) and cash outflows (money going out) over a future time period.
    - **Purpose:** Its main purpose is to ensure the business always has enough cash to pay its bills and to plan in advance for cash shortages or extra cash.

Q5. What is meant by a "Purchase Budget"?

- **Answer:**
    - **Meaning:** A Purchase Budget calculates the quantity and financial cost of raw materials (or goods) a business must buy during a budget period.
    - **Basis:** It is based directly on the production budget and required stock levels to prevent running out of materials or overstocking.

Section C: Case Study Based Questions (5 Marks Each)

Case Study 1: The Misaligned Departments

Bright Electronics made its annual plan. The sales team enthusiastically set a target to sell 20,000 solar lamps. However, the production team only planned to make 8,000 lamps because they were never consulted. As a result, customers were unhappy due to stock shortages.

1. **Which utility of budgeting was missing between the sales and production teams? Explain briefly. (2 Marks)**
2. **Which two specific budgets should have been aligned to avoid this issue? (2 Marks)**
3. **Does a Sales Budget depend on a Production Budget, or is it the other way around? (1 Mark)**

Answers:

1. **Coordination** was missing because the sales and factory teams did not talk to match their numbers.
2. The **Sales Budget** and the **Production Budget**.
3. The **Production Budget depends on the Sales Budget**.

Case Study 2: The Expanding Bakery

Anita runs a growing bakery. In the past, she made all spending decisions herself. Now, with three branches, she gives each branch manager a set budget of ₹30,000 per month for ingredients and local repairs, allowing them to make purchases directly.

1. **Which benefit of budgeting is Anita applying here? Define it briefly. (2 Marks)**
2. **How does setting a budget limit help Anita maintain control over her managers? (2 Marks)**
3. **Is delegating authority through budgeting a sign of lower efficiency or higher efficiency? (1 Mark)**

Answers:

1. **Delegation of Authority**: Passing financial decision-making power down to lower-level managers within approved limits.
2. It gives managers freedom to act while ensuring they cannot overspend beyond the approved ₹30,000 threshold without approval.
3. It is a sign of **higher efficiency**.

Case Study 3: Prediction vs. Commitment

Before starting the new year, Auto Parts Ltd. reviewed an industry market report predicting a 15% increase in car demand next year. Based on this, the board officially set a company goal to manufacture 50,000 parts and assigned exact budgets to all departments.

1. **Identify which part of the case describes "Forecasting" and which describes "Budgeting". (2 Marks)**
2. **What is the difference between the two?. (2 Marks)**

3. **Which one comes first: Forecasting or Budgeting? (1 Mark)**

Answers:

1. The market report predicting a 15% demand increase is a **Forecast**. Setting the official target of 50,000 parts with assigned department funds is a **Budget**.
2. A forecast is just a guess about the market. A budget is a firm plan of action the company promises to execute..
3. **Forecasting comes first** (it provides data to help build the budget).

Case Study 4: The Final Financial Picture

The Chief Financial Officer (CFO) of Zenith Corp collected the sales plan, production costs, raw material purchase plans, and cash flow projections. She combined all of them into one single summary master document for the Board of Directors.

1. **What is this single summary document called in budgeting? (2 Marks)**
2. **Why is this summary document important for top management? (2 Marks)**
3. **Can a Master Budget be prepared before the functional budgets (sales, cash, etc.) are ready? State Yes or No. (1 Mark)**

Answers:

1. It is called the **Master Budget**.
2. It gives top management a complete, bird's-eye view of the entire business's financial plan in one place.
3. **No** (it requires inputs from all smaller functional budgets first).

Section D: Long Answer Questions (5 Marks Each)

Q1.What is Budgeting? Explain four major points showing the utility/importance of budgeting for a business.

