

ENTREPRENEURSHIP XII (066)
SAMPLE QUESTION PAPER
TERM II- SUBJECTIVE

MARKING SCHEME

Maximum Marks: 35

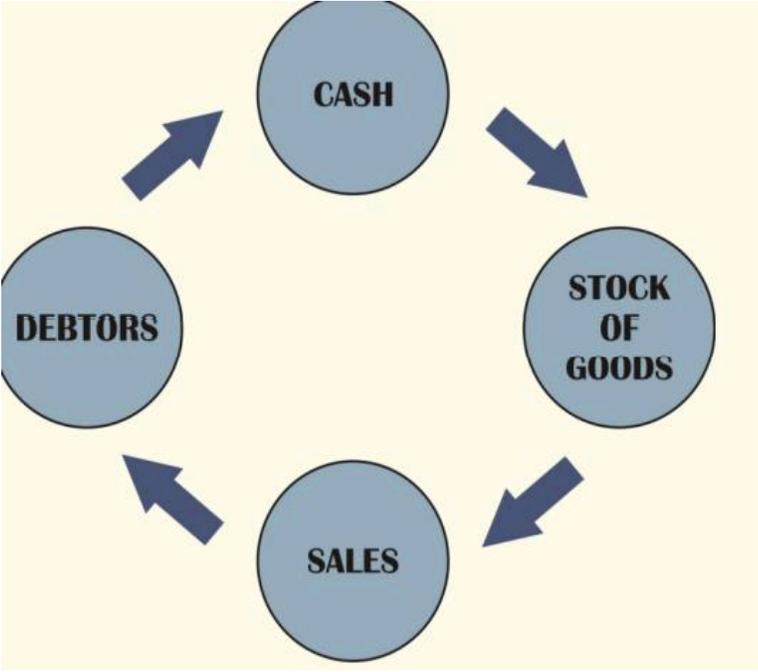
Duration of Exam: 2 hours

General Instructions:

- a. The paper is divided into 3 Sections
- b. Section-wise overall choice is given to the students.
- c. Section A (2 markers) has 6 questions. Attempt any 4 out of 6.
- d. Section B (3 markers) has 5 questions. Attempt any 4 out of 5.
- e. Section C (5 markers) has 4 questions. Attempt any 3 out of 4.

Q.no.	Question	Marks
	SECTION A	
1	The annual quantity of Jackets sold by Meghana Wool Mart is 12,000 at the rate of Rs. 1000/- per jacket. The cost of placing an order and receiving goods is Rs.500/- per order. Inventory holding cost is Rs. 300/- per annum. What is the Economic Order Quantity for Meghana Wool Mart?	2
Ans.	200 Jackets	2
2	State any two reasons for capital markets being the most important source of raising finance for entrepreneurs?	2
Ans.	a) Helps in mobilizing the financial resources on a nation-wide scale. b) Securing the required foreign capital and know-how to promote economic growth at a faster rate. c) Ensure the most effective allocation of the mobilized financial resources to highest yield projects or to underdeveloped priority areas to promote balanced and diversified industrialization.	1+1
3	Anil signed a contract with Phelari group to bottle and distribute their soft drink brand 'Kickapo'. The taste of this soft drink was unique and it became the most preferred soft drink consumed by teenagers. The agreement stated that Anil should use the same ingredients used by Phelari group while bottling the product. Identify and give the meaning of this type of enterprise	2

	growth opportunity.	
Ans	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.	1 + 1
4	Evaluate the two approaches used in sales strategy by a company while retaining it's present customers and when attracting new customers.	2
Ans	Potential customers need communication that introduces the brand and product or service in ways that show how it can solve his or her problems. Current customers require more personal communication about new features or benefits to keep them engaged. Promotions and referral discounts work to motivate current customers to spend their money and to spread the word to others.	2
5	What is operating synergy? How is it different from financial synergy?	2
Ans	Operating synergy refers to the cost savings that come through economies of scale or increased sales and profits. It leads to the overall growth of the firm. Financial synergy is the direct result of financial factors such as lower taxes, higher debt capacity or better use of idle cash.	1 + 1
6	Enlist any four main public relation tools?	2
Ans	<ul style="list-style-type: none"> a. News creation and distribution (media releases) b. Special events such as news conferences, grand openings and product launches c. Speeches and presentations d. Educational programs e. Annual reports, brochures, newsletters, magazines and AV presentations f. Community activities and sponsorships (Any four) 	½ + ½ + ½ + ½
	SECTION B	

