

ENTREPRENEURSHIP
SAMPLE PAPER
2017-18

Time Allowed: 3 hours

Maximum Marks: 70

S.no.	Questions/ Expected Value Points	Marks
1.	Differentiate between capital budget and cash budget.	1
Ans.	Capital budget is used to determine whether an organisation's long term investment plans are worth pursuing, whereas cash budget determines when income will be sufficient to cover expenses and when the company will need to seek outside financing.	
2.	Gupta Ltd., are the manufacturers of sports motorcycles. They want to manufacture low cost scooters using latest technology. For financing the project they have estimated a capital requirement of Rs. 50 lakhs. The company wants to finance the project by borrowing from a financial institution. Name any two financial institutions they can approach for the same.	1
Ans.	Industrial Development Bank of India; Small Industries Development Bank of India; Industrial Finance Corporation of India; Industrial Credit and Investment Corporation of India (Any two)	
3.	Naveen owns a 10 room building near Indira Gandhi International Airport. He wants to start a guest house there because he knows that many visitors require low cost accommodation near the airport. State two things that he has to ensure before opting for this opportunity.	1
Ans.	<ul style="list-style-type: none"> • To ensure that there is a good market for the service • The rate of return on the investment is attractive 	
4.	Give the meaning of a 'Joint Hindu Family Business'.	1
Ans.	It is a business which is owned, managed and controlled by the male members of a Joint Hindu Family.	
5.	What is a trade mark?	1
Ans.	It is a recognizable sign, design or expression which distinguished products or services of a particular trade from the similar products or services of other traders.	
6.	List any four advantages of Employees Stock Option Plan.	2
Ans.	Higher Efficiency; Low labour turnover; Better industrial locations; Low flotation cost; Wider higher generation of funds (Any four)	
7.	Ritu has completed her B.tech in textile designing. She wants to start a ready made garments manufacturing unit. She wants to manufacture trendy garments for children below the age of one year. She approached a popular trend spotter to help her with the same. The trend spotter demanded Rs. 2,00,000 from Ritu to help her. Looking at the high fee demanded, she decided to do the trendspotting by herself. She decided to identify the trend by talking to the parents of the newly born. Explain the method that Ritu adopted to spot the trend.	2
Ans.	Talk Trends: talking to people is equally important trend spotting activity which helps the entrepreneur to get inputs on the needs of the customer. This can be done both online and offline.	
8.	The first step in the creative process is 'Idea germination'. Explain the next step that follows.	2
Ans.	Preparation: on the basis of the idea generated the entrepreneur starts looking for the	

	answers to implement the idea. If the idea is to launch a new product or service then market research is conducted.	
9.	<p>Mohan and Radha want to start a shop to sell Rajasthani Sweets. They did not know how to enter into the agreement. Therefore, they approached a Chartered Accountant who advised them to prepare a document which may stipulate the terms and consolidation of the agreement.</p> <p>Name the document about which the chartered accountant advised Mohan and Radha. Also state any four important items they should include in the agreement besides the name, nature and place of business.</p>	2
Ans.	<p>Partnership Deed;</p> <p>Contents of the deed:</p> <ol style="list-style-type: none"> 1. Amount of capital to be contributed by each partner. 2. Profit sharing ratio between the partners. 3. Loans and advances from the partners and the rate of interest thereon. 4. Drawings allowed to the partners and the rate of interest thereon. 5. Amount of salary and commission, if any, payable to the partners. 6. Duties, powers and obligations of partners. 7. Maintenance of accounts and arrangement for their audit. 8. Mode of valuation of goodwill in the event of admission, retirement and death of a partner. 9. Settlement of accounts in the case of dissolution of the firm. 10. Arbitration of case of disputes among the partners. 11. Arrangements in case a partner becomes insolvent. (Any four) 	
10.	<p>Quick Rasoi is a fast food chain selling Indian items like Kathi Roll, Samosa, Idli, Dhoklas Etc., Now, they want to sell Kulfi in their outlets. Kulfi has been an item in their menu earlier also but was withdrawn because of higher price as compared to the price of established brands. Therefore, this time they decided to initially price the Kulfi at cost. It was done with the objective of increasing market share.</p> <p>Management of Quick Rasoi is of view that once their Kulfi is established in the market they will increase the price to a level that will help them in earning reasonable profit on their product.</p> <p>Identify and explain the pricing strategies adopted by Quick Rasoi earlier and at present.</p>	2
Ans.	<p>Price Skimming- It is the method where the initial price is set high to attract brand conscious customers and to recover the research and development cost quickly.</p> <p>Penetrating price- It is a method where the prices are kept low or at par with the competitors in order to gain the market share. Once it is achieved the prices are gradually increased to match up with the market.</p>	
11.	<p>In 2015 Jaya Ltd, started a toy manufacturing unit using robot technology. The toys manufactured by the company became popular amongst children. But since the cost of the toys was high, the company could not earn good profit. The business is of high risk along with higher expected returns. The company wants to increase production so that they can reduce cost per unit. For this the company wants additional investment of Rs. 50 lakhs. The company approached Ashok who has just retired from Indian Space Research Organisation and who is an influential person.</p> <p>Ashok agreed to give the loan to the company provided that his loan is converted into equity shares after two years. The company agreed to Ashok's proposal.</p>	3