- **Answer:**
  - **Definition:** Budgeting is the administrative process of preparing financial plans in advance to direct and control future business operations.
  - **Four Key Utilities:**
    1. **Sound Planning:** Forces management to think ahead, set clear goals, and prepare for future opportunities and risks instead of making last-minute decisions.
    2. **Effective Control:** Sets target benchmarks. By comparing actual results against budgeted targets, managers can spot bad performance early and fix it.
    3. **Coordination:** Connects different departments (like sales, production, and finance) so they all work toward the same main goals without conflicting.
    4. **Sense of Responsibility:** Assigns specific financial targets to individual department heads, making them accountable for their expenses and results.

Q2. Compare Budgeting and Forecasting across five clear parameters.

- **Answer:**

Parameter	Forecasting	Budgeting
1. Meaning	An estimation of future events based on trends.	A planned commitment to achieve specific targets.
2. Main Objective	To predict what is likely to happen.	To set goals and direct what management wants to happen.
3. Flexibility	Flexible and adjusted often as market conditions change.	Rigid and serves as a strict standard for a set period.
4. Sequence	Done first (provides inputs).	Done after forecasting (uses forecast data).
5. Control	Does not act as a tool for control or performance checks.	Acts as a direct tool to measure and control performance.

Q3. Explain the meaning of the following five types of budgets:

1. **Sales Budget**
2. **Production Budget**
3. **Purchase Budget**
4. **Cash Budget**
5. **Master Budget**

- **Answer:**
    1. **Sales Budget:** A forecast of total sales quantity and total monetary revenue expected over the budget period. It forms the base for all other operational budgets.
    2. **Production Budget:** A plan estimating the total number of product units that must be manufactured to meet sales targets and maintain required inventory levels.
    3. **Purchase Budget:** A plan detailing the quantities and financial cost of raw materials or stock that must be purchased to support the production schedule.

4. **Cash Budget:** A projection of expected cash receipts and cash payments over a period, ensuring the company maintains proper liquidity and avoids cash shortages.
5. **Master Budget:** The master financial summary that pulls together all functional budgets (sales, production, cash, etc.) into one overall picture of the company's financial future.

Q4. Explain how budgeting improves operational performance through (a) Higher Efficiency, (b) Source of Motivation, and (c) Delegation of Authority.

- **Answer:**
  - **(a) Higher Efficiency:**
    - Budgeting reduces waste by setting pre-approved spending and material limits.
    - It ensures resources (money, raw materials, labor) are allocated where they are needed most, avoiding unnecessary expenses.
  - **(b) Source of Motivation:**
    - Clear, written targets give staff a concrete goal to aim for.
    - When workers understand their targets and get recognized or rewarded for meeting them, their enthusiasm and productivity increase.
  - **(c) Delegation of Authority:**
    - Budgets set clear spending boundaries for branch or department managers.
    - Top executives do not need to approve every tiny daily expenditure, freeing up senior time and empowering lower-level managers to act quickly within their budget limit.

STD 10 COMMERCIAL STUDIES CH-9 SOURCES OF FINANCE

Section A: Multiple Choice Questions (1 Mark Each)

1.Which type of shares give their holders fixed dividend payments and priority when getting their money back if the company closes down?

- A) Equity Shares
- B) Preference Shares
- C) Debentures
- D) Bank Overdraft

Answer: B) Preference Shares.

2. What is the main difference between a Shareholder and a Debenture holder?

- A) A shareholder is an owner of the company, while a debenture holder is a lender (creditor).
- B) A shareholder gets fixed interest, while a debenture holder gets dividends.
- C) A debenture holder gets voting rights, while a shareholder does not.

- D) A shareholder can demand their money back anytime, while a debenture holder cannot.

Answer: A) A shareholder is an owner of the company, while a debenture holder is a lender (creditor).

3. Ravi has ₹10,000 in his savings account earning low interest. He decides to buy shares of a growing company in the Capital Market to get higher returns. Which function of the Capital Market is shown here?

- A) Balance between Demand and Supply
- B) Investment Avenue
- C) Bank Overdraft
- D) Discounting of Bills

Answer: B) Investment Avenue

Explanation: An investment avenue means the capital market gives people different places to put their saved money to earn better returns.

4. Look at these two company decisions:

Decision 1: Raising ₹50 Lakhs by issuing shares that never have to be repaid during the company's lifespan.

