

# CHAPTER- 2

## ENTREPRENEURIAL PLANNING

### A. VERY SHORT ANSWER TYPE QUESTIONS

**Question 1. Give any two contents of business plan.**

**Answer.** General introduction and Business venture.

**Question 2. Who can write the business plan?**

**Answer.** Any person(s) who wish to start a business venture can write the business plan.

**Question 3. How many formats are available to design a successful business plan?**

**Answer.** Three or four formats are available to design a successful business plan.

**Question 4. What is the meaning of shipping in the process of operational plan?**

**Answer.** Shipping is a process that describes the flow of goods/services from production to the final consumers.

**Question 5. What is a proforma income statement?**

**Answer.** Proforma income statement is a projected net profit calculated from estimated revenue minus projected costs and expense.

**Question 6. What is break even analysis?**

**Answer.** The break even analysis is a process of determining a point where firm neither makes profit nor a loss. At this point the total revenue is equal to the total cost of a firm at the given level of capacity.

**Question 7. What is meant by a target market?**

**Answer.** Target market refers to the specific group of potential customers whose needs the enterprise aims to fulfil.

**Question 8. What is TAN?**

**Answer.** TAN or Tax Deduction and Collection Account Number is a 10 digit alpha numeric number required to be obtained by all persons who are responsible for deducting or collecting tax.

**B. SHORT ANSWER TYPE QUESTIONS-I**

**Question 1. What is a Business Plan?**

**Answer.**(i) A business plan is a comprehensively written down document prepared by the entrepreneur describing formally all the relevant external and internal elements involved in starting a new venture.

(ii) It is a 'road map' required by the venture to evolve from an early start up to a mature business.

(iii) It workout all the relevant external and internal elements involved in starting a new venture and then running it successfully.

(iv) It is a formal statement of a set of business goals to be achieved by the enterprise.

**Question 2. What is elevator pitch?**

**Answer.** Elevator pitch is a three minute summary of the business plan's executive summary. This is used to awaken the interest of potential funders, customers, or strategic partners. It is common for start-ups to have three or four formats as follows for the same business plan and elevator pitch is one of it. .

**Question 3. What is a production plan?**

**Answer.** Production plan is the planning of industrial operations involves four considerations, namely, what work shall be done, how the work shall be done and lastly, when and by whom the work shall be done. Production being a highly complex and tedious process in nature, the manufacturing operations needs to be well planned through production plan.

**Question 4. Name the factors which affect the operational plan.**

**Answer.**Operation plan is affected by:

- (a) Nature of venture
- (b) Type of product/service
- (c) Scale of operation, and
- (d) Technology involved

**Question 5. How many services of funds are there for arranging the fund for business enterprises?**

**Answer.** Sources of funds for business for any enterprise are from:

- (i) Owners i.e. Owner's funds
- (ii) Outsiders i.e. borrowed funds

**C. SHORT ANSWER TYPE QUESTIONS-II**

**Question 1. Briefly, explain the objectives of operational plan.**

**Answer.** Following are the objectives of operation plan:

- (i) Advance production: For production in advance of operations,
- (ii) Exact route: Establishing the exact route of each individual item, part of assembly,
- (iii) Dates: Setting, starting and finishing dates for each important assignment/ work.
- (iv) Orderly movement of goods:Regulating the orderly movement of goods through the entire manufacturing cycle i.e. right from procurement of all materials to the shipping of finished goods.

**Question 2. Describe the contents of organizational plan.**

**Answer.** Organizational plan includes the following:

- (i) The terms and conditions associated with the selected form.
- (ii) Lines of authority and responsibility of members of the new venture.
- (iii) The names, designation, addresses and resumes of the members.
- (iv) Stake of members in the organization.
- (v) Roles and responsibilities of each member.
- (vi) Procedure for solving conflicts/ disputes amongst members.
- (vii) Forms of payment for the members of the organization.
- (viii) Voting rights, managerial and controlling rights of the members.

**Question 3. Which common techniques are required to calculate the forecasting income?**

**Answer.** Following are the most commonly adopted techniques for forecasting:

- (i) Marketing research
- (ii) Industry sales
- (iii) Survey of buyers' intentions
- (iv) Expert opinions
- (v) Financial data on similar start-ups
- (vi) Some trial experience of self or others.

**Question 4. Write the steps in preparing the marketing plan.**

**Answer.** Procedure for preparing the marketing plan involves following steps:

- (i) Business Situation Analysis
- (ii) Identify the Target Market
- (iii) Conduct Swot
- (iv) Establish Goals
- (v) Define Marketing Strategy

**Question 5. What is PAN? Why is it required?**

**Answer.** Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued by the Income Tax Department.

It is required because it enables the department to link all transactions of the enterprise with the department. These transactions include tax payments, TDS/ TCS credits, returns of income/wealth/ gift/FBT, etc.

#### **D.LONG ANSWER TYPE QUESTIONS**

**Question 1. What is an operational plan? Discuss its blue print.**

**Answer.** Operation plan is a system whereby there is achieved a smooth and coordinated flow of work within the factory so that, by planning and control of all the productive operations in all the stages of manufacture, the final product is completed in accordance with the plans. Wright Following are the elements of operation plan:

**(i) Routing:** It is a process which determines the exact path a product has to follow right from raw material till its transformation into finished product.

**(ii) Scheduling:** It means fixation of time, day, date when each operation is to be commenced and completed.

**(iii) Dispatching:** It is the process of initiating production according to pre-conceived production plan. It involves issuing necessary orders instructions, guidelines, etc.

**(iv) Follow-up:** It relates to evaluation and appraisal of work performed. A properly planned follow-up procedure is helpful in finding errors and defects in the work.

**(v) Inspection:** Inspection is the art of comparing materials, product or performance with established standards. This helps to set up laboratories or evolve methods to ensure predetermined quality of product.

**(vi) Shipping:** It describes the flow of goods/services from production to the consumers. It is a

detailed presentation by the entrepreneur explaining the chronological steps in completing a business transaction efficiently and profitably.

**Question 2. Define organisational plan. A business can be classified in how many categories?**

**Answer.** Organizational plan is a part of the business plan that describes the proposed venture's form of ownership.

Business can be classified as:

- (i) Manufacturing business—making of a tangible product.
- (ii) Wholesale business—buying of products in bulk from the manufacturers to be sold in smaller lot to retailers.
- (iii) Retail business—selling product directly to the final consumer for final satisfaction.
- (iv) Service business—selling intangible such as time or expertise.

**Question 3. How many choices are there to start a business by a business man? Explain each of them.**

**Answer.** Following are the choices available to a businessman:

**(i) Sole proprietorship:** Sole proprietorship is a business unit whose ownership and management are vested in one person. The individual assumes all risks of loss or failure of the enterprise and receives all profits from its successful operations.

**(ii) Partnership:** A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses.

**(iii) Joint Hindu family:** Joint Hindu family or Hindu Undivided Family Business is a unique form of business organisation prevailing only in India. The HUFs have been defined under the Hindu law "As a family, which consists of male lineally descended from a common ancestor and included their wives and unmarried daughters."

**(iv) Co-operative organizations:** Co-operation is a form of organisation where in persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interest of themselves." Its main motive is mutual help and works with the principle of 'Each for all' and 'All for each'.

**(v) Corporation/Joint Stock Company:** A joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership.

**Question 4. What are the key areas to work a sound financial plan?**

**Answer.** Following are the key areas to work a sound financial plan:

- (i) Financial requirements
- (ii) Sources of raising funds
- (iii) Exact assessment of the revenue, cost, profits, cash flow dynamics, stock of inventory loans, etc.

**Question 5. What are the major financial items that should be included in the financial plan?**

**Answer.** Following are the major financial items that should be included in the financial plan:

- (i) Proforma Investment Decisions
- (ii) Proforma Financing Decisions
- (iii) Proforma Income Statements
- (iv) Proforma Cash Flow
- (v) Proforma Balance Sheet
- (vi) Break-even analysis
- (vii) Economic and Social Variables

**E. VERY LONG ANSWER TYPE QUESTIONS**

**Question 1. What is a business plan? Explain the importance of business plan.**

**Answer.** A business plan is a comprehensively written down document prepared by the entrepreneur describing formally all the relevant external and internal elements involved in starting a new venture.

The business plan:

- (i) Viability: It helps in finding the viability of the venture in a designated market
- (ii) Guidance: It helps in providing guidance to the entrepreneur in organizing, planning activities as such:
  - (a) identifying the resources required
  - (b) enabling obtaining of licenses if required, etc.
  - (c) working out with legal requirements.
- (iii) Queries: It helps in satisfying the queries, and issues of each group of people interested in the venture.
- (iv) Evaluation: It provides room for self-assessment and self-evaluation.
- (v) Planning: It helps entrepreneur to plan ways to avoid obstacles.
- (vi) Obstacles: It helps to realize the obstacles which cannot be avoided or overcome, suggesting to stop the venture while still on paper without investing further time and money.
- (vii) Credit history: It reflects the entrepreneur's credit history, the ability to meet debt and interest payments, and the amount of personal equity invested.

