



III. Short Answer Type Questions [4 Marks]

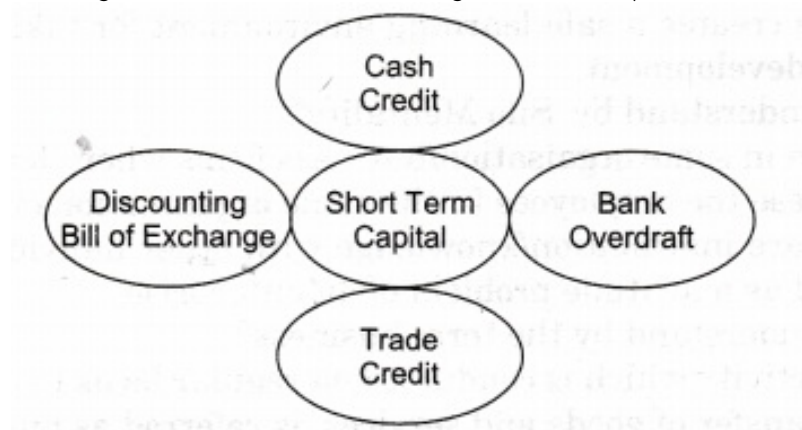
Question 1. What are the features of borrowed capital?

Answer: Borrowed capital is the capital borrowed by the enterprise for the normal running of the enterprise. Its features are:

- Interest: The borrowed capital has to be repaid with interest.
- Time period: The borrowed capital is to be paid back in the agreed time limit. Thus, it is the obligation of the entrepreneur.
- Right of control: The lenders of borrowed capital normally have no control over the management of the enterprise. However, some conditions are to be fulfilled by the entrepreneur.

Question 2. Mention the various sources of raising short term capital.

Answer: Trade credit, cash credit, bank overdraft, discounting bill of exchange, etc. some sources of raising short term capital.



Question 3. What is medium term capital?

Answer: The amount of capital which is invested by the entrepreneur from a period more than one year but less than five years is medium-term capital. Such capital can be raised through debentures; loans from financial institutions, preference shares, etc. and it can be used for development, extension, expansion, and modernization, etc. of the enterprise. It may or may not form a part of working capital. Normally it is not used as working capital.

Question 4. What is meant by long term capital? Why is it needed?

Answer: The amount of capital which is invested in the enterprise for a period more than five years but less than 25 years is a long term capital. It is needed for the following:

- (a) For acquiring fixed assets like building, machines, etc.
- (b) For development of enterprise.
- (c) For research related with product.

Question 5. What is collateral security?

Answer: It refers to a security of fixed assets given by an entrepreneur to banks and financial institutions against a sum borrowed by him. The assets mortgaged with the institution for the sanction of a loan. Except certain government schemes, banks and financial institutions require physical (asset) security to release

loans. Fixed assets like buildings, land, machinery, etc. Registered in the name of entrepreneur can be used as security to release loans.

Question 6. How the 'Silo Mentality' in workplace affect the enterprises culture?

Answer: A silo mentality is an attitude found in some organisations that occurs when several departments or groups do not want to share information or knowledge with other individuals in the same company.

Increasing effect of Silo Mentality always :

- Reduces efficiency of overall business enterprise.
- It leads to poor communication, reduced trust, and often keeps one department or group against another.
- This leads to cost overruns, project delays, wasted efforts, poor products falling production and falling sales and ultimately less profit.
- It gives a bad reputation of an organisation in the market.
- It reduces morale among the employees.

Question 7. What happen if an entrepreneur run his enterprise with outdated, obsolete, worn-out machinery or stick into sick plants?

Answer: If an entrepreneur runs his enterprise with outdated, obsolete, worn-out machinery or stick into sick units then it will result in bad capital budgeting decisions but also hamper the innovation and creativity of an entrepreneur.

Question 8. What are the abilities a successful entrepreneur should possess?