Decision 2: Taking a short-term bank facility to withdraw more money from the current account than the actual balance to pay this month's rent.

Identify the financial arrangement in Decision 2.

- A) Equity Shares
- B) Debentures
- C) Bank Overdraft
- D) Preference Shares

Answer: C) Bank Overdraft

Explanation: A bank overdraft allows an account holder to withdraw more cash than is currently sitting in their bank account.

5.A business seller receives a 90-day bill of exchange from a buyer. Need cash urgently today, the seller goes to the bank, hands over the bill, and gets immediate cash after paying a small bank fee. What is this short-term loan facility called?

- A) Cash Credit
- B) Bank Overdraft
- C) Discounting of Bills
- D) Debenture Issue

Answer: C) Discounting of Bills

Explanation: Discounting of bills means getting immediate cash from the bank for a future promise-to-pay bill, minus a small bank charge.

6. When a capital market encourages ordinary people to save small amounts of money instead of spending it, which function is it performing?

- A) Capital Formation
- B) Promotion of Thrift
- C) Discounting Bills
- D) Cash Credit

Answer: B) Promotion of Thrift

Explanation: "Thrift" means habit of saving money. The capital market gives people reason to save instead of wasting money.

7. A manufacturing firm needs a flexible bank facility where it can borrow cash up to a fixed limit approved against its stored raw materials, paying interest only on the amount actually used. What short-term bank loan is this?

- A) Cash Credit
- B) Equity Share
- C) Debenture
- D) Preference Share

Answer: A) Cash Credit

Explanation: Cash credit lets a business borrow money up to a limit against its goods/stock, paying interest only on what it uses.

Section B: Short Answer Questions (2 Marks Each)

Q1. What is a "Capital Market" in simple words?

- **Answer:** A Capital Market is a financial market where long-term funds (like shares and debentures) are bought and sold between people who have extra savings and businesses that need money to grow.

Q2. What is the difference between an Equity Share and a Preference Share regarding dividends?

- **Answer:**
  - **Preference Share:** Gets a **fixed percentage** of dividend and gets paid **first** before equity shareholders.
  - **Equity Share:** Gets a **variable dividend** (depends on remaining profit) and gets paid **last**.

Q3. Explain the meaning of a "Debenture".

- **Answer:** A debenture is a written document or certificate issued by a company acknowledging that it has borrowed money from the holder at a fixed rate of interest for a set period.

Q4. What is a "Bank Overdraft"?

- **Answer:** A bank overdraft is a short-term borrowing facility given by a bank to a current account holder, allowing them to withdraw more money than they currently have in their account, up to an agreed limit.

Q5. What is meant by "Discounting of Bills"?

- **Answer:** It is a facility where a bank pays cash immediately to a business against a future bill of exchange (before its due date), after deducting a small service charge (discount).

Section C: Long Answer Questions (5 Marks Each)

Q1. What is a Capital Market? Explain four main functions of the Capital Market.

- **Answer:**
  - **Meaning:** The Capital Market is a system where long-term funds (shares, debentures, bonds) are raised and traded between investors and businesses.
  - **4 Main Functions:**
    1. **Promotion of Thrift:** Encourages habits of saving money among the public by giving them safe avenues to invest.
    2. **Investment Avenue:** Provides individuals with simple options to put their money to work and earn dividends or interest.
    3. **Capital Formation:** Collects small idle savings from across the country and channels them into building factories, equipment, and infrastructure.
    4. **Provides Liquidity:** Creates a ready market where investors can easily sell their shares and convert them back into cash whenever needed.

Q2. Compare Shares and Debentures in 5 simple points.

- **Answer:**

Feature	**Shares**	**Debentures**
1. Meaning	Represents ownership in the company.	Represents a loan taken by the company.