### **Question 2. Describe the different elements of operational plan.**

**Answer.** Following are the elements of operation plan:

- (i) Routing: It is a process which determines the exact path a product has to follow right from raw material till its transformation into finished product.
- (ii) Scheduling: It means fixation of time, day, date when each operation is to be commenced and completed.
- (iii) Dispatching: It is the process of initiating production according to pre-conceived production plan. It involves issuing necessary orders instructions, guidelines, etc.
- (iv) Follow-up: It relates to evaluation and appraisal of work performed. A properly planned follow-up procedure is helpful in finding errors and defects in the work.
- (v) Inspection: Inspection is the art of comparing materials, product or performance with established standards. This helps to setup laboratories or evolve methods to ensure predetermined quality of product.
- (vi) Shipping: It describes the flow of goods/services from production to the consumers. It is a detailed presentation by the entrepreneur explaining the chronological steps in completing a business transaction efficiently and profitably.

### **Question 3. What is a financial plan? What are its objectives?**

**Answer.** Financial plan is a process of determining firm's financial needs or goals for the future and the means to achieve them. Objectives of financial plan:

- (i) To assess the amount of finance needed by enterprise.
- (ii) To develop suitable capital structure for the enterprise.
- (iii) To make the policies related with the finance for the enterprise.
- (iv) To safeguard the enterprise for financial risk.

### **Question 4. Explain the investment decision under the financial plan. In which areas the investment should be done on the basis of priority?**

**Answer.** Enterprise's funds are invested in different assets so that the enterprise is able to earn the highest possible returns on investment.

An estimate of fixed assets and of working capital should be clearly mentioned. Investment is required for:

- (i) Land and Building
- (ii) Machinery and Plant

- (iii) Installation Cost
- (iv) Preliminary Expenses
- (v) Margin for working capital
- (vi) Expenses on research and development
- (vii) Investment in short-term assets viz. raw material, level of cash, etc.

**Question 5. What is manpower planning? Why is it necessary for every business unit?**

**Answer.** Manpower Planning is a process by which an entrepreneur ensures that he/ she has the right number of people, and right kind of people, at the right place and the right time to do work for which they are economically most suitable. Manpower planning is necessary for every business unit because it helps to assesses:

- (i) What kind of people are required?
- (ii) How many people are required?
- (iii) How will they be selected?

**Question 6. What is a marketing plan? Why it is required in business enterprises?**

**Answer.** Marketing plan is a guideline regarding the marketing objectives, strategies and activities to be followed by the new enterprise. It represents a significant element in the business plan for a new venture as it effectively establishes how the entrepreneur will complete and operate in the market place by providing answers to three basic questions: where have we been, where do we want to go and how do we get there.

Marketing plan is required because it describes the strategies related to how:

- (i) Products/Services will be distributed,
- (ii) The product will be priced
- (iii) The product will be promoted.

**Question 7. Explain in detail the various formalities required to start a business.**

**Or**

**Aman has decided to start a small leather belt manufacturing unit. He is not aware of the various formalities involved in the process of setting up the unit. Explain to him the procedure. (HOTS)**

**Answer.** Various formalities for starting a business in India include the following :

**(i) Obtain PAN Number from Income Tax Department:**

- (a) Permanent Account Number (PAN) a ten-digit alphanumeric number, issued by the Income Tax Department enables the department to link all transactions of the person with the department.
- (b) These transactions include tax payments, TDS/TCS credits, returns of income/wealth/gift/FBT, specified transactions, etc.
- (c) It is mandatory to quote PAN in all documents related to financial transactions like sale or purchase of any immovable property valued at five lakh rupees or more, sale or purchase of a motor vehicle or vehicle, a time deposit, exceeding fifty thousand rupees, with a banking company, a deposit, exceeding fifty thousand rupees, in any account with Post Office Savings Bank, a contract of a value exceeding one lakh rupees for sale or purchase of securities, etc.

**(ii) Open a Current Account in any Commercial Bank:**

- (a) Any person(s) competent to contract and satisfactorily introduced to the Bank may open an account in his/her own name.
- (b) Accounts can be opened for sole proprietorship firms, partnership firms, private limited and public limited companies, Joint Hindu families, trusts, clubs, associates, etc.
- (c) Accounts can be opened by minors of 14 years and above, if able to read and write, (a) Various documents related to firm are also to be provided.

**(iii) Register a Limited Liability Partnership (LLP):** Limited Liability Partnership (LLP)

- (a) The Limited Liability Partnership (LLP) is an alternative corporate business vehicle which

provides the benefits of limited liability but allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement.

(b) The LLP form enable entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements.

(c) It is governed by the provisions of the Limited Liability Partnership Act, 2008.

(d) TO register an Indian LLP, firstly apply for a Designated Partner Identification Number (DPIN), which can be done by filing e-Form.

(e) Acquire the Digital Signature Certificate (DSC) and register the same on the portal. This is the only secure and authentic way that a document can be submitted electronically.

(f) All filings done by the LLP(s) are required to be filed with the use of Digital Signatures by the person authorised to sign the documents.

(g) Thereafter, entrepreneur need to get the LLP name approved by the Ministry.

(h) Once the LLP name is approved, entrepreneur can register the LLP by filing the incorporation form.

**(iv) Register Company (Pvt. Ltd/ Public Limited Company):** The following steps are involved in incorporating a private or public company in India:

(a) Name of the Business Entity

(b) Register for e-filing at MCA (Ministry of Corporate Affairs) portal

(c) Apply for Director Identification Number (DIN)

(d) Obtain Digital Signature Certificate (DSC)

(e) Register DSC at MCA website

(f) Apply for approval of the name of the company

(g) Formulate Memorandum of Association

(h) Formulate Articles of Association

(i) Verify, Stamp & Sign Articles of Association

(j) Verify the various forms required for incorporation of company

**(v) Register for Service Tax:**

(a) Service tax, an indirect tax, which normally the service provider pays the tax and recovers the amount from the recipient of taxable service.

(b) Normally, the person who provides the taxable service on receipt of service charges is responsible for paying the Service Tax to the Government.

(c) In the following situations, the receiver of the services is responsible for the payment of Service tax:

- Where taxable services are provided by Foreign Service providers with no establishment in India, the recipient of such services in India is liable to pay Service Tax.

- For the services in relation to Insurance Auxiliary Service by an Insurance Agent, the Service Tax is to be paid by the Insurance Company.

- For the taxable services provided by a Goods Transport Agency for transport of goods by road, the person who pays or is liable to pay freight is liable to pay Service Tax, if the consignor or consignee falls under any of the seven categories viz. a factory, a company, a corporation, a society, a co-operative society, a registered dealer of excisable goods, a body corporate or a partnership firm.

- For the taxable services provided by Mutual Fund Distributors in relation to distribution of Mutual Fund the Service Tax is to be paid by the Mutual Fund or the Asset Management Company receiving such service.

**(vi) Register for VAT/Sales Tax:**

(a) VAT is a tax on the final consumption of goods or services and is ultimately borne by the consumer.

(b) The State Governments, through Taxation Departments, are carrying out the responsibility of levying and collecting VAT in the respective States.

(c) The Central Government is playing the role of a facilitator for the successful

implementation of VAT.

(d) The entire design of VAT with input tax credit is crucially based on documentation of tax invoice, cash memo or bill.

(e) Every registered dealer, having turnover of sales above an amount specified, needs to issue to the purchaser serially numbered tax invoice with the prescribed particulars.

(f) This tax invoice is to be signed and dated by the dealer or his regular employee, showing the required particulars.

(g) For identification/registration of dealers under VAT, the Tax Payer's Identification Number (TIN) is used. Sales Tax: Sales tax is levied on the sale of a commodity, which is produced or imported and sold for the first time. If the product is sold subsequently without being processed further, it is exempt from sales tax. It is levied under the authority of both Central Legislation (Central Sales Tax) and State Governments Legislations (Sales Tax).

Some states also levy additional tax, surcharge, turnover tax, etc.

Sales tax is recovered from the buyer as a part of consideration for sale of goods.

Under state Sales Tax ID number entrepreneur(s) collect and pay tax for any service or product sold, which, qualifies for taxation in the state.

**(vii) Excise Duty (If Applicable):** Excise duty is a tax on manufacture or production of goods. "State Excise" duty and "Central Excise" duty are the two type of excise duty which are to be paid to state government and central government respectively.

Subject to specified conditions, generally the following categories of persons are required to get themselves registered with the Central Excise department.

Subject to specified conditions, the various categories of persons need not obtain Central Excise registration.

Apply to the nearest Central Excise Division Office in Form A.I along with a self-attested copy of the PAN issued by the Income Tax Department. After post verification, a regular Registration certificate in form RC is normally issued immediately.

**(viii) Shop and Establishment Act:** Shop and Establishment Act is to provide statutory obligation and rights to employees and employers in the unorganised sector of employment, i.e., shops and establishments. Shops and Establishment Act is a State Act and therefore State specific Shops and Establishment Rules should be followed for getting knowledge on registration and maintenance of different registers.