7	 <p>(a) Identify the type of business whose operating cycle is represented above? (b) Analyze the working capital requirement for the type of business identified in (a)</p>	3
Ans.	<p>Trading Business For trading, where there is no manufacturing (or conversion), the operating cycle will be shorter so the working capital requirement would be less.</p>	1 + 2
8	<p>Calculate the Return on Equity (ROE) for Malti International Limited manufacturing pre mix for instant shakes and smoothies from the details given below</p> <ul style="list-style-type: none"> ● Investment- Rs. 10,00,000/- ● Borrowed Funds- Rs.6,00,000/- ● Interest rate per annum is 10%. ● Monthly sales revenue is Rs. 6,00,000/- and Cost of goods sold is Rs.3,00,000/-. ● Fixed expenses per month Rs. 2,00,000/- (salary Rs.1,50,000/-, rent and utility Rs.50,000/-) ● Depreciation Rs.10,000/- ● Tax @ 20%. <p>If Malti international Limited wishes to know how their own money is being used, which parameter for performance evaluation, ROE or ROI, should be</p>	3

	used?																							
Ans	<table border="1"> <tr> <td>Sales Revenue for the year- 6,00,000 * 12</td> <td>72,00,000</td> </tr> <tr> <td>Cost of Goods Sold (COGS) for the year- 3,00,000*12</td> <td>36,00,000</td> </tr> <tr> <td style="text-align: center;">GROSS REVENUE</td> <td>36,00,000</td> </tr> <tr> <td>(Fixed expenses)- 24,00,000</td> <td></td> </tr> <tr> <td>(Depreciation)- 10,000</td> <td>(24,10,000)</td> </tr> <tr> <td style="text-align: center;">GROSS PROFIT</td> <td>11,90,000</td> </tr> <tr> <td>(Interest on borrowed capital)</td> <td>(60,000)</td> </tr> <tr> <td style="text-align: center;">PROFIT AFTER INTEREST BEFORE TAX</td> <td>11,30,000</td> </tr> <tr> <td>Tax</td> <td>2,26,000</td> </tr> <tr> <td style="text-align: center;">NET EARNINGS AFTER INTEREST & TAX</td> <td>9,04,000</td> </tr> <tr> <td>ROE- Net Income/ Equity*100</td> <td>$904000/400000*100= 226\%$</td> </tr> </table> <p>ROE for Multi Enterprises is 226%</p> <p>ROE is a good indicator for performance evaluation.</p>	Sales Revenue for the year- 6,00,000 * 12	72,00,000	Cost of Goods Sold (COGS) for the year- 3,00,000*12	36,00,000	GROSS REVENUE	36,00,000	(Fixed expenses)- 24,00,000		(Depreciation)- 10,000	(24,10,000)	GROSS PROFIT	11,90,000	(Interest on borrowed capital)	(60,000)	PROFIT AFTER INTEREST BEFORE TAX	11,30,000	Tax	2,26,000	NET EARNINGS AFTER INTEREST & TAX	9,04,000	ROE- Net Income/ Equity*100	$904000/400000*100= 226\%$	2+1
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9	Explain the various approaches used in promotion strategy.	3																						
Ans.	<p>Above-the-line promotions use mass media methods. This type of promotion focuses on advertising to a large audience. It includes conventional media like print, online, television and cinema advertising.</p> <p>Below-the-line methods are very specific, memorable activities focused on targeted groups of consumers. They are under the control of the organisation. The purpose of these activities has been to develop the brand by creating awareness and building a brand profile.</p> <p>Through-the-line refers to an advertising strategy involving both above and below the line communications in which one form of advertising points the target to another form of advertising thereby crossing the "line".</p>	1 + 1 + 1																						

10	Elaborate on any three types of mergers?	3
Ans	<p>a. Conglomerate: A merger between firms that are involved in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.</p> <p>b. Horizontal merger: A merger occurring between companies in the same industry. Horizontal merger is a business consolidation that occurs between firms which operate in the same space, often as competitors offering the same goods or service.</p> <p>c. Market extension mergers: A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.</p> <p>d. Product extension mergers: A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits.</p> <p>e. Vertical merger: A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations.</p> <p>(Any three)</p>	1 + 1 + 1
11	<p>Identify and explain the type of pricing method used by the following companies.</p> <p>A. Toothcare, a new brand in the field of toothpastes decided to launch their small packs at a cost of Rs. 5 only which will be sold in the rural market to capture more market share.</p> <p>B. Drinko Ltd., decided to sell their new energy drink initially only in the urban market. The Marketing and Finance team decided together that 200 ml tetra pack will be sold at Rs. 10 and 1000 ml will be sold at Rs. 40.</p> <p>C. Bukno, a startup firm in the field of Artificial Intelligence decided to sell their voice enabled vacuum cleaner in the market for Rs.1,00,000 for a limited time period to cover the initial research and development costs.</p>	3
Ans	A. Penetration pricing: It is a pricing strategy where the price of a product is initially set at a price lower than the eventual market price, to attract new customers. The strategy works on the expectations that customers will switch	1 + 1 + 1