Feature	Shares	Debentures
2. Status of Holder	Holder is an **Owner**.	Holder is a **Lender (Creditor)**.
3. Return Offered	Gets **Dividend** (varies with profit).	Gets **Fixed Interest** (must be paid even during loss).
4. Voting Rights	Has voting rights in meetings.	Has **no voting rights**.
5. Repayment Risk	Money is not repaid until company closes.	Money is repaid after a fixed agreed period.

Q3. Explain these 3 short-term bank loan facilities in simple words:

1. **Cash Credit:** A facility where the bank approves a borrowing limit for a business against security (like stock or inventory). Interest is charged only on the cash actually withdrawn and used, not on the total limit.
2. **Bank Overdraft:** A temporary arrangement where current account holders can withdraw more money than their actual balance up to an approved limit to handle urgent short-term cash needs.
3. **Discounting of Bills:** A facility where a bank pays immediate cash for a bill of exchange before its maturity date after deducting a small discounting charge.

Q4. Compare Equity Shares and Preference Shares in 5 simple points.

- **Answer:**

Feature	Equity Shares	Preference Shares
1. Rate of Dividend	Fluctuates based on company profit.	Fixed percentage rate.

Feature	Equity Shares	Preference Shares
2. Dividend Priority	Paid **after** preference shareholders.	Paid **first** before equity shareholders.
3. Voting Rights	Full voting rights in company meetings.	No normal voting rights.
4. Repayment on Closure	Paid last when company shuts down.	Paid back **before** equity shareholders.
5. Risk Level	High risk (called risk capital).	Lower risk compared to equity.

CLASS 10 COMMERCIAL STUDIES CH-14 BANKING.

Section A: Multiple Choice Questions (1 Mark Each)

1.Which of the following functions is EXCLUSIVELY performed by the Central Bank of a country and NOT by commercial banks?

- A) Accepting demand deposits from the general public
- B) Granting personal loans and home mortgages
- C) Holding the monopoly power of currency note issuance
- D) Providing lockers for safe custody of valuables

Answer: C) Holding the monopoly power of currency note issuance

2. How does RTGS (Real Time Gross Settlement) fundamentally differ from NEFT (National Electronic Funds Transfer)?

- A) NEFT processes transfers individually in real-time, while RTGS processes in net batches.
- B) RTGS processes transactions continuously on an individual basis, whereas NEFT settles transactions in hourly batches.
- C) RTGS is used only for personal mobile payments, while NEFT is meant for international trade.

- D) NEFT requires a debit card, while RTGS requires a credit card.

Answer: B) RTGS processes transactions continuously on an individual basis, whereas NEFT settles transactions in hourly batches.

3. Rohan needs to urgently transfer ₹5,00,000 to a vendor at 2:00 PM for an immediate shipment release. He wants the money to reflect in the vendor's account instantly without waiting for hourly batch clearing. Which payment system should he use?

- A) NEFT
- B) Cheque clearing
- C) RTGS
- D) Postal Money Order

Answer: C) RTGS

4. When commercial banks run short of money and cannot get help anywhere else, which bank steps in to lend them funds?

- **A)** A Commercial Bank
- **B)** A Central Bank
- **C)** A Mobile Wallet Company
- **D)** A Foreign Bank

Answer: B) A Central Bank

5. An individual receives an email asking them to urgently click a link and enter their 16-digit debit card number, CVV, and ATM PIN to prevent their bank account from being suspended. What type of cyber fraud is being attempted?

- A) Insurance Fraud
- B) Phishing (Internet / Cyber Fraud)
- C) False Accounting
- D) Intellectual Property Fraud

Answer: B) Phishing (Internet / Cyber Fraud)

6. Which three-digit security code is printed on the back of a credit or debit card near the signature strip?

- A) PIN (Personal Identification Number)
- B) IFSC Code
- C) CVV (Card Verification Value)
- D) OTP (One Time Password)

Answer: C) CVV (Card Verification Value)

7.What is the main difference between a Debit Card and a Credit Card?

- **A)** A debit card uses your own money directly from your bank account, while a credit card lets you borrow money up to a set limit.
- **B)** A debit card works only at ATMs, while a credit card works only online.
- **C)** A credit card needs money in your bank account, but a debit card does not.
- **D)** Debit cards charge extra interest on every purchase, but credit cards are always free to use.