**(ix) Customs Duty:** Customs Duty is levied on goods imported into India as well as on goods exported from India. Taxable event is import into or export from India.

**(x) File Entrepreneurship Memo-randum at DIC (Optional):** Entrepreneur may File Part I of Entrepreneurs Memorandum to the District Industries Centre. This may be necessary for claiming certain incentives/subsidies and for certain formalities at the state level.

**(xi) Apply for TAN:** All persons who are required to deduct tax at source or collect tax at source on behalf of Income Tax Department are required to apply for and obtain TAN.

**(xii) Permissions required at the Construction Stage:** Following permissions are required to be obtained from the government:

(a) Application for plot/shed, offer letter etc, Allotment of plot/shed, payment of balance occupancy price, taking over possession thereof, Application for issuance of NOC/ SSI registration, Execution of Lease Agreement, Application for grant of connection for construction water, Application for grant of connection for construction power.

(b) Post Construction Clearances: It includes: Building completion/ drainage completion/tree plantation certificate, Permission for mortgage, NOC from Pollution Control Board, Final Fire clearance, NOC from Environment department, Industrial safety permit, Sanction of permanent power, Sanction of permanent water and sewerage connection.

**(xiii) Employee's Provident Fund:** Applicable for establishments employing 20 or more persons and engaged in industry.

**(xiv) Employee's State Insurance (ESI) Scheme:** The Act is applicable to non-seasonal factories employing 10 or more persons and is extended to shops, hotels, restaurants,



cinemas including preview theatres, road- motor transport undertakings and newspaper establishments employing 20 or more persons.

## **F. HIGH ORDER THINKING SKILLS**

**Question 1. A person has decided to start a small leather belt manufacturing unit. He/she is not aware of the various formalities involved in the process of setting up the unit. Explain to him/her the procedure.**

**Answer.** Various formalities are to be followed for starting a business in India:

- (i) Obtain PAN Number from Income Tax Department
- (ii) Open a Current Account in any commercial bank.
- (iii) Register a limited Liability Partnership (LLP).
- (iv) Register company (Pvt. Ltd/Public . Limited Company)

The following steps are involved in incorporating a private or public company in India:

- (i) Name of the Business Entity
- (ii) Register for e-filing at MCA (Ministry of Corporate Affairs) portal
- (iii) Apply for Director Identification Number (DIN)
- (iv) Obtain Digital Signature Certificate (DSC)
- (v) Register DSC at MCA website
- (vi) Apply for approval of the name of the company
- (vii) Formulate Memorandum of Association
- (viii) Formulate Articles of Association
- (a) Verify, stamp & sign Articles of Association
- (b) Verify the various forms required for incorporation of company
- (c) Register for Service Tax
- (d) Register for VAT/Sales Tax
- (e) Excise Duty (If Applicable): Apply to the nearest Central Excise Division Office in Form A. 1 along with a self-attested copy of the PAN issued by the Income Tax Department.
- (f) Shop and Establishment Act: Shops and Establishment Act is a state act and therefore State Specific Shops and Establishment rules should be followed for getting knowledge on registration and maintenance of different registers.
- (ix) Customs Duty: Customs Duty is levied on goods imported into India as well as on goods exported from India.
- (x) File Entrepreneurship Memo-randum at DIC (Optional): Entrepreneur may file Part I of Entrepreneurs Memorandum to the District Industries Centre. This may be necessary for claiming certain incentives/subsidies and for certain formalities at the state level.
- (xi) Apply for TAN: All persons who are required to deduct tax at source or collect tax at source on behalf of Income Tax Department are required to apply for and obtain TAN.
- (xii) Permissions required at the construction stage.
- (xiii) Employee's Provident Fund: Applicable for establishments employing 20 or more persons and engaged in industry.
- (xiv) Employee's State Insurance (ESI) Scheme: The Act is applicable to non-seasonal factories employing 10 or more persons and is extended to shops, hotels, restaurants, cinemas including preview theatres, road- motor transport undertakings and newspaper establishments employing 20 or more persons.

## **G. VALUE BASED QUESTIONS**

**Question 1. The first stage of a business plan is to come up with a business name supposing you are an entrepreneur, who is in the stage of deciding a business name for your enterprise would you:**

- (i) Keep the name of your enterprise, similar to one of the enterprises that are already doing really well in the same line of business?**
- (ii) Select/create a completely new name for your enterprise and create a brand name of your**

**own? Give reasons. (Honestly)**

**Answer.** If I am the entrepreneur in the stage of deciding a business name of my product then I will not keep the name of the enterprise, similar to one of the enterprises that is already doing really well in the same line of business. Instead I will go for a completely new name for my enterprise and create a brand name of my own. This is because:

- (i) Honesty: Having a new brand name is a honest attempt to start a new venture.
- (ii) Creative: Altogether new enterprise will mean that the entrepreneur is creative.
- (iii) Initiative: This indicates that the entrepreneur is taking initiative for ! starting a new thing.
- (iv) Discipline: In this case, by opening a new enterprise with a new brand name indicates that the entrepreneur is well aware of the business ethics and is a strict disciplinarian.

**Question 2. An entrepreneur is doing the industry analysis. While he is analyzing his competitions in the line of business, he realises that the competitions are far better in their business plans and their execution. Should the entrepreneur add unique selling point in the existing plan to get a creative niche above others or should he go for a completely different line of business where the competition is less and he is easily able to place his feet in the market? Give reasons. (Creativity and problem solving)**

**Answer.** Entrepreneur should add unique selling point in the existing plan to get a creative niche above others. This is because of following reasons:

- (i) This will indicate that the entrepreneur is creative and so want to solve the problem with creativity.
- (ii) It also will mean that the entrepreneur has the ability to concentrate on the problem and have a suitable solution.
- (iii) Here the entrepreneur will be a problem solver and is not afraid of competition.
- (iv) It also reflects that the entrepreneur has got the quality of endurance which is an essential trait for a successful entrepreneur.

**Question 3. You are an entrepreneur who is deciding the operational plan for your business. While deciding for the technology to be used, you come across two alternatives:**

- (i) Use a cheaper technology which lets you dispose off the waste water and lets you fix the price of your product low.**
- (ii) Use a technology that is a little expensive as it lets you recycle that waste water into water fit for drinking. In this case you will have to fix the price a little higher in order to earn profits.**
- (iii) Use the technology that recycles the waste, do not change the price. And go about cost cutting though efficient utilization of resources. Give reasons for your selection of alternative.**

**Answer.** As an entrepreneur I will go for the third alternative i.e. alternative £c'. This is because of following:

- (i) It indicates the efficient utilization of resources.
- (ii) It will also mean proper utilisation and re-utilisation of resources. It shows the entrepreneur's concern for environment.
- (iii) This step indicates that the entrepreneur is aware of his responsibility as a mark of citizenship.
- (iv) This step reflects the resource fullness trait of the entrepreneur.

**Question 4. An individual wants to start an enterprise that manufactures steam iron which can be imported from Germany. The material available in Germany is a little better in quality. However, there are no safety issues with the one available in India which material would you go for and why? (Social responsibility, import substitution).**

**Answer.** As an entrepreneur I will go for the material available in India. This is because:

- (i) It is the social responsibility of the entrepreneur to go for the betterment and the development of the country.

(ii) This will also mean that the entrepreneur is going for import-substitution. This will save the precious foreign exchange for the country.

(iii) National awareness value will be reflected here. It means that the entrepreneur is aware about the national problem.

(iv) By import substitution he will be fulfilling the requirement of the people, indicating that he cares for the society and the problems of the people.

**Question 5. While doing the manpower planning an entrepreneur decides to keep less qualified manpower and give them low wages and salaries to enable higher profits. Do you think his approach is correct and justified? Why?**

**Answer.** No, this approach of the entrepreneur is incorrect. This is because:

(i) In such situation he will not be utilising the resources fully and this will mean more likely wastage of the resources.

(ii) Entrepreneur will be not fulfilling his responsibility of doing social service.

(iii) He will not be doing social justice as he will be exploiting the people for his selfish motive.

(iv) He is also not following self control. Self control is an essential trait for the long term success of the enterprise.

**Question 6. According to you, what kind of organisational set up is better – an autocratic form of an organization where there is absolute centralization of power and the communication from top to bottom.**

**Or**

**A democratic form of an organization where power is decentralized and communication from both the ends. Justify.**

**Answer.** In my opinion, the should be democratic form of organization where power is decentralized and communication from both the ends. This is because of following reasons:

(i) Creativity: This will enhance the creativity as there will be ample freedom of expression in the firm.

(ii) Team work: Team work will be enhanced as there will be democratic set up. There will be more positive interaction between the employees and the management.

(iii) Consideration for others: Democratic set up ensures consideration for others. This will create more belongingness in the enterprise leading to more better working environment.

(iv) Humanism: Human feeling will be more positively and effectively utilised for the betterment of the enterprise and also for enhancing the productivity.