Answer: The success of any enterprise lies in the capacity and ability of the entrepreneur to:

- (i) Mobilize the resources
- (ii) Organize the resources
- (iii) Manage them efficiently and effectively as they are always scarce with reference to their demand.

Question 9. What three important decisions are to be taken by an entrepreneur for efficient utilization of human resources?

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

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

Question 10. Why an entrepreneur realized that there is a need of Expert Professional Assistance to an enterprise for more efficiencies in their operation and can easily reduce the cost in effectiveness?

Answer:

- Need of expert Professional Assistance in an enterprise for more efficiency in their day-to-day activities and can easily improve the cost effectiveness.
- Entrepreneur realizes that he can't be an expert in all the areas and cannot do proper justice in all the areas of an enterprise.
- Individually no entrepreneur can utilize properly all resources, time and energy to meet their day-to-day requirements of the enterprise.

Thus, either outsourcing or availing of professional services from outside the firm, has become a major trend in human resources over the past decade.

Question 11. Enumerate the various methods by which an entrepreneur can arrange various types of resources.

Answer: It is for the entrepreneur to analyse and evaluate the

extent, nature and type of resource required. Commonly, one can arrange for these through:

- Contractual arrangements
- Third party arrangements
- Lease basis
- Captive unit arrangement
- Part time arrangement
- Regular basis.

Question 12. What is the difference between Term Loan and Demand Loan?

Answer: Difference Between term loan and demand loans.

Basis	Term Loans	Demand Loans
Meaning	These loans are extended by the banks to their customers for fixed period.	These loans are provided by the banks against the security of Fixed Deposits Receipts (FDR), Government Securities, Life Insurance Policies, etc.
Purpose	To purchase machinery, trucks, scooters, houses, etc.	
	The borrower repays these back in monthly/quarterly/half yearly/annual instalments.	These loans are called demand loans because bank can demand them at anytime, by giving notice to the customer.

Question 13. What do you understand by intangible resources?

Answer: An intangible asset is an asset that does not physically or materially exist: Though an individual may not be able to view or touch an intangible asset, it can still be extremely valuable. In most cases, it is the companies that possess intangible assets, such as business contracts.

Question 14. Distinguish between Formal mentoring and Informal mentoring.

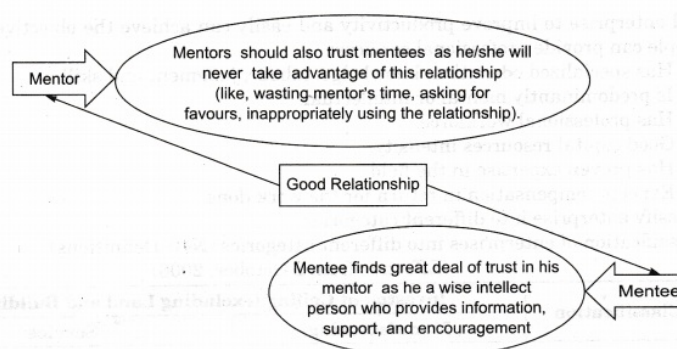
Answer:

S.No.	Basis	Formal Mentoring	Informal Mentoring
1.	Meaning		
2.	Goals	Goals are established from the beginning by the organisation.	Goals of the relationship are not specified.
3.	Outcome	Outcomes are measured or always evaluated.	Outcomes are not measured/or rarely evaluated.
4.	Relationship	Mentor and mentee are paired based on compatibility.	Mentor and mentee self-select on the basis of personal chemistry.
5.	Agreement	There is no mentoring agreement.	A mentoring agreement forms one of the early corner stones of the partnership.

Question 15. "A mentorship relationship is based on trust." Do you agree? Comment.