Answer: A) A debit card uses your own money directly from your bank account, while a credit card lets you borrow money up to a set limit.

8. A software developer finds out that another company copied their patented computer code word-for-word and is selling it without permission. What kind of fraud is this?

- **A)** False Accounting
- **B)** Intellectual Property Fraud
- **C)** Credit Card Fraud
- **D)** Insurance Fraud

Answer: B) Intellectual Property Fraud

9.A company intentionally alters its financial balance sheet by understating expenses and overstating revenue to show higher profits to prospective investors. How is this classified?

- A) Internet Fraud
- B) Credit Card Fraud
- C) False Accounting
- D) Insurance Fraud

Answer: C) False Accounting

10. Sita stores ₹2,000 in her Paytm/PhonePe App to pay for groceries without entering her main bank account details during every small payment. What mode of net banking service is she using?

- A) RTGS
- B) Mobile Wallet
- C) Automated Teller Machine (ATM)
- D) Credit Card Loan

Answer: B) Mobile Wallet

Section B: Short Answer Questions (2 Marks Each)

Q1. Define a Central Bank and state its main objective.

- **Answer:**
  - **Meaning:** A Central Bank is the apex financial institution of a country that regulates, controls, and supervises the entire monetary and banking structure.

- **Main Objective:** Its primary objective is to maintain economic stability, control inflation, stabilize foreign exchange, and ensure smooth financial growth rather than earning profits.

Q2. Distinguish between NEFT and IMPS on the basis of settlement speed and minimum transaction amount.

- **Answer:**

Feature	**NEFT (National Electronic Funds Transfer)**	**IMPS (Immediate Payment Service)**
Settlement Speed	Settled in batches (deferred clearing).	Instant / Real-time clearing (24x7).
Minimum Amount	No minimum limit (varies by bank policy).	No minimum limit (₹1).

Q3. State two essential cautions that a cardholder must observe while using Debit/Credit cards at ATMs or online.

- **Answer:**
  1. **Never Share Sensitive Credentials:** Never share the ATM PIN, CVV, or OTP with anyone, including bank representatives.
  2. **Check for Tampering / Secure Websites:** Ensure ATM keypads/slots do not have hidden skimmers, and make online transactions only on secure (https://) websites.

Q4. Explain the concept of 'Insurance Fraud' with a simple example.

- **Answer:**
  - **Meaning:** Insurance fraud occurs when an individual or entity intentionally makes false or exaggerated claims to obtain improper compensation from an insurance company.
  - **Example:** Staging a fake burglary or setting fire to one's own insured property to collect a fraudulent claim payout.

Q5. What is meant by a 'Mobile Wallet'? Give two popular examples.

- **Answer:**

- **Meaning:** A mobile wallet is a digital app-based virtual store where users can pre-load money from their bank accounts to make quick electronic payments, pay bills, or transfer small amounts.
- **Examples:** Paytm, Google Pay, PhonePe, or Amazon Pay.

Section C: Case Study Based Questions (5 Marks Each)

Case Study 1: The Banking System Crisis

During a hard economic time, many regular banks ran short of cash because lots of people suddenly withdrew their money. To stop people from panicking and to save the banks, the main bank (apex bank) stepped in, gave emergency loans, and changed reserve rules to make the system safe again.

1. **Which bank stepped in to save the regular banks, and what role did it play? *(2 Marks)***
2. **What is one main difference between the Central Bank and regular banks when dealing with the public? *(2 Marks)***
3. **Is the main objective of the apex bank to earn profit? State Yes or No. (1 Mark)**

Answers:

1. The **Central Bank** stepped in. It acted as the **"Lender of Last Resort"** (the last helper to lend money when no one else can).
2. The Central Bank **does not deal directly with the general public** for deposits/loans, whereas Commercial Banks deal directly with retail and business customers.
3. **No.** (Its main goal is to keep the country's economy safe and stable, not to make money).