**Question 7. Raghav, an entrepreneur realises that the enterprise he wants to start has a potential risk of fire because the production process poses such a threat. Should he develop strategies to:**

**(i) Prevent the risk**

**(ii) Respond to the risk**

**(iii) Prevent as well as respond to the risk? Give reasons.**

**Answer.** Raghav should prevent as well respond to risk. This is because of following reasons:

**(i) Initiative:** This will reflect that he is ready to take initiative which is an essential trait for a successful entrepreneur.

**(ii) Creative:** This will indicate that the entrepreneur is creative which will mean that the entrepreneur will have more chances of being successful in future.

**(iii) Discipline:** Prevention and responding will require the entrepreneur to be disciplined. This will inculcate the disciplined environment in the enterprise.

**(iv) Compassion:** Passion is what required by an entrepreneur for the growth and development of the enterprise.

**MORE QUESTIONS SOLVED**

## **I. VERY SHORT ANSWER TYPE QUESTIONS**

### **Question 1. Around what human life is built?**

**Answer.** Human life is built around work.

### **Question 2. Every person is engaged in some kind of activity. Why?**

**Answer.** Humans have recurring needs and wants. Every person is engaged in some kind of activity with a view to earn his living and satisfy the material and social requirements.

### **Question 3. What is the symbol of human life?**

**Answer.** Activity, a symbol of human life

### **Question 4. What are economic activities?**

**Answer.** Economic Activities: Those activities which are undertaken to earn monetary gains are called economic. It includes production, distribution and consumption of goods and services.

### **Question 5. What are non-economic activities?**

**Answer.** Non-Economic Activities: Those activities which are done out of love, care, affection, self-satisfaction, emotions, sympathy, patriotism, etc. but not for money are known as non-economic activities.

### **Question 6. What is Profession?**

**Answer.** According to Webster's Dictionary.

"Profession is that occupation in which one professes to have acquired specialized knowledge, which is used either in instructing, guiding or advising others,".

### **Question 7. What is employment?**

**Answer.** Employment is an activity in which an individual works regularly for others and get remuneration/compensation in return, undertaking personal services as per the agreement of employment.

### **Question 8. What is Business?**

**Answer.** Business may be defined as "an activity in which different persons exchange something of value whether goods and services for mutual gain or profit." – Peterson and Plowman

### **Question 9. Entrepreneurial activities can be divided into which major categories?**

**Answer.** Entrepreneurial activities can be divided into three major categories: Manufacturing, Trading and Service.

### **Question 10. Business either produces or procures goods and services for offering them to consumers. Which are those goods or services?**

**Answer.** They could be:

- (i) Consumers goods
- (ii) Producers goods
- (iii) Services.

### **Question 11. Entrepreneur is involved in which activities?**

**Answer.** An entrepreneur can be involved in manufacturing, trading or in service sector.

### **Question 12. What keeps a businessman vigilant and going?**

**Answer.** Risk element keeps a businessman vigilant and going.

**Question 13. Once selected, changing the 'form' of business is undesirable . Why?**

**Answer.** Once selected, changing the 'form' of business is undesirable because it is quite complex, time consuming and costly affair.

**Question 14. What do you mean by Joint Sector Enterprises?**

**Answer.** It is a form of partnership between the private sector and the government where management is generally in the hands of private sector, and with enough representation on Board of Directors by the Government too.

**Question 15. From the entrepreneur's point of view which are the most commonly opted out forms for starting a new venture?**

**Answer.** From the entrepreneur's point of view the most commonly opted out forms for starting a new venture are:

- (i) Sole Proprietorship
- (ii) Partnership
- (iii) Company.

**Question 16. What do you mean by Sole Proprietorship?**

**Answer.** "Sole proprietorship is a business unit whose ownership and management are vested in one person. The individual assumes all risks of loss or failure of the enterprise and receives all profits from its successful operations."— Edward Elbourne.

**Question 17. Define Partnership.**

**Answer.** A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses.

**Question 18. Define Joint Stock Company.**

**Answer.** Prof. L.H. Haney defines "A joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

**Question 19. Name the forms of the 'Company' form of organisation.**

**Answer.** An entrepreneur, under the 'Company' form of organisation has two choices to incorporate enterprise. These are:

- (a) Private Company
- (b) Public Company

**Question 20. What is the main motive of co-operatives?**

**Answer.** Mutual help is the main motive of co-operatives.

**Question 21. Co-operative works on which principle?**

**Answer.** Co-operative works with the principle of each for all and all for each.

**Question 22. Define Joint Hindu Family/Firm (HUFs) as per the Hindu Law.**

**Answer.** The HUFs "Is a family, which consists of male lineally descended from a common ancestor and included their wives and unmarried daughters."

**Question 23. Define business plan.**

**Answer.** A business plan is a comprehensively written down document prepared by the entrepreneur describing formally all the relevant external and internal elements involved in starting a new venture.

**Question 24. What do you mean by organizational plan?**

**Answer.** The organizational plan is that part of the business plan which describes the proposed venture's form of ownership.

**Question 25. Which are the four Cs of Credit on which investors/lenders focus?**

**Answer.** Four Cs of credit on which investors/ lenders focus are Character, Cash flow, Collateral and Equity Contribution.

**Question 26. An entrepreneur has access to which forms of business venture?**

**Answer.** The entrepreneur has access to following forms to choose as venture:

- (i) Sole proprietorship
- (ii) Partnership
- (iii) Joint Hindu Family
- (iv) Cooperative
- (v) Corporation.

**Question 27. Various forms of business venture has important implications on which areas or aspects?**

**Answer.** Various forms of business has important implications on:

- (i) Taxes (ii) Liability
- (iii) Continuity (iv) Financing
- (v) Ownership.

**Question 28. Define Operation Plan.**

**Answer.** Operation plan is a system whereby there is achieved a smooth and coordinated flow of work within the factory so that, by planning and control of all the productive operations in all the stages of manufacture, the final product is completed in accordance with the plans.

**Question 29. Desired manufacturing results of operation plan are in which terms?**

**Answer.** The desired results are in terms of:

- (i) Quantity (ii) Quality
- (iii) Time (iv) Place, and (v) Cost

**Question 30. What does manufacturing cycle include?**

**Answer.** Manufacturing cycle includes all the activities right from procurement of all materials to the shipping of finished goods.

**Question 31. What is Routing?**

**Answer.** Routing is a process which determining exact route or path a product/service has to follow right from raw material till its transformation into finished product.

**Question 32. What is Scheduling?**

**Answer.** Scheduling means fixation of time, day, date when each operation is to be commenced and completed. In general, it's the determination of the time that should be required to perform each operation.

**Question 33. What is Dispatching?**

**Answer.** The process of initiating production in accordance with preconceived production plan is said to be dispatching.

**Question 34. What is Follow-up?**

**Answer.** Follow-up or expediting function relates to evaluation and appraisal of work

performed.

**Question 35. What is Inspection?**

**Answer.** Inspection is the art of comparing materials, product or performance with established standards.

**Question 36. What is Shipping?**

**Answer.** Shipping is a process that describes the flow of goods/services from production to the consumers.

**Question 37. What is of paramount importance for the success of any organization?**

**Answer.** Human resource is of paramount importance for the success of any organisation.

**Question 38. What does manpower planning ensures?**

**Answer.** Manpower planning ensures that enterprise has the right number of people, and the right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.

**Question 39. An organisation's performance and productivity is directly proportional to what?**

**Answer.** An organisation's performance and resulting productivity are directly proportional to the quantity and quality of its manpower.

**Question 40. How to procure personnel?**

**Or**

**How can an enterprise procure personnel?**

**Answer.** Any enterprise can procure personnel through: (a) Recruitment (b) Selection (c) Training.

**Question 41. What is the objective of Human resource plan?**

**Answer.** Procurement of "Right man, at right job, at right time" is the objective of Human Resource plan.

**Question 42. 'Where have we been', this question focuses on what aspects of marketing plan of a new venture?**

**Answer.** It focuses on some history of the market place, marketing strengths and weaknesses of the new venture and market opportunities and threats.

**Question 43. The question 'Where do we want to go' addresses to which thing on an enterprise?**

**Answer.** This primarily addresses the marketing objectives and goals of the enterprise in the next twelve months or the near future.

**Question 44. A financial plan is a projection of which financial data?**

**Answer.** Financial plan is a projection of key financial data about:

- (i) The potential investment commitment needed for the new venture, and
- (ii) Economic feasibility of the enterprise.

**Question 45. In general, the financial plan will need how many years of projected financial data to satisfy any outside investors?**

**Answer.** The financial plan will need three years of projected financial data to satisfy any outside investors.

**Question 46. What lends credibility to the potential success of the new venture.**

**Answer.** Reasonable profit with conservative estimates lends credibility to the potential success of the new venture.

**Question 47. What is the difference between Profit and Cash flow?**

**Answer.** Sales minus expenses, is profit whereas cash receipts minus cash payments, is cash flow.

**Question 48. What is abatement cost?**

**Answer.** Abatement costs is the cost of controlling the environmental damage by a firm.

**Question 49. What is PAN?**

**Answer.** Permanent Account Number (PAN) is a ten-digit alphanumeric number, issued by the Income Tax Department.

**Question 50. What is a service tax?**

**Answer.** Service tax is a tax on Services and is levied on the transaction of certain services specified by the Central Government under the Finance Act, 1994.