	<p>to the new brand because of the lower price.</p> <p>B. Variable price method: Variable pricing is a marketing approach that permits different rates to be extended to different customers for the same goods or services. It may come into play when the customer is committing to the purchase of large volumes of goods or services.</p> <p>C. Creaming or skimming: Goods are sold at higher prices so that fewer sales are needed to break even. Selling a product at a high price, sacrificing high sales to gain a high profit is therefore "skimming" the market. Skimming is usually employed to reimburse the cost of investment of the original research</p>	
	SECTION C	
12	Who are Angel Investors? State any four features of Angel Investors.	5
Ans.	<p>Business angel or informal investor or an angel investor, is an affluent individual who provides capital for a business start-up and early-stage companies usually in exchange for convertible debt or ownership equity.</p> <p>Any four features.</p> <p>1) Most angel investors are current or retired executives, business owners or high net worth individuals who have the knowledge, expertise, and funds that help start-ups match up to industry standards.</p> <p>2) As angel investors bear extremely high risk and are usually subject to dilution from future investment rounds. They expect a very high return on investment.</p> <p>3) Apart from investing funds, most angels provide proactive advice, guidance, industry connections and mentoring start-ups in its early days.</p> <p>4) Their objective is to create great companies by providing value creation, and simultaneously helping investors realize a high return on investments.</p> <p>5) They have a sharp inclination to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs by making use of their vast experience.</p>	1+4
13	<p>‘Ganpati Steel Ltd.’ is a large and creditworthy company manufacturing steel for the Indian market. It now wants to cater to the Asian market and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. The company decided to raise funds through the capital market.</p> <p>40% of the funds will be raised directly from the public through the issue of</p>	5

	<p>prospectus. 40% of the shares will be directly sold to a limited number of sophisticated investors. 20% of the shares will be offered to the employees.</p> <p>Identify the methods of flotation of new issues used by the company. Also state one benefit of each method. The issue was very well accepted by the investors. Mr. Raman, an investor could not get shares allotted when the offer was made to the public. He wishes to invest in the company. State the option available to him now and how will it benefit Raman?</p>	
Ans	<p>40% of the funds will be raised directly from the public through the issue of prospectus - IPO. The primary advantage an entrepreneur stands to gain by going public is access to capital.</p> <p>50% of the shares will be directly sold to a limited number of sophisticated investors - Private Placement. This method is useful at times when the company does not wish to disclose information to the open market.</p> <p>20% of the shares will be offered to the employees - Offer to employees - Benefit: Higher efficiency (any other stated in the textbook)</p> <p>Raman can go to the Secondary market/ Stock exchange and buy shares. Benefit – This market imparts liquidity to the long term securities held by them by providing an auction market for these securities.</p>	3 +1 + 1
14	<p>Read the following article from a Business Newspaper and answer:</p> <p>“Fone India Ltd. is the second largest mobile network operator in India by subscriber base, after Virel. Huber Evel Ltd (HEL) was another leading mobile operator in India. In the year 2007, Fone India Ltd., acquired a 52 % stake in HEL. Fone India’s main motive in going in for the deal was its strategy of expanding into emerging and high growth markets which will lead to improved profitability in the business.”</p> <p>a. Quoting the lines from the passage identify and explain reasons for taking up a stake by Fone India Ltd., b. Also explain any three reasons apart from the one identified in part (a).</p>	5
Ans	<p>a. “deal was its strategy of expanding into emerging and high growth markets” - Entry into new markets: a company can enter the market avoiding too much competition. “lead to improved profitability in the business” - Improved profitability: The acquisition will lead to increased profits for the</p>	2 + 3

	<p>firm.</p> <p>b. Synergy - synergy between the participating firms determines the increase in value of the combined entity.</p> <p>Acquiring new technology - By buying another company with unique technology, the buying company can maintain or develop a competitive edge.</p> <p>Acquiring a competency - To acquire a competency or capability that they do not have.</p> <p>Access to funds - The newly acquired company can be cash rich which will help both the firms.</p> <p>Tax benefits - If a loss making company is being acquired, it can lead to reduced tax liabilities. (Any three)</p>	
15	Explain the factors affecting channels of distribution with relation to market considerations	5
Ans	<p>a. Number of buyers: If the number of buyers is large then it is better to take the services of middlemen for the distribution of the goods. On the contrary, the distribution should be done by the manufacturer directly if the number of buyers is less.</p> <p>b. Types of buyers: Buyers can be of two types: General Buyers and Industrial Buyers. If more buyers of the product belong to the general category then there can be more middlemen. But in the case of industrial buyers there can be less middlemen.</p> <p>c. Buying habits: A manufacturer should take the services of middlemen if his financial position does not permit him to sell goods on credit to those consumers who are in the habit of purchasing goods on credit.</p> <p>d. Buying quantity: It is useful for the manufacturer to rely on the services of middlemen if the goods are bought in smaller quantities.</p> <p>e. Size of market: If the market area of the product is scattered fairly, then the producer must take the help of middlemen.</p>	1 + 1 + 1 + 1 + 1