Case Study 2: Digital Payment Choice

Anil has to make two urgent online transfers today: (a) ₹500 to a friend for lunch, and (b) ₹10,000,000 to purchase a plot of land where immediate settlement is required by the seller.

1. **Which money transfer mode (IMPS/Mobile Wallet vs RTGS) is best suited for payment (a) and why? (2 Marks)**
2. **Which money transfer mode is best suited for payment (b) and why? (2 Marks)**
3. **Does IMPS work on public holidays? (1 Mark)**

Answers:

1. **Mobile Wallet / IMPS**: Ideal for small-value transfers (₹500) because it is instant, convenient, and low-cost.
2. **RTGS**: Best for payment (b) because it handles high-value transfers (₹10 Lakhs) with gross, immediate real-time settlement.
3. **Yes** (IMPS operates 24/7/365, including bank holidays).

Case Study 3: The Unfortunate Incident at the ATM

Ramesh went to an ATM to withdraw cash. A stranger standing behind him offered to help, noted Ramesh's 4-digit PIN while he typed it, and secretly swapped Ramesh's debit card with a dummy card. Later, ₹40,000 was withdrawn from Ramesh's account.

1. **Identify the type of fraud Ramesh fell victim to, and state how the stranger got access. (2 Marks)**
2. **State two precautions Ramesh should have taken while using his card at the ATM. (2 Marks)**
3. **Does a debit card allow withdrawing money even if the account balance is zero? (1 Mark)**

Answers:

1. **Debit Card Fraud (Card Swapping & Shoulder Surfing)**. The stranger noted his PIN by standing too close and swapped his physical card.
2. Precautions:
   - Cover the keypad with your hand while typing the PIN.
   - Never take help from strangers inside an ATM booth.
3. **No** (A debit card only allows spending/withdrawing funds available in the linked bank account).

Case Study 4: The E-Commerce Scam

Priya received an SMS claiming she won a lottery of ₹1,00,000. To claim it, she was directed to a fake website identical to her bank's homepage and asked to enter her Credit Card number, expiry date, and CVV.

1. **Identify the type of fraud and explain the role of the fake website. (2 Marks)**
2. **What critical mistake would Priya make if she shares her CVV and OTP on that link? (2 Marks)**
3. **Should bank officials ever ask customers for their ATM PIN or CVV over SMS or calls? (1 Mark)**

Answers:

1. **Cyber/Internet Fraud (Phishing Scam)**. The fake website replicates the bank's page to trick users into entering private login/card information.
2. She would allow fraudsters to execute unauthorized **Credit Card Fraud**, leading to money being stolen up to her credit limit.
3. **No** (Banks never ask for confidential details like PINs, CVVs, or OTPs).

Section D: Long Answer Questions (5 Marks Each)

Q1. Define a Central Bank. Explain four major functions performed by the Central Bank of a country.

- **Answer:**

- **Definition:** A Central Bank is the supreme monetary authority of a nation that regulates currency, controls money supply, and supervises the financial system.
- **Four Key Functions:**
    1. **Bank of Issue (Currency Monopoly):** Has the exclusive legal right to issue currency notes in the country, ensuring uniformity and control over liquidity.
    2. **Banker to the Government:** Acts as an agent, banker, and advisor to the government by managing public debt, holding government accounts, and advising on monetary policy.
    3. **Banker's Bank and Supervisor:** Holds cash reserves of commercial banks, provides them clearing house facilities, and supervises their operational norms.
    4. **Controller of Credit and Money Supply:** Regulates the volume of credit created by commercial banks using instruments like Repo Rate, Cash Reserve Ratio (CRR), and Open Market Operations (OMO).

Q2. Compare a Central Bank and Commercial Banks across five key parameters.

- **Answer:**

Parameter	**Central Bank**	**Commercial Bank**
1. Nature & Status	Apex monetary institution of the country.	Subordinate financial institution under central control.
2. Primary Objective	Public interest, economic stability, and price control.	Profit maximization for shareholders.
3. Currency Issuance	Holds sole authority to issue currency notes.	Has no authority to issue currency.
4. Direct Public Dealing	Does not deal directly with the general public.	Deals directly with retail and corporate customers.
5. Ownership	Generally state-owned / public sector.	Can be private, public, or foreign-owned.

