



IV. Long Answer Type Questions [6 Marks]

Question 1. What are the advantages and limitations of owner's funds?

Answer: Advantages of owner's funds

(a) Control: More is the owner's fund in the enterprise, higher is the control of the owner. Thus, it increases the control of entrepreneur.

(b) Risk: More is the owner's fund, more is the limit of risk. This is because such funds do not increase the obligations of the enterprise.

(c) Decreases Obligations: Higher is the owner's funds in the over all capital of the enterprise, lesser is the obligations of the entrepreneur.

(d) Encourages Development: Such funds if used for purchasing fixed assets leads to the development of the enterprise.

Limitations of Owner's Fund

(a) Fixed: Owner's funds are fixed. It cannot be raised immediately. Its accumulation also needs time.

(b) Depends on savings of the owners: Savings of the owners depends on the income of the owner. Income in turn depends on the profitability of the owners fund is also low.

Question 2. Enumerate the advantages and limitations of borrowed capital.

Answer: Advantages of borrowed capital:

(a) Tax deductible: The interest paid on the borrowed fund is tax deductible, i.e. no tax is to be paid by the entrepreneur on interest.

(b) Convenient: The capital can be borrowed whenever needed by the enterprises. Many financial organisations are always ready to provide it. However, the amount lend by such organisations depend on the paying capacity of the enterprise.

(c) No dilution of control: Normally the financial organisations do not interfere in the matter of the enterprise. The entrepreneur is free to work even after borrowing.

(d) Reputation can be encased: Higher is the reputation of the enterprise in the society; higher are the chances of obtaining capital easily. Thus, the brand name of the enterprise can be utilized.

Limitations of borrowed capital:

(a) Fixed period: This capital is obtained for an agreed period of time. Also the interest and the principal amount are to be paid back in a given period of time.

(b) Increases obligations: The borrowed capital increases the obligation of the enterprise as the interest is to be paid periodically.

(c) Depends on security: Borrowed capital is obtained against security. Such securities if not available, then the enterprise is devoid of obtaining this capital.

Question 3. Enumerate the sources of long term capital.

Answer: Long term capital can be obtained through equity share, preference shares, debentures, as'loans from financial institutions, owner's capital, undistributed profit of the enterprise, etc.

A form of secondary protection sometimes required by a bank and intended to guarantee a borrower's performance on a debt obligation. The primary security on a substantial business loan is typically the thing that is being financed, such as a factory, company car or shipment, but secondary or collateral security

might also be requested by a bank to help assure that the loan will be repaid.

Question 4. What is the difference between a secured and unsecured loan?

Answer:

S.No.	Basis	Secured Loans	Unsecured Loans
1.	Meaning	A secured loan is a form of loan in which entrepreneurs borrow money from lenders by using their fixed assets as security.	An unsecured loan is a form of loan in which entrepreneurs borrow money from lenders without using any security.
2.	Borrowing amount and interest rate	Provides higher borrowings and the rate of interest is comparatively cheaper and more legal formalities.	Provides low amount of borrowings and the interest rate is generally higher.
3.	Term	Repayment term is generally longer and it reduces monthly instalment.	Repayment term is generally smaller and monthly instalments are also high.
4.	Suitable	Generally this method is good for the purchase of costly assets.	Generally, this method is suitable for the purchase of raw materials and other less costlier items.
5.	Repayment	A secured loan gives the lender a claim on entrepreneur's asset and if he doesn't keep up the repayments you could lose his assets (secured one).	If you fail to repay the loan, the lender cannot repossess any business assets.
6.	Decision	The lender will make a decision to give loan on the basis of security amount of assets.	The lender will make a decision to give a loan based on entrepreneur's credibility.
7.	Examples/Forms of Loan	Debentures, Personal loans	Personal Loans is the most common form of unsecured loans, which is referred to as all-purpose loans; they are ideal to buy a product for which you do not have ready liquidity. Credit Card Loans Credit card is the most flexible form of short-term borrowings with easy repayment options. Bank Overdraft is also a form by which you can avail unsecured finance from your bank for your business.
8.	Lending Formalities	More legal formalities to obtain and the value of the collateral must be assessed and verified.	Less legal formalities to obtain and no need of any verification only the credibility of an entrepreneur must be verified.

Question 5. How reducing silo mentality in workplace is always beneficial to a business firm?