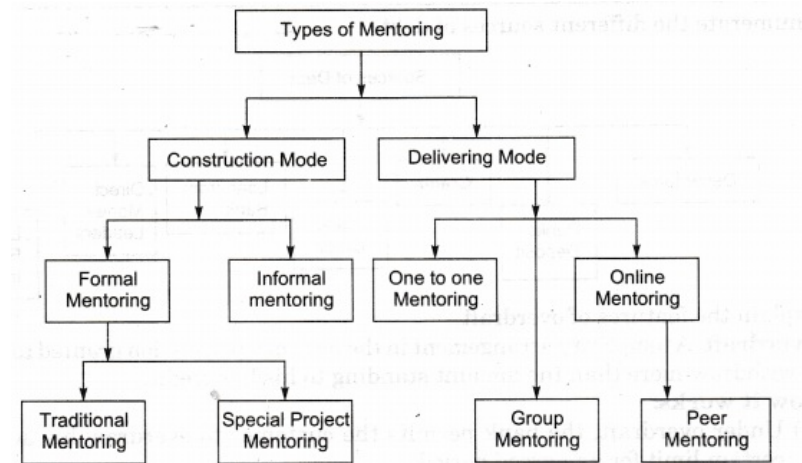
Answer: Yes, I agree with the statement. The relationship between mentor and mentee is totally based on trust.



Building trust can take time; our behaviours can accelerate the time it takes.

Question 16. Draw a flow chart of types of mentoring.

Answer:



Question 17. Explain the features/characteristics of the term business.

Answer: Characteristics of the term business are the following:

- It is a day-to-day economic activity of the enterprise.
- It deals with exchange, sale, transfer of goods and/or services in the enterprises with various types of people.
- Exchange of goods, sale or transfer of goods and services can be cash basis or it can be credit basis.
- There is regularity in dealings means daily, weekly, monthly, quarterly, six monthly etc.
- The main motive of every business dealings are with profit motive.
- Every business has an element of risk.
- Business deals with creation of utility.
- To be business the activity should be capable of consumer satisfaction.

Question 18. What are professional services?

Answer: Professional services support entrepreneurs and enterprises of all types whether small scale industries or large scale industries in the economy. The provided services includes . legal advice, tax advice, financial advice and business advice. It helps an entrepreneur and enterprise to improve productivity and easily can achieve the objectives. All those people can provide professional services:

- Has specialized education, knowledge, labour, judgment and skill.
- Is predominantly mental or intellectual.
- Has professional workforce.
- Good capital resources intensity.
- Has proven expertise in the field.
- Expects compensation in return for the work done.

Question 19. Classify enterprise into different categories.

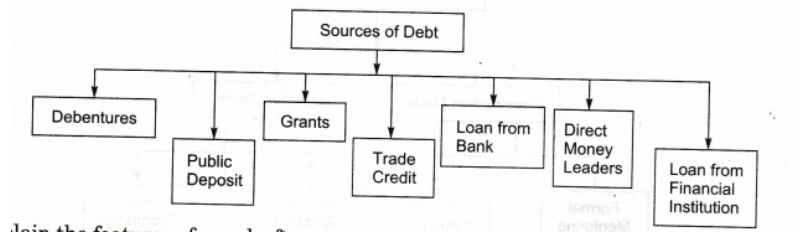
Answer: Classification of enterprises into different categories (New Definitions)

(Effective from 2 October, 2006)

Classification	Investment Ceiling (excluding Land and Building)	
	Manufacturing	Service
Micro	Up to ₹ 25 lakh	Up to ₹ 10 lakh
Small	Between 25 lakh to ₹ 5 crores	Between ₹ 10 lakh to ₹ 2 crores
Medium	Between ₹ 5 crores to 10 crores	Between ₹ 2 crores to ₹ 5 crores

Question 20. Enumerate the different sources of debt.

Answer:



Question 21. Explain the features of overdraft.

Answer: Overdraft: A temporary arrangement in the form of a permission granted to the customers to withdraw more than the amount standing to his/her credit.