Q3. Elaborate on the four modes of digital/net banking transfers: (a) NEFT, (b) RTGS, (c) IMPS, and (d) Mobile Wallets. Highlight one specific use-case scenario for each.

- **Answer:**
  - **(a) NEFT (National Electronic Funds Transfer):**
    - *Meaning:* A nationwide payment system for transferring funds electronically on a deferred net settlement (DNS) batch basis.
    - *Use Case:* Paying monthly house rent or routine vendor bills where a slight delay of an hour or two is acceptable.
  - **(b) RTGS (Real Time Gross Settlement):**
    - *Meaning:* An instant fund transfer system where money is settled continuously on an individual (gross) basis without batching. Meant for large sums.
    - *Use Case:* Transferring ₹15,00,000 for purchasing a commercial property or major machinery.
  - **(c) IMPS (Immediate Payment Service):**
    - *Meaning:* An instant 24/7 interbank electronic fund transfer service accessible via mobile phones, internet banking, and ATMs.
    - *Use Case:* Sending ₹2,000 urgently to a relative late at night on a Sunday or public holiday.
  - **(d) Mobile Wallets:**
    - *Meaning:* Digital app-based accounts loaded with money to perform quick, small-value contactless transactions without exposing bank account numbers.
    - *Use Case:* Paying ₹150 for cab rides, fast food, or daily grocery purchases quickly via QR code scans.

Q4.Explain Credit Cards and Debit Cards. Differentiate between them on three parameters, and detail two essential security measures every user must take.

- **Answer:**
  - **Debit Card:** A plastic card issued by a bank that directly deducts money from the cardholder's existing bank balance when used.
  - **Credit Card:** A card issued by a bank/financial institution allowing the user to borrow funds up to a pre-approved limit to make purchases or cash advances.
  - **Comparison Table:**

Parameter	**Debit Card**	**Credit Card**
Source of Funds	Existing money in bank account ("Pay Now").	Borrowed bank line of credit ("Pay Later").
Interest	No interest (uses own	High interest if full balance

Parameter	Debit Card	Credit Card
Charges	balance).	isn't paid by due date.
Spending Limit	Limited to available bank balance.	Limited to pre-set credit limit.

- **Two Essential Security Measures:**
  1. **Protect Confidential Credentials:** Never write down or disclose PINs, CVV codes, or OTPs to anyone.
  2. **Enable Transaction Alerts & Block Instantly:** Keep SMS/Email banking alerts active for every transaction, and block the card immediately via mobile banking if lost or stolen.

Q5. Define Financial Fraud. Detail the following four types of financial fraudulent practices with a brief real-world example for each:

1. Credit Card Fraud
2. False Accounting
3. Insurance Fraud
4. Intellectual Property Fraud

- **Answer:**
  - **Financial Fraud:** Intentional deception, misrepresentation, or criminal activity performed for illegal financial gain or to cause financial loss to another party.
  - **Types of Fraud:**
    1. **Credit Card Fraud:** Unauthorized use of someone else's credit card details or physical card to make fraudulent purchases.
       - *Example:* Skimming card details at a gas station to make illegal online purchases.
    2. **False Accounting:** Manipulating financial statements, overstating profits, or understating liabilities to present a false picture of a company's financial health.
       - *Example:* Enron-style corporate scandal where debts were hidden in offshore entities.
    3. **Insurance Fraud:** Submitting false, exaggerated, or fabricated claims to an insurance company to fraudulently obtain money.
       - *Example:* Faking a medical emergency or inflating hospital bills to claim health insurance reimbursements.
    4. **Intellectual Property (IP) Fraud:** Stealing, copying, or using protected patents, copyrights, trademarks, or trade secrets without permission for economic gain.

- *Example:* Manufacturing and selling counterfeit designer handbags bearing a registered luxury logo.