**Question 51. What is VAT?**

**Answer.** VAT is a system of taxation, in which tax is levied on value addition at each stage of transaction in the production/' distribution chain.

**Question 52. What is Custom duty?**

**Answer.** Custom Duty is a type of indirect tax levied on goods imported into India as well as on goods exported from India.

**Question 53. Who is liable to pay service tax?**

**Answer.** Normally, the person who provides the taxable service on receipt of service charges is responsible for paying the Service Tax to the Government.

**Question 54. What is TIN?**

**Answer.** Tax Payer's Identification Number (TIN) consists of 11 digit numerals throughout the country. Its first two characters represent the State Code and the set-up of the next nine characters can vary in different States. It is for identification/ registration of dealers under VAT.

**Question 55. How is Excise duty different from Sales Tax?**

**Answer.** Sales Tax is different from the Excise duty as excise is a tax on the act of sale while the sales is a tax on the act of manufacture or production of goods.

**Question 56. Who must apply for TAN?**

**Answer.** All those persons who are required to deduct tax at source or collect tax at source on behalf of Income Tax Department are required to apply for and obtain TAN.

**Question 57. Define Planning.**

**Answer.** Planning, is thinking in advance what is to be done when it is to be done, how it is to be done and by whom it should be done.

**Question 58. Define co-operative as per the Indian Co-operative Societies Act, 1912.**

**Answer.** The Indian Co-operative Societies Act, 1912 defines co-operative in Section 4 as, "Society which has its objectives of the promotion of economic interests of its members in



accordance with co-operative principle.”

**Question 59. What is production?**

**Answer.** Production is transformation of raw material into finished product with the help of energy, capital, manpower and machinery.

**Question 60. Distinguish between ‘Sales Tax’ and ‘Excise Duty’. [CBSE Delhi 2015]**

**Answer.** Sales tax is levied on the sale of the commodity which is sold for the first time. Excise duty is a tax on manufacture/ production or import of goods.

**Question 61. List any two categories of persons that are required to obtain registration from ‘Central Excise Department’. [All India 2015]**

**Answer.** Following categories of persons that are required to obtain registration from ‘Central Excise Department’:

- (i) Every manufacturer of dutiable excisable goods.
- (ii) First and second stage dealers or importers desiring to issue cenvatable invoices.
- (iii) Persons holding bonded warehouses for storing non-duty paid goods.
- (iv) Persons who obtain excisable goods for availing end-use based exemption.

**Question 62. Distinguish between a ‘Joint Stock Company’ and a ‘Joint Hindu Family Business’ on the basis of ‘liability of its members’. [All India 2015]**

**Answer.** In case of a Joint Stock Company the liability of members is limited whereas in case of HUF liability of karta is unlimited and that of other members is limited.

**Question 63. What is meant by ‘mutual agency of partners’? [CBSE Sample Paper 2016]**

**Answer.** The business of partnership can be carried on by all partners or any one of them acting for all.

## **II. SHORT ANSWER TYPE QUESTIONS**

**Question 1. Describe two types of human activities.**

**Answer.** Activity can be classified as:

- (i) Economic activities: Those activities which are undertaken to earn monetary gains are called economic. It includes Production, Distribution and Consumption of goods and services.
- (ii) Non-economic activities: Those activities which are done out of love, care, affection, self-satisfaction, emotions, sympathy, patriotism, etc. but not for money are known as non-economic activities.

**Question 2. Every business entity needs to select an appropriate legal structure or framework to work in. Why?**

- Answer.**
- (i) Setting-up a business is not an easy task.
  - (ii) An enterprise is a separate and distinct unit, institutionally arranged to conduct any type of business activity.
  - (iii) It needs to combine the necessary beings, materials, tools, equipments, working space and appurtenances, brought together in a systematic and effective manner to accomplish the entrepreneur’s desired objective. Thus, every business entity needs to select an appropriate legal structure or framework to work in which determines the extent of ownership and responsibility of proprietor(s).

**Question 3. What do you mean by Private Sector Enterprises? Give types.**

**Answer.** Those enterprises which are owned, controlled, and managed by private individuals. These enterprises can be:

- (i) Sole-proprietorship

- (ii) Partnership
- (iii) Joint Hindu Family Business
- (iv) Co-operative (iv) Company

**Question 4. What do you mean by Public Sector Enterprises? Give its types.**

**Answer.** These enterprises are owned, controlled and operated by public authorities, with welfare as primary and profit as secondary goals, are called public sector enterprises.

These enterprises can be of following types:

- (i) Departmental undertaking
- (ii) Public corporations
- (iii) Government companies

**Question 5. All businesses must adopt some legal configuration that defines few things for a firm. Which are those?**

**Answer.** These are:

- (i) Rights and liabilities of participants in the business's ownership,
- (ii) Control,
- (iii) Personal liability,
- (iv) Life span, and
- (v) Financial structure.

**Question 6. Explain the forms of utilities which are resulted from business.**

**Answer.** Business activities result in creation of following utilities:

- (i) Form Utility—Changing the form of raw material into finished product.
- (ii) Place Utility—From the place of production transporting goods to the place of consumption.
- (iii) Time Utility—The process of storing the goods when not required to supplying them when required.

**Question 7. Describe a successful example of One Man Show/Sole Proprietorship.**

**Answer.** Domino's Pizza: In 1960, Monaghan and his brother Jim BORROWED \$ 900 and bought a foundering Pizzeria in Ypsilanti, Michigan. Jim left within the year, but Tom hung on, survived two near – bankruptcies and a fire. Monaghan worked for eighteen hours of all seven days a week, that too wholeheartedly making Domino's Pizza – AGIANT MNC world over a household name. Started as sole and today a MNC – a long successful journey of 'one big man'.

**Question 8. When is sole proprietorship firm is suitable as a business?**

**Or**

**Give the suitability of sole proprietorship.**

**Answer.** Proprietorship firm is suitable as a business when:

- (i) Capital requirement is low.
- (ii) Confidentiality is important.
- (iii) Market is local.
- (iv) Goods are of artistic nature or demands customized approach.
- (v) Quick decision-making is required.
- (vi) Size of venture is small.

**Question 9. Give one example of Partnership.**

**Or**

**GROWING TREND – PARTNER UP! Give one example in support of this statement.**

**Answer.** Tata wants to make HBO the most sought after premium subscriber – based channel in India. Apart from HBO, the company also has two other channels, both HD, HBO Hits and

HBO Defined, in partnership with Eros.

**Question 10. Partnership form of organisation has developed due to the inherent limitations of sole Proprietorship. Which are those limitations?**

**Or**

**Why was the need of partnership felt?**

**Answer.** Following are the inherent limitations of Sole Proprietorship:

- (i) Limited Capital
- (ii) Limited Managerial Ability
- (iii) Limited Continuity

In this era of specialization, expansion and diversification, expecting one man to combat them all is not possible. Business acumen and wealth seldom meet in one person. This, desirable combination probably led to emergence of Partnership form of business.

**Question 11. Write some features of Partnership.**

**Answer.** Following are the features of Partnership:

- (i) Association: It is an association of two or more persons.
- (ii) Co-owners: Members are co-owners.
- (iii) Sharing: Partners share profits and losses related to business.
- (iv) Agreement: A written or oral agreement is made by the owners.
- (a) Members: The minimum number remains at 2 members, the maximum number of members is restricted to 10 in case of banking and 20 in case of other business.

**Question 12. In making a choice, entrepreneur will want to take into account which points while selecting the form of ownership?**

**Answer.** In making a choice, entrepreneur will want to take into account following points while selecting the form of ownership :

- (i) Vision: Vision regarding the size and nature of business.
- (ii) Control: The level of control the entrepreneur wishes to have.
- (iii) Structure: The level of "structure" entrepreneur is willing to deal with.
- (iv) Vulnerability: The business's vulnerability to lawsuits.
- (a) Tax concern: Tax implications of the different organizational structures.
- (vi) Profit/Loss: Expected profit (or loss) of the business.

**Question 13. When is the partnership form of a business is an ideal choice?**

**Or**

**When is partnership form of business suitable?**

**Answer.** Partnership form of a business is an ideal choice for starting a new venture, if the entrepreneur's.

- (i) Requirement: Capital and Managerial requirements are higher as compared to that of sole proprietorship.
- (it) Size of enterprise: Enterprise falls in the category of either being a small or a medium scale enterprise.
- (iii) Contact: Direct contact with the customers is essential.

**Question 14. What is a Private Company?**

**Answer.** A private company is one which:

- (i) Has a minimum of 2 and a maximum of 200 members excluding its past and present employees.
- (ii) Restricts the right of its members to transfer shares.
- (iii) Prohibits an invitation to the public to subscribe for any shares in or debentures of the company, or accept any deposits from persons other than its directors, members or relatives.

- (iv) Has a minimum paid up capital of one lakh rupees (subject to change).
- (v) Uses the word 'Pvt. Ltd.' at the end of its name.