Answer: It is a mindset of a group of people working in an organisation who do not wish to communicate and share their knowledge and information to other departments and colleagues. Reducing silo mentality in workplace is always beneficial to a business firm as :

- It increases efficiency of overall business enterprise.
- It leads to good communication, increasing trust, and often keeps one department or group collaborated to each other.
- This leads to cost effectiveness, completion of project on time, full utilization of all resources and reduce wastage.
- Production of quality product, highest annual turnover and high profit, poor products falling production and falling sales and ultimately less profit.
- It gives a good reputation of an organisation in the market.
- It shows synergy of team in the organisation.

Question 6. How an entrepreneur decides about the quantity of personnel the enterprise needs?

Answer: The number of personnel required for various positions throughout the enterprise gets affected by following points :

- (a) Finding out the total amount of works to be done and then dividing it into different sets of activities.
- (b) The total number of tasks and jobs required to be accomplished under different activities.
- (c) How much work can the average person do in a specified period of time?
- (d) Level of absenteeism expected.

- (e) Level of labour turnover.
- (f) The present number of employees.
- (g) The future plans for expansions, diversification and growth.

Question 7. How availing professional expertise assist and help an entrepreneur to access better cost efficiency?

Answer: Availing professional expertise assist and help an entrepreneur to access better cost efficiency on regular basis are as follows :

- (a) Wastage can be reduced.
- (b) Savings of time, cost and energy.
- (c) Higher efficiency and effectiveness in all the area because of professional expertise are in the concerned and specialised in that particular field.
- (d) Focus on the core areas/activities of the enterprise.
- (e) Avail of qualified quality service in time bound frame and at fraction of cost.
- (f) Lower the chances of risks.
- (g) Save on additional fixed investment required in the creating infrastructure for 'providing these facilities on one's own.
- (h) Enhance business due to others expertise and experience in the defined field.
- (i) Access to new and growing markets.

Question 8. How will an entrepreneur classify the human resources required by an enterprise? Explain with the help of manning table.

Answer: Efficient Utilization of Human Resource:

1. Managerial Staff:

- They are generally work like brain box of an enterprise.
- They frame out policies, programmes, mission, vision objectives goals of an enterprise.
- They ensure their implementation and finally getting the work done from workers
is the field area of this category.

2. Non-managerial Staff:

- They are the real group of workers can be called as a backbone according to their skills and experience.
- They effectively converts the raw material into finished goods.
- Their nature of job, skills and experience decides the quality and quantity of workers to be assigned.

3. Trained Technical Manpower:

- They are technical experts.
- The main job assigned to them are:
- Selection of machinery, get training if required to operate the purchased machinery.
- Installation of machinery and maintenance of machinery.
- Continuous supervision and operation.

4. Administrative Manpower:

- These are the group of staff who provide support services to managerial, professional and trained staff to run the enterprise effectively the maintenance of the enterprise.
- They play an important role and connect all the staff members by providing and assisting services to them.
- They do not contribute to production directly but only provide assisting services.

5. Professional Manpower: Chartered accountants, auditors, bankers, lawyers, who are professional experts and they can be outsourced by the entrepreneur if required. Small enterprises cannot afford them on their regular payrolls.

Thus, efficient utilization of human resources is only possible if the entrepreneur is able to decide:

- The total work to be done.
- The right type of people who can do the work.
- Employing right man at right job.

Question 9. State whether the following require small or large working capital. Answer should be supported by a valid reason:

Answer:

S.No.	Items	Small/Large Working Capital	Reasons
1.	A company manufacturing furniture against order	Small	<ul style="list-style-type: none"> • After the completion of the order it will be sold for cash. • If furniture is manufactured as per the order; and the order cost is more than the manufacturer receives as an advance amount from the customer.
2.	Woollen Garments	Large	<ul style="list-style-type: none"> • It is a seasonal product. Company manufactures and sell the products only during the winter season. • This product is to be stocked for a longer period.
3.	Bread	Less	<ul style="list-style-type: none"> • The nature of the goods is perishable goods. • It cannot be stocked for longer time. It has to be sold quickly and in cash too.
4.	Air coolers	Large	<ul style="list-style-type: none"> • It is a seasonal product. Company manufactures and sell the products only during the summer season. • This product is to be stocked for a longer period.
5.	Sugar	Large	<ul style="list-style-type: none"> • Sugar industries generally produce during December to March. • It requires high raw material cost than the total cost. • They carry a large amount of work in progress.
6.	Locomotives	Small	<ul style="list-style-type: none"> • Gestation period is small, preparing scheme for reconstruction by scaling down the liabilities, assisting and promoting industrial development.

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