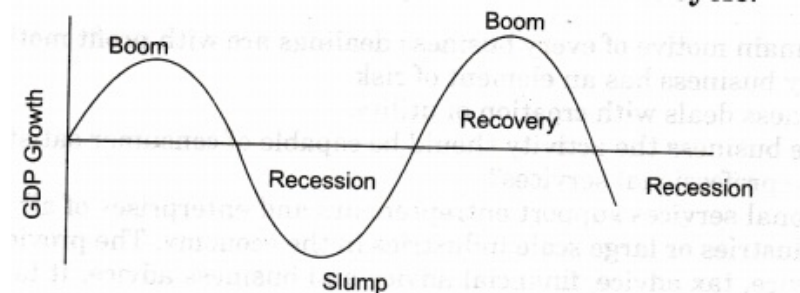
How it works:

- (i) Under overdraft, the bank permits the customer to overdraw his account up to a certain limit for an agreed period. .
- (ii) To avail of this facility, a customer should have a current account with that bank.
- (iii) Interest is charged on the amount actually overdrawn.
- (iv) Overdraft may be allowed on the security of assets or customer's personal security.

Question 22. What do you mean by business cycle? Draw diagram.

Answer: The term business cycle refers to economy-wide fluctuations in production, trade and economic activity in general over several months or years in an economy organized on free-enterprise.

Principles: It is also known as economic cycle or boom-bust cycle.



Question 23. Name:

- (a) The activities connected with the production are called as.
- (b) The activities connected with the distribution of goods produced from the factories to the consumers are called.
- (c) Name the better way of classifying business activities.
- (d) Industrial unit whose investment in plant and machinery does not exceed ? 5 crores.
- (e) During inflation, an entrepreneur need more working capital or less working capital.
- (f) Name the type of credit in which credit period of 180 days is extended on purchase of supplies.

Answer:

- (a) Industry
- (b) Commerce.
- (c) A better way of classifying business is size-wise.
- (d) Small scale industries.
- (e) More working capital.
- (f) Trade credit.

Question 24. Categorise the types of Small Scale Industrial Unit with their investment capacity and limits.

Answer:

Type of SSI unit	Investment Limit (1 million = 10 Lakhs)	Remarks
Small Scale Industry	₹ 10 million	Historical cost of plant & machinery
Ancillary	₹ 10 million	At least 50% of its output should go to other industrial undertaking
Tiny Enterprise	₹ 2.5 million	No location limit
Service & Business Enterprise	₹ 0.5 million	No location limit
Women Enterprise	₹ 10 million	51% equity holding by women
Export Oriented	₹ 10 million	Obligation to export 30% of production

Question 25. Differentiate between cottage industries and rural industries

Answer:

Cottage	Industries	Rural Industries
Location	Household	Outskirts of village
Ownership	Women/family	Entrepreneurs
Labour	Family	Villagers or may not be villagers
Organisation	Non-wage shared tasks	Wages on the basis of terms and condition but generally low. Or Contractual basis
Technology	Low or not used	High technology and imported machinery
Scale	Very small/small	Medium
Regularity	Irregular	Regular
Formal	Informal	Formal
Flexibility of fuel	Generally low	Better than cottage industries

Question 26. Distinguish between shares and debentures.

Answer:

S.No.	Basis	Shares	Debentures
1.	Voting rights	Share holder have the right vote in the matters of the company.	Debenture holder do not have the right to vote in the matters of the company.
2.	Status	Shareholders are the owners of the company.	Debenture holders are the creditors of the company.
3.	Return	Shareholders do not receive any dividend despite of profit or management decide of the enterprise.	Debenture holders receive fixed return in the from of interest.
4.	Repayment of capital amount	The capital/principal amount is repaid only after the payment of debenture holders.	The capital/principal amount is repaid before the payment of shareholders.
5.	Conversion	There is no such provision of conversion.	Debentures are convertible into equity share.

Question 27. What do you understand by physical resources?

Availability of resources determines the location of an enterprise.

Do you agree? Justify of your answer?

Answer: Yes, it is true that availability of resources determine the location of an enterprise. It is because of following reasons:

(a) Cost factors: If sources of resources are near the enterprise then the transportation cost is reduced.

(b) Supply factors: The supply of resources is quick if resources are readily available.

(c) Maintenance: The maintenance of machinery becomes easy as vendors are readily available.

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