**Question 15. What is a Public Company?**

**Answer.** Under Section 3 (i) (ii) of the Companies Act, a public company is a company which is not a private company. By implication, a public company is one which:

- (i) Has minimum seven people to commence it with no upper limit to membership.
- (ii) Does not restrict any transfer of shares.
- (iii) Invite public to subscribe for its shares, debentures and public deposits.
- (iv) Has a minimum paid up capital of five lakh rupees.
- (v) Uses the word 'Ltd.' at the end of its name.

**Question 16. When is company form of business suitable?**

**Answer.** Company form of business is suitable for an entrepreneur when:

- (i) Heavy industry: Venture is a heavy and basic industry type.
- (ii) Large scale: Large-scale operations are involved.
- (iii) Huge fund: Business requires huge funds.
- (iv) High risk: Enterprise involves heavy risks.
- (v) Complex technology: Enterprise is technologically complex and sophisticated, banking heavily upon experts and professionals.

**Question 17. Describe the schools of law under HUF.**

**Answer.** Two schools of law are there in order to create a HUF:

- (i) Dayabhaga: It is prevalent in West Bengal and Assam. As per this school of law, the son acquires the right in the family property only after the death of his father.
- (ii) Mitakshara: It is prevalent in rest of India under which, the son acquires the right in the family property right from his birth.

**Question 18. Mention the conditions for existence of HUFs.**

**Answer.** Following are two conditions for existence of HUFs :

- (i) Two members: Minimum two members must be there in the family.
- (ii) Ancestral Property: Existence of some ancestral property.

**Question 19. Write in brief about Co-operative organizations.**

**Answer.** (i) Motive: Its main motive is not earning profit but is mutual help.

(ii) Principle: It works with the principle of each for all and all for each.

(iii) Definition: "Co-operation is a form of organisation where in persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interest of themselves." H.C. Calvert

**Question 20. Explain Planning.**

**Answer.** (i) Planning, is thinking in advance what is to be done when it is to be done, how it is to be done and by whom it should be done.

(ii) It's an intellectual thinking process that never ends.

(iii) It is the organized foresight and the vision based on facts and experience.

(iv) It bridges the gap between where we are standing and where we want to reach.

**Question 21. Which persons/professionals are consulted by the entrepreneur while preparing a business plan?**

**Answer.** Following persons/professionals are consulted by the entrepreneur while preparing a business plan:

- (i) Lawyers,

- (ii) Accountants,
- (iii) Marketing consultants,
- (iv) Engineers,
- (v) Internet sites,
- (vi) Officially appointed or/and set up banks, specialized financial institutions or agencies to promote entrepreneurship,
- (vii) Friends, relatives, mentors, etc.

**Question 22. A business plan gives clarity to the entrepreneur, investors and the government related which aspects?**

**Answer.** A business plan gives idea/clarity to the entrepreneur, investor(s) and the government of:

- (i) What an entrepreneur is doing?
- (ii) Why he/she is doing it? and
- (iii) How he/she will do that?

**Question 23. Which are the four basic categories of business?**

**Answer.** Any kind of business will fall into one of the four basic categories:

- (i) Manufacturing. It makes a tangible product.
- (ii) Wholesale. It buys products in bulk from the manufacturers to be sold in smaller lot to retailers.
- (iii) Retail. It sells the product directly to the final consumer for final satisfaction.
- (iv) Service. It sells intangible such as time or expertise.

**Question 24. Each type of business differs in which terms or aspects?**

**Answer.** Each type of business differs significantly in terms of:

- (i) Commencement procedures
- (ii) Legal constraints
- (iii) Financial requirement
- (iv) Accounting methods
- (v) Marketing and promotional strategies
- (vi) Risk and liability.

**Question 25. Why is it important to be able to categorise the business?**

**Or**

**Why is it important to carefully choose a legal structure for the business?**

**Answer.** Each type of business differs in terms of commencement procedures, legal constraints, financial requirement, accounting methods, marketing and promotional strategies and risk and liability. That's why it is important to be able to categorise the business first and then to carefully choose a legal structure for it.

**Question 26. How is organizational plan important to a potential investor?**

**Answer.** Various aspects of organizational plan provides the potential investor with a clear understanding of

- (i) who is going to control the organisation
- (ii) how other members will interact in performing the management functions.

**Question 27. How is organizational plan useful to an entrepreneur?**

**Answer.** The organizational plan helps the entrepreneur to carefully evaluate and decide that legal structure for his organization that could affect:

- (i) Long-term effectiveness of the enterprise, and
- (ii) Profitability.

- (iii) Specifying the types of skills needed and the roles that must be filled by the members.
- (iv) The enterprise's formal organisation.
- (v) The attitudes, behaviours, dress, communication styles, etc., thus chalking out informal organisation or culture.

**Question 28. How is production plan helpful?**

**Or**

**A production plan helps to plan the work in such a manner that one can clearly form an idea about which aspects?**

**Answer.** A production plan helps to plan the work in such a manner that one can clearly form an idea about:

- (i) Production schedule and/or Budget
- (ii) Machinery, equipment requirement
- (iii) Manufacturing method and process involved
- (iv) Plant layout
- (v) Time, motion and work study
- (vi) Manpower requirement
- (vii) Inventory requirement

**Question 29. How is follow-up helpful to an entrepreneur?**

**Answer.** Follow-up element helps the entrepreneur in following ways :

- (i) Developing ways: Developing ways to review the present situation with regard to materials, work-in progress and finished goods.
- (ii) Evolving ways: Evolving ways to control the performance of those departments which lag behind.
- (iii) Removing obstacles: Removing obstacles in the way of production by suggesting remedial measures.

**Question 30. What is the best assurance for a firm to flourish?**

**Answer.** The best assurance that the enterprise will flourish, requires the entrepreneur to properly plan out for a properly trained, rich and continuous supply of qualified personnel. For building and maintaining loyal, efficient and dedicated personnel, entrepreneur needs to pay adequate and proper attention to human resource planning.

Manpower planning ensures 'that enterprise has the right number of people, and the right kind of people with appropriate skills, at the right place and the right time to do work for which they are economically most suitable.

**Question 31. Why is manpower planning important for any enterprise?**

**Or**

**"The people working in a firm make it what it is." Explain why?**

**Answer.** Manpower planning is important because it helps to assesses:

- (i) What kind of people are required?
- (ii) How many people are required?
- (iii) How will they be selected?

**Question 32. As the most basic thing, the entrepreneur must clearly state which things related to human resource?**

**Answer.** As the most basic thing, the entrepreneur must clearly state following things related to human resource

- (i) Kind of Persons to be hired: What kind/type of person is required to be hired for getting the work done.
- (ii) Work out: To workout a wide range of personnel ranging from managers, supervisors,

administrators, engineers, technical, skilled and unskilled class.

(iii) Type of manpower required: Nature of business activity helps entrepreneur to a large extent in deciding the type of manpower required.

**Question 33. Number of people required for enterprise are affected by which factors?**

**Answer.** The number of people required for various positions throughout the enterprise gets affected by:

- (i) Finding out the total work to be done.
- (ii) How much work can the average person do in a specified period of time.
- (iii) Level of absenteeism expected.
- (iv) Rate of labour turnover.
- (v) The present number of employees.
- (vi) The future plans for expansions and diversifications.

**Question 34. What does marketing plan describes?**

**Answer.** Marketing plan describes the market conditions and strategies related to how:

- (i) Products/Services will be distributed.
- (ii) The product will be priced.
- (iii) The product will be promoted.

**Question 35. What is a marketing plan?**

**Answer.** Marketing plan is a guideline regarding the marketing objectives, strategies and activities to be followed by the new enterprise. It represents a significant element in the business plan for a new venture as it effectively establishes how the entrepreneur will complete and operate in the market place by providing answers to three basic questions: where have we been, where do we want to go and how do we get there.

**Question 36. The question 'How Do We Get There' discusses which aspects for a firm related to the marketing plan?**

**Answer.** This question discusses:

- (i) the marketing strategy that will be followed,
- (ii) when it will occur,
- (iii) who will be responsible for the monitoring of activities.

**Question 37. An entrepreneur may face equally intense financial challenges many times. Give one example related to this statement.**

**Answer.** King C. Gillette invented the disposable razor and started the Gillette Company. In 1901, Gillette company was \$ 12,500 in debt. Gillette managed to secure financing from a Boston Millionaire and saved his company.

Thus Finance is one of the most important pre-requisites to establish an enterprise. Availability of finance facilities the entrepreneur to bring together men, material, machines and methods to produce goods/services.

As timely availability of funds in right volume is key to entrepreneurial success, the entrepreneur should develop a sound financial plan.

**Question 38. What does a sound financial plan include?**

**Answer.** A sound financial plan should include:

- (i) Financial requirements
- (ii) Sources of raising funds
- (iii) Exact assessment of the revenue, cost, profits, cash flow dynamics, stock of inventory, loans, etc.

**Question 39. How is financial plan useful to investors?**

**Or**

**The financial plan gives a clear picture of which aspects to the investors and the entrepreneur?**

**Answer.** A financial plan gives a clear picture of following to the investors and the entrepreneur:

- (i) How much funds are required?
- (ii) Where funds come from?
- (iii) How they are disbursed?
- (iv) The amount of cash available
- (v) General financial well-being of the new venture i.e. probable revenue forecast.