	(a) What type of investor is Ashok? (b) State any two features of the same.	
Ans.	(a) Angel Investor (b) Features (Any two) 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. 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. 3. Apart from investing funds, most angels provide proactive advice, guidance, industry connections and mentoring start-ups in its early days. 4. Their objective is to create great companies by providing value creation, and simultaneously helping investors realize a high return on investments. 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 experience	
12.	Following are the balances of current assets and current liabilities of X Ltd., Cash – Rs.20,000; outstanding expenses- Rs.5000; Creditors- Rs.15,000; Debtors-Rs.50,000; Short term loans- Rs.4000; Short term investments-Rs.30,000; Long term loans-Rs.1,00,000; Stock-Rs.70,000. Calculate the gross and net working capital of X Ltd.,	3
Ans.	Gross Working capital = Sum total of all Current Assets = Cash + Debtors + Short term investment + Stock = 20,000+50,000+30,000+70,000= Rs.1,70,000 Net working capital = Current Assets-Current Liabilities Current Liabilities = Outstanding expenses + Creditors + Short term loans = 5000 + 15,000 + 4000= Rs. 24,000 Net working capital = 1,70,000-24,000= Rs. 1,46,000	
13.	Explain creative efforts as an idea field and also list the ways in which these ideas can be generated.	3
Ans.	Creativity is an important and key component of the talents and abilities needed for an entrepreneur for spotting and to harness opportunities. It can also be applied to develop new products and services. There are basically five ways in which creative ideas can be generated: 1. Develop a new product or service. 2. Improve an existing product or service 3. Find a new process or resource for manufacturing a product. 4. Find new markets for existing products or services. 5. Find a new use of an existing product or service.	
14.	Some important factors are involved in the process of sensing entrepreneurial opportunity. State these factors.	3
Ans.	To sense an entrepreneurial opportunity, an entrepreneur employs his/her sharpened skills of observation, analysis and synthesis to identify an opening. The most important factors involved in the process are:	

	<ol style="list-style-type: none"> 1. Ability to perceive and preserve basic ideas which could be used commercially 2. Ability to harness different sources of information and analyse it to the best possible extent 3. Vision and creativity helps them to convert solution into business opportunity and helps them to move forward overcoming all the obstacles. 	
15.	<p>Gopi, in order to promote local craftsmen of Gujarat, formed an organization where in the persons voluntarily associate themselves to promote common economic interest. The basic purpose of this organization was to help these craftsmen to find market for their products. It had a managing committee that was elected on the basis of ‘one member one vote’.</p> <ol style="list-style-type: none"> a. Identify the form of business organization set up by Gopi. b. Quoting the lines form the above para, state any two features of this form of organization. 	3
Ans.	<p>Co-operative organization; Features:</p> <ol style="list-style-type: none"> a. ‘Formed an organization where in the persons voluntarily associate.....’- voluntary association, anybody can become a member of a co-operative society b. ‘managing committee that was elected in the basis of one member one vote’- democratic management, the management of the co-operative society is democratically elected. c. ‘the purpose of this organization is to help these craftsmen to find market for their products’- service motive, the main objective of a co-operative society is to provide service to it’s members and not to earn profits. (Any two) 	
16.	<p>What will be the effect on Production Plan in the following situations:</p> <ol style="list-style-type: none"> a. When there is no manufacturing b. When there is partial manufacturing c. When there is complete manufacturing 	3
Ans.	<p>No manufacturing involved: If the new venture does not include any manufacturing function, say it’s a trading firm or a service provider, then this section will stand eliminated from the plan.</p> <p>b) Partial manufacturing: If some or all the manufacturing process is to be subcontracted or outsourced, then the production plan should describe:</p> <ol style="list-style-type: none"> i) Name and location of subcontractor(s) ii) Reasons for their selection iii) Cost and time involved iv) Any contracts that have been completed etc. <p>In such cases, a clear mention of what entrepreneur intends to do himself and what he plans to get it done from outside is required.</p> <p>c) Complete Manufacturing: If the manufacturing is to be carried out in whole by the entrepreneur, he/she will need to describe:</p> <ol style="list-style-type: none"> i) the physical plant layout, ii) the machinery and equipment required to perform the manufacturing operations, iii) raw materials and suppliers names, addresses, terms and conditions, iv) cost of manufacturing v) any future capital equipment required etc. 	
17.	When is it advisable for an entrepreneur to opt for a direct channel of distribution?	3