**Question 40. Entrepreneur ensure the selection of best overall mix of financing. Why?**

**Answer.** Entrepreneur ensures the selection of best overall mix of financing for the enterprise so that:

- (i) The cost of capital and the financial risk is minimized,
- (ii) Return on investment and profitability is maximized.

**Question 41. Which are the most commonly adopted techniques for forecasting?**

**Answer.** Following are the most commonly adopted techniques for forecasting:

- (i) Marketing research
- (ii) Industry sales
- (iii) Survey of buyers' intentions
- (iv) Expert opinions
- (v) Financial data on similar start-ups
- (vi) Some trial experience of self or others.

**Question 42. What is the importance of Break even point?**

**Answer.** Calculation of BEP is useful for the entrepreneur because it help in assessing:

- (i) Minimum level of output to be produced.
  - (ii) The effect of change in quantity of output upon the profits.
  - (iii) Selling price of the product.
  - (iv) Profitable options in line of production.
- Q43. What is Break Even Point?

Ans. The Break even point is that level of volume of production at which firm neither makes profit nor a loss.

It indicates the volume of sales needed to cover total variable and fixed expenses by the new enterprise.

**Question 44. What is the objective of business Plan?**

**Answer.** Following are the objectives of business plan:

- (i) Picturing ahead every step in a long series of separate operations,
- (ii) Each step of operation to be taken in the right place of the right degree, and at the right time,
- (iii) Each operation to be done at maximum efficiency.

**Question 45. Who must have PAN?**

**Answer.** Following person(s) must have PAN:

- (i) All existing taxpayers or persons who are required to furnish a return of income, even on behalf of others.
- (ii) Any person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed five lakh rupees in any previous year;
- (iii) Any person, who intends to enter into financial transaction where quoting PAN is



mandatory.

(iv) The Assessing Officer may allot PAN to any person either on his own or on a specific request from such person.

**Question 46. What is Excise Duty?**

**Answer.** Excise duty is a tax on manufacture or production of goods. Excise duty on alcohol, alcoholic preparations, and narcotic substances is collected by the State Government and is called "State Excise" duty. The Excise duty on rest of goods is called "Central Excise" duty and is collected in terms of Section 3 of the Central Excise Act, 1944.

**Question 47. What is the procedure for obtaining registration?**

**Answer.** (i) Apply to the nearest Central Excise Division Office in Form A. 1 along with a self-attested copy of the PAN issued by the Income Tax Department.

(ii) After post verification, a regular Registration certificate in form RC is normally issued immediately, as far as possible.

**Question 48. What is sales tax?**

**Answer.** (i) Sales tax is levied on the sale of a commodity, which is produced or imported and sold for the first time.

(ii) If the product is sold subsequently : without being processed further, it is exempt from sales tax.

(iii) It is levied under the authority of both Central Legislation (Central Sales Tax) and State Governments Legislations (Sales Tax).

(iv) The government levies Sales Tax principally on intrastate sale of goods.

(v) States also levy tax on transactions which are "deemed sales" like works contracts and leases.

In addition to Sales Tax, some states also levy additional tax, surcharge, turnover tax, etc.

(vi) Sales tax is recovered from the buyer as a part of consideration for sale of goods.

**Question 49. Write a brief note on Value added tax.**

**Answer.** (i) VAT is a multi-point destination based system of taxation, where levied on value addition at each stage of transaction in the production/ distribution chain.

(ii) 'Value addition' is the increase in value of goods and services at each stage of production or transfer of goods and services.

(iii) VAT is a tax on the final consumption of goods or services and is ultimately borne by the consumer.

(iv) The State Governments, through Taxation Departments, are carrying out the responsibility of levying and collecting VAT in the respective States.

(v) The Central Government is playing the role of a facilitator for the successful implementation of VAT.

**Question 50. What do you mean by export and import?**

**Answer.** (i) Import of goods means bringing into India of goods from a place outside India. India includes the territorial waters of India which extend up to 12 nautical miles into the sea to the coast of India.

(ii) Export of goods means taking goods out of India to a place outside India.

**Question 51. Explain what is TAN.**

Ans. (i) TAN or Tax Deduction and Collection Account Number is a 10 digit alpha numeric number required to be obtained by all persons who are responsible for deducting or collecting tax.

(ii) It is compulsory to quote TAN in TDS/ TCS return (including any e-TDS/TCS return), any

TDS/TCS payment challan and TDS/TCS certificates.

(iii) All persons who are required to deduct tax at source or collect tax at source on behalf of Income Tax Department are required to apply for and obtain TAN.

**Question 52. Employees provident fund is applicable to which industries?**

Ans. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952 applies to the whole India except Jammu & Kashmir. Employees' Provident Fund and Miscellaneous Provisions Act, 1952 is applicable to:

Every establishment which is engaged in any one or more of the industries specified in Schedule I of the Act or any activity notified by Central Government in the Official Gazette. Employing 20 or more persons.

**Question 53. What does the demographic segmenting show?**

**Answer.** In this the customer varies across the geographical location.

E.g.: Action shoe manufacturing company wants to identify its target group, i.e. customers. It specializes in sandals meant for women only, thus, excluding men. from its target group. The shoes manufactured are expensive meant for women belonging to higher income groups and living in urban/city areas. In this case, the target group can be identified on the basis of three homogeneous characteristics of the customers:

(i) women; (ii) belonging to higher income groups; and (iii) living in cities and urban areas

Age: Child-youth-adult-old Sex: Male-Female

Income: High-Middle-Low-Below Poverty Line

Education: Primary-Secondary–Tertiary Occupation: Farmers-Govt. Employees- Professional- Executives

**Question 54. Explain the factors affecting the formulation of a financial plan.**

**Answer.** Financial plan deals with the deciding in advance about the future spending. The formulation of plan is affected by following factors:

(i) Clarity of Objectives: A good financial plan has clearly defined objectives. The objectives are expressed in terms of money or quality of products, objects. Objectives are presented in simple words.

(ii) Simple: A good financial plan is simple to understand and implement. It is made simple by considering various factors related with the enterprise.

(iii) Flexibility: A good financial plan has a scope for making changes in the future. The plan is made flexible considering future obligations and future plans of the enterprise.

(iv) Risk: A good financial plan keeps sufficient scope for the calculated risk rather to say it is made by keeping the level of risk of the enterprise.

**Question 55. Explain the role of financial planning in financial management.**

**Answer.** Financial planning has a pivotal role in financial management. The importance of it can be explained under following . headings:

(i) Securities: For obtaining finance what securities are to be offered it is clearly mentioned in the financial plan. Further which securities to be kept for obtaining working capital or short term loan and which are to be kept for long term finance, this is clearly classified and mentioned. Plan includes the clear policy for rotation of securities for maintaining continuous supply of finance.

(ii) Fulfils requirement: Financial plan fulfils the financial requirement of the enterprise. It specifies the strategy and sources for obtaining finance. The requirement of funds for research, raw materials, payment of wages, are mentioned period wise. This provides target for the financial management.

(iii) Risk: A financial plan clearly mentions the extent of risk that can be undertaken by an enterprise. This provides the limits of working in the financial management.

**Question 56. What is a Company?**

**Answer.** As per Indian Companies Act, 1956— “A company means a company formed and registered under the act or any previous Act.”

As per Prof. L.H. Haney—A Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership.

Company is created by law and put to death by law only.

Here, associated persons contribute money in the form of shares. It is a legal entity and enjoy permanent existence.

**Question 57. What are consequences for non-registration of a partnership firm?**

**Answer.** In case of non-registration, following rights are denied—

- (i) Filing of suit: Partners cannot file a suit in any court against the partners for enforcement of any right conferred by the Partnership Act.
- (ii) Third party: A right arising from a contract cannot be enforced in any court by or on behalf of the firm against any third party.
- (iii) Claim: Firm or any of its partners cannot claim a set off in a dispute with a third party.

**Question 58. Describe the activities which are inspired mainly by economic consideration.**

**Answer.** Activities which are inspired mainly by economic consideration are classified as:

- (i) Manufacturing: It is the production of merchandise for use and sale. Manufactured goods can be used by final consumers. Final consumers can be households or firms.
- (ii) Service: It is intangible as it can't be stored and does not result in ownership. It is consumed at the point of sale. Example— banking, communication, transport, etc.
- (iii) Trading: It is an activity of buying, selling or exchanging goods or services. Money is made by buying or selling. Here one thing is exchanged for other.

**Question 59. Comment on selection of Forms of business organisation.**

**Answer.** Setting up a business is a challenging task for entrepreneurs. Enterprise conduct any type of business activity. Entrepreneur's objective is accomplished by combining various factors of production. Legal structure of business entity determines the extent of ownership and responsibility of owners.

Any form of business organisation once selected is difficult to be changed due to the complexity, cost and time consuming factors.