Ans.	It is advisable for an entrepreneur to opt for a direct channel of distribution in the following cases: a. Where the producer or entrepreneur wants to have full control over distribution. b. when an entrepreneur wants to deal directly with the consumers. c. To cut distribution costs.	
18.	Explain any two advantages and two disadvantages of franchising to franchisee.	4
Ans.	<p>Advantages: (Any two)</p> <p>1. Product acceptance : The franchisee usually enters into a business that has an accepted name, product or service. The franchisee does not have to spend resources trying to establish the credibility of the business. That credibility already exists based on the years the franchise has existed.</p> <p>2. Management expertise Another important advantage to the franchisee is the managerial assistance provided by the franchisor. Each new franchisee is often required to take a training program on all aspects of operating the franchise. This training could include classes in accounting, personnel management marketing and production.</p> <p>3. Capital requirements Starting a new venture can be costly in terms of both time and money. The franchise offers an opportunity to start a new venture with up-front support that could save the entrepreneur's significant time and possibly capital.</p> <p>4. Knowledge of the market Any established franchise business offers the entrepreneur years of experience offered to the franchisee that details the profile of the target customer and the strategies that should be implemented once the operation has begun. This is particularly important because of regional and local differences in markets.</p> <p>5. Operating and structural controls Two problems that many entrepreneurs have in starting a new venture are maintaining quality control of products and services and establishing effective managerial controls. And this can be overcome with the help of franchising.</p> <p>Disadvantages: (Any two)</p> <p>1. Right and the only way of doing things: Entering into a franchise contract limits the degree of freedom for the franchise. As such, one gets an over-guided and over-influenced degree of control exerted by the franchisor. This results in losing the freedom to innovate to some extent.</p> <p>2. Continuing cost implication: Over and above the original franchise fee and royalties, a percentage of revenue gets shared perpetually with the franchisor. The franchisor may also charge additional amounts towards sharing the cost for services provided such as advertising and training.</p> <p>3. Risk of franchisor getting bought: The franchisee faces serious problems and difficulties when the franchisor either fails or gets bought out by another company.</p> <p>4. Inability to provide services: The disadvantages to the franchisee usually centre around the inability of the franchisor to provide services advertising and location. When promises made in the franchise agreement are not kept, the franchisee may be left without any support in important areas.</p>	

19.	To regulate and supervise the securities market in India, this statutory body was constituted in 1998. (a) Identify this body (b) Give any three powers of this body. (c) State any one value which the statutory body as identified in (a) above tries to inculcate among the members of the securities market.	4
Ans.	a. Securities and Exchange Board of India b. For the discharge of its functions efficiently, SEBI has been vested with the following powers: (Any three) <ul style="list-style-type: none"> • To approve by-laws of stock exchanges, SEBI • To enquire the stock exchange to amend their by-laws. • Inspect the books of accounts and call for periodical returns from recognized stock exchanges. • Inspect the books of accounts of financial intermediaries. • Compel certain companies to list their shares in one or more stocks exchanges. • Levy fees and other charges on the intermediaries for performing its functions. • Grant license to any person for the purpose of dealing in certain areas. • Delegate powers exercisable by it. • Prosecute and judge directly the violation of certain provisions of the Companies Act. • Power to impose monetary penalties. (c) Discipline; Honesty (Any other relevant value)	
20.	Why is Break-even analysis regarded as a useful element of financial plan?	4
Ans.	Break-even analysis is useful for the entrepreneur as it helps in assessing: <ul style="list-style-type: none"> • The minimum level of output to be produced. • The effect of change in quantity of output upon the profits. • The selling price of the product. • The profitable options in line of production. 	
21.	PATA Group as part of its Corporate Social Responsibility activity decided to invest in sports. They established an 'Archery Training Academy' at Jharkhand for tribals where students from all parts of the state could enroll. They also provided boarding and lodging facilities to the selected sports person free of cost. Besides this, the company also decided to organize computer literacy program for these candidates. (a) Identify the type of value added by PATA group (b) Give any three values communicated by PATA group	4
Ans.	a. Cause related value b. Social responsibility; Awareness about computer literacy; Balanced regional development; (Any other relevant value)	
22.	Kumar has completed his senior secondary examination from Central Board of Secondary Education. After the report had been declared his father asked him what he would like to do in the future. Kumar was undecided and did not answer. His father advised him to start his own business and to pursue his studies through distance learning mode. Kumar reluctantly agreed. He entered into a partnership agreement with one of his school friends, Gurmeet. They	6