**Question 60. Cooperative organisation is not desirable structure to start as new venture for an entrepreneur. Why?**

**Answer.** Entrepreneur does not find desirable due to his/her:

- (i) Quest for excellence.
- (ii) Drive for independence.
- (iii) Tendency to be a project champion.
- (iv) Strong desire to succeed and earn profit.
- (v) Creative and innovative nature.
- (vi) Love for being a leader in the field.

**Question 61. Selection of form of organisation is mostly affected by which factors?**

**Answer.** Selection of form of organisation is mostly affected by following factors:

- (i) Capital requirement of the firm.
- (ii) Risk and liability involved.
- (iii) Managerial control desired.
- (iv) Scale of operation of the firm.
- (v) Continuity and stability desired.

- (vi) Government regulations involved.
- (vii) Tax burden of the firm.
- (vii) Nature of business.

**Question 62. Who should write the business plan?**

**Answer.** Business plan has coverage of various aspects like marketing, finance, operations, IPR, etc. Entrepreneur require consultancy services of various experts like lawyers, accountants, marketing consultants, friends, relatives, engineers, internet sites, etc.

**Question 63. Give the meaning of 'Routing' and 'Scheduling' as elements of operational plan. [CBSE Delhi 2015]**

**Answer.** Routing: Routing is a process concerned with determining exact route or path a product/service has to follow right from raw material till its transformation into finished product.

Scheduling: Scheduling means fixation of time, date, day when each operation is to be commenced and completed.

**Question 64. Gaurav started a factory for manufacturing bags for the students of nursery and primary classes. He invested X 2,00,000 of his own and obtained a loan of X 10,00,000 from bank. He made the instruction plan describing the details that were needed for the operation of machines by the workers.**

**Identify and explain the format of 'business plan' described in the above para. [CBSE Delhi 2015]**

**Answer.** (i) Internal Operational Plan.

(ii) A detailed plan describing planning details that are required by management but may not be of interest to external stakeholders.

**Question 65. Name and define the form of business organization in which the liability of its members is limited. State one more feature of this form of business organization. [CBSE Delhi 2015]**

**Answer.** (i) Joint Stock Company.

(ii) It is an association of persons who contribute money in the shape of shares and the company gets a legal entity and enjoys a permanent existence.

(iii) It has the following features: voluntary association; artificial person; separate legal entity; common seal; limited liability; transfer ability of shares; diffusion of ownership and management; number of members; limitation of action; winding up.

**Question 66. Give the meaning of 'Business situation analysis' and 'Identification of the target market' as steps in preparing the marketing plan. [All India 2015]**

**Answer.** Business situation analysis is a review of past performance and achievements of the enterprise.

Identifying the target market defines clearly the specific group of potential customers who need the enterprise aims to fulfill the goals.

**Question 67. Rahul wants to start a small shoe manufacturing factory. As a part of his business plan he prepared an 'entertaining slide show and oral narrative' that was meant to trigger discussion and create interest in potential investors for reading the written presentation. Identify and explain the format of the business plan referred in the above paragraph. [All India 2015]**

**Answer.** Format of Business Plan described in above para is Pitch deck with oral narrative.

It is an executive summary and a few key graphs showing financial trends and key decision making benchmark. It is a hopeful, entertaining slide show and oral narrative which is for

starting discussion and interest potential investors in reading the written presentation, i.e. the executive summary. It has few graphs showing financial trends and is key for decision making.

**Question 68. Ashok is engaged in the production of readymade garments using cotton cloth. Identify the business activity in which Ashok is involved. Also name and define the utility created by Ashok.[All India 2015]**

**Answer.** Utility created by Ashok is Form Utility. Form utility: It is changing the form of raw material into finished products creates form utility.

**Question 69. Fizz & Lime is an established beverage company which started bottling Wheat Grass Juice; Bitter gourd with Jamun and Amla with Aloevera. It is planning to expand externally without compromising on the unique taste of these drinks. Belligio Juices got exclusive rights to manufacture and sell Wheat Grass and Amla Aloe under the name Fizz & Lime. Belligio Juices had to use only the ingredients supplied by Fizz & Lime to produce, bottle and distribute the two drinks. [CBSE Sample Paper 2016] (i) Identify and explain the form of external expansion adopted by Fizz & Lime.(ii) State any one feature of this form of expansion.**

**Answer.** (i) Manufacturing franchise opportunity: These types of franchises provide an organization with the right to manufacture a product and sell it to the public, using the franchisor's name and trademark. This type of franchise is found most often in the food and beverage industry.

(ii) Franchisee must use the ingredients given by the franchisor to produce, bottle and distribute the soft drinks.

**Question 70. " Human life is built around works". Identify the form of Business Organisation being talked about in the following sentences: [CBSE Sample Paper 2016]**

**(i) 'The one-man control is the best in the world if that man is big enough to manage everything.'**

**(ii) "Two heads being better than one."**

**(iii) "Self-help as well as mutual help system."**

**(iv)The birth of this legal person is by law and can be put to death by law only.**

**Answer.**(i) Sole proprietorship

(ii) Partnership

(iii) Cooperative

(iv) Company.

**Question 71. Chacko Ltd. has been manufacturing umbrellas since 1980. They are the market leaders in manufacturing small hand size umbrellas. They have their production unit in Kochi. The MD's son-Abraham Chacko took over the family business in 2010. He had finished graduation from USA. Using his educational and networking skills, he was able to take up an export order. He also decided to operate an exclusive export oriented unit in Chellanam. The production work for this unit began in 2014. A dedicated team framed an operational plan for the entire process. Abraham visited the plan to evaluate and take appraisal of the work performed in the unit. State two ways as to how it will help Abraham. [CBSE Sample Paper 2016]**

**Answer.** Follow-up element helps the entrepreneurs in:

(i)Developing ways to review the present situation with regard to materials, work-in-progress and finished goods.

(ii)Evolving ways to expedite the performance of those departments which lag behind.

### III. LONG ANSWER TYPE QUESTIONS

**Question 1. Describe the types of economic activities.**

**Answer.** Following are the types of economic activities:

- (i) Profession,
- (ii) Employment,
- (iii) Business

(i) Profession: "Profession is that occupation in which one professes to have acquired specialized knowledge, which is used either in instructing, guiding or advising others," Webster's Dictionary.

It includes Lawyers, Doctors, Chartered Accountants, Company Secretaries, etc.

Here, individual apply special knowledge and skills.

(ii) Employment: Employment is an activity in which an individual works regularly for others and get remuneration/compensation in return, undertaking personal services as per the agreement of employment.

(iii) Business: Business may be defined as "An activity in which different persons exchange something of value whether goods and services for mutual gain or profit." Peterson and Plowman It is a continuous economic activity undertaken with objective to earn profit by producing, and buying and selling of goods and services.

### **Question 2. Describe the characteristics of business.**

**Answer.** Following are the characteristics of business:

- (i) Entrepreneur: There must be a person(s) to take initiative for establishing a business and undertake the risk.
- (ii) Economic Activity: All those activities related to the production and/or distribution of goods and services, with economic motive i.e. profit can form part of business.
- (iii) Production and Procurement of Goods and Services: Business either produces or procures goods and services for offering them to consumers.
- (iv) Sale of Goods and Services: Business involve sale, exchange or transfer of goods and/or services for the satisfaction of human needs against a price.
- (v) Regularity: One time transaction or dealing in goods and services is not business even if one earns profit in return. Business is done regularly.
- (vi) Utility Creation: Business activities result in creation of utilities i.e. (a) Form Utility, (b) Place Utility, (c) Time Utility
- (vii) Profit Earning: Point Sector Profit is the reward for undertaking a business activity and no business can survive for long without earning profits.
- (viii) Uncertainty of Return: Business does not guarantee for the return of either principal amount invested in the business or the profit.
- (ix) Element of Risk: Business involves risk i.e. uncertainty. 'Higher the risk, higher the profit'.

### **Question 3. Explain the various forms of enterprises.**

**Answer.** Business enterprises may be broadly classified under following three categories:

(i) Private Sector Enterprises: Those enterprises which are owned, controlled, and managed by private individuals.

These enterprises can be:

- (a) Sole-proprietorship
- (b) Partnership
- (c) Joint Hindu Family Business
- (d) Co-operative
- (e) Company

(ii) Public Sector Enterprises: These enterprises are owned, controlled and operated by public authorities, with welfare as primary and profit as secondary goals, are called public sector enterprises.

These enterprises can be of following types:

(a) Departmental Undertaking

(b) Public Corporations

(c) Government Companies

(iii) Joint Sector Enterprises: It is a form of partnership between the private sector and the government where management is generally in the hands of private sector, and with enough representation on Board of Directors by the Government too. Resources are mostly shared equally.

**Question 4. Explain the meaning of Company.**

**Answer.** (i) According to Section 3 of Indian Companies Act, 1956, "A company means a company formed and registered under this act or any previous act."

(ii) It is an association of persons who contribute money in the shape of shares and the company gets a legal entity and enjoys a permanent existence.

(iii) It is an voluntary association of a person's formed for some common object with capital divisible into units of equal value called 'shares' and with limited liability.

(iv) It is a creation of law that is the birth of this artificial human being is by law and it can be put to death by law only.