	<p>decide to start a business of cold drinks with traditional mughlai aroma in a fashionable crowded street of Bengaluru. Kumar and Gurmeet each invested Rs.10,00,000 as their respective capitals. They wanted to earn good profits. As they were new to the business they did not finalise deadlines for different activities as well as the quantity of different types of drinks aroma wise. Because of the novelty of their product their sales increased on daily basis.</p> <p>Ultimately a stage arose when they required to expand their business. For this they did not take any timely action. Gurmeet advised to open another branch in a remote area without looking at the relevance of the place regarding the approach to the branch. Kumar was undecided. They approached Kumar's father for advice. He advised them that their activities ought to be specific, measurable, attainable, relevant and time based.</p> <p>(a) Identify the concept about which kumar's father advised them (b) State the importance of the concept identified in (a) above (c) Also state the three rules that may be followed in the implementation of the concept.</p>										
Ans.	<p>(a) Concept- Goal setting (b)Importance of goal setting:</p> <ul style="list-style-type: none"> • Goal Setting is an important exercise for ensuring the appropriate performance. • Goal setting ensures clarity of vision, alignment to the organisational goals, clarity of purpose and higher probability of achieving the goals. • Goal setting allows us to be proactive, instead of just being reactive. <p>(c) Rules for goal setting:</p> <ul style="list-style-type: none"> • Business goals need to be relevant. Business owners sometimes make the mistake of choosing business goals that are pointless. To be relevant, a business goal has to be profitable in some fashion. That's not to say that every business goal has to be measurable in rupees, but it does have to possess a clear advantage or benefit to the specific business. • Business goals need to be actionable. An even more common mistake when setting business goals is to choose business goals that are too vague or abstract. When you're setting business goals, be sure that you have developed them from general statements, such as in the example above, to specific actions that can be performed and evaluated. Goals without action plans are just pretty words. • Business goals need to be achievable stretches. The purpose of business goals is to move the businesses forward. So we have to position the bar very carefully when we're setting business goals. If the bar is set too high, we set ourselves up for failure and disappointment and many of us, recognising this in advance, will just stop trying. 										
23.	<p>Best Electronics Ltd., are the manufacturers of 'Air Conditioners' and 'Air Purifiers'. Their fixed costs are Rs.32,00,000 per year. The sales price and variable cost per unit of 'Air conditioners' and 'Air purifiers' are given below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Air Conditioners</th> <th style="text-align: center;">Air Purifiers</th> </tr> </thead> <tbody> <tr> <td>Sales Price</td> <td style="text-align: center;">20,000</td> <td style="text-align: center;">5,000</td> </tr> <tr> <td>Variable cost</td> <td style="text-align: center;">15,000</td> <td style="text-align: center;">3,000</td> </tr> </tbody> </table>		Air Conditioners	Air Purifiers	Sales Price	20,000	5,000	Variable cost	15,000	3,000	6
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	<p>During the year the company could sell 1000 Air conditioners and 1500 Air purifiers and could not break even. The Air conditioners and Air purifiers were sold in the proportion of 2:3 throughout the year.</p> <p>Calculate break even in units as well as in rupees.</p>																																																	
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24.	<p>Kiano Mobile Solutions (KMS) has been a leader in the mobile handset industry for years. After technological advancement, many players entered the market and started to take up the sales share. KMS failed to understand the changing trends in the mobile phone and lost its market share majorly whereas Hanhung Mobitech could understand the sensitivity to the environment factors which is crucial for an entrepreneur. How has the understanding of environment helped Hanhung Mobitech? Explain.</p>	6																																																
Ans.	<p>The benefits of understanding the relevant environment of business are:</p> <ul style="list-style-type: none"> • Identification of opportunities to get first mover advantage: By keeping in touch with the changes in the external environment, an enterprise can identify opportunities and find strategies to capitalise on the opportunities at the earliest. • Formulation of strategies and policies: It helps in identifying threats and opportunities in the market. These can serve as the basis of formulation of strategies to counter threats and capitalise on opportunities in the market. • Tapping useful resources: If the company has a thorough knowledge of the external environment, it can 																																																	

	<p>tap raw materials, technology and even financial resources from the market at economical prices, at the right time.</p> <ul style="list-style-type: none">• Better performance: Proper understanding of the various elements of the external environment is necessary to take timely action to deal with threats and avail opportunities for the purpose of improvement in the performance of the firm.• Sensitisation of entrepreneurs to cope up with rapid changes: A keen watch on the trends in the environment would help sensitise the entrepreneur to changing technology, competition, government policies and changing needs of the customers.• Image building: If a company is sensitive to the external environment, it will come out with new products and services to meet the requirements of the customers. This would build the image or reputation of the firm in the eyes of the general public.	
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