

UNIVERSITY OF THE PANJAB

2020

Q1 M.C.Qs

- 1 (c) joint stock company
- 2 (a) 21 days
- 3 (b) Articles of Association
- 4 (a) Marketing Mix
- 5 (a) Finished goods
- 6 (b) Retained Earning
- 7 (a) Market Segmentation
- 8 (d) Share
- 9 (b) Industrial goods
- 10 (c) Profit Sharing

Q2 Give short answer of the following

1 What is fundamental difference between a sole proprietorship and a partnership?

Ans: The fundamental difference between a sole proprietorship and a partnership is the number of owners involved in the business.

A sole proprietorship is a business that is owned and operated by one individual. The owner is solely responsible for all aspects of the business, including its debts and liabilities. The owner also receives all profits and has complete control over decision-making.

On the other hand, a partnership is a business that is owned and operated by two or more individuals who share in the profits and losses of the business. Partnerships can be structured in different ways, but generally, each partner contributes resources such as money, skills, or labor to the business, and each has a say in decision-making. Partnerships can be either general partnerships, where all partners share in the management and liability of the business, or limited partnerships, where some partners have limited liability and are not involved in the management of the business.

In summary, the key difference between a sole proprietorship and a partnership is the number of owners and how the ownership is structured. In a sole proprietorship, there is only one owner who has complete control over the business, while in a partnership, there are two or more owners who share control and responsibility for the business.

2 Which form of business organization would be best suited for starting a small travel agency?

Ans: The form of business organization that would be best suited for starting a small travel agency depends on several factors such as liability, taxation, ownership, and management structure.

In this case, a limited liability company (LLC) may be the best option for a small travel agency. An LLC combines the flexibility and tax benefits of a partnership with the liability protection of a corporation. This means that the owners of the LLC, known as members, have limited personal liability for the debts and actions of the business. In addition, an LLC allows for pass-through taxation, meaning that profits and losses are passed through to the members' personal tax returns, avoiding double taxation.

Starting a travel agency involves dealing with customers, booking travel arrangements, and managing finances, which can be complex and involve various legal and regulatory requirements. An LLC would provide the owners with liability protection and flexibility in management and ownership structure, while also providing tax benefits.

However, it is always recommended to seek advice from a legal or financial professional before making a decision on the best form of business organization for a specific situation.

3 What are the disadvantages of becoming a secret partner?

Ans: A secret partnership, also known as a silent partnership or a sleeping partner, is a type of partnership where one partner contributes capital to a business but does not participate in its management or decision-making. The main disadvantage of becoming a secret partner is the lack of control over the business.

Some other disadvantages of becoming a secret partner include:

1. Limited involvement in decision-making: As a silent partner, you may not have a say in the day-to-day operations or major decisions of the business. This lack of control can be frustrating if you have specific ideas or concerns about the direction of the business.
2. Liability: As a partner, you may be held liable for any debts or legal issues the business incurs, even if you are not involved in its management. This means that you could be putting your personal assets at risk without having any control over how the business is run.
3. Lack of transparency: Because your involvement in the business is kept secret, you may not have access to important financial or operational information. This lack of transparency can make it difficult to assess the health of the business or make informed decisions.
4. Trust issues: A secret partnership requires a high level of trust between the partners. If there are any disagreements or misunderstandings, it can be difficult to resolve them without causing damage to the business.

In summary, while a secret partnership may provide an opportunity to invest in a business without taking an active role in management, it also carries significant risks and limitations. It is important to carefully consider the potential drawbacks before entering into a secret partnership.

4 What are the advantages of a general partnership?

Ans: A general partnership is a business structure in which two or more individuals share ownership, management, and profits and losses of a business. Here are some advantages of a general partnership:

1. Easy to Form: General partnerships are relatively easy to form as they do not require any formal registration or documentation. The partnership agreement, which outlines the terms of the partnership, can be drawn up and signed by the partners.
2. Shared Responsibility: In a general partnership, the responsibilities and workload are shared among the partners. Each partner can bring unique skills, expertise, and resources to the business, making it easier to manage the business.
3. Access to Capital: Since multiple partners contribute to the business, it is easier to pool resources and raise capital. This can be particularly helpful in the early stages of the business when additional funds may be required.
4. Flexibility: General partnerships are flexible in terms of management and decision-making. Partners have equal say in the direction and operations of the business, which can lead to better decision-making and a stronger sense of collaboration.
5. Shared Profits and Losses: All partners share equally in the profits and losses of the business. This can be an advantage as it incentivizes all partners to work towards the success of the business.
6. Tax Benefits: General partnerships offer pass-through taxation, meaning that the profits and losses are reported on the partners' personal tax returns. This can help to reduce the overall tax burden for the business.

5 What are the main responsibilities of board of directors of a corporation?

Ans: The Companies Act 2017 of Pakistan outlines the responsibilities and duties of the board of directors of a corporation. Some of the key responsibilities of the board of directors under the Act include:

1. Duty of care: The board of directors must exercise due diligence, care, and skill in managing the affairs of the company. They must act honestly, in good faith, and in the best interests of the company and its stakeholders.
2. Strategic direction: The board of directors must set the strategic direction of the company and approve the company's annual budget and business plans.
3. Oversight and management: The board of directors is responsible for overseeing the management of the company and ensuring that its operations are efficient and effective.
4. Financial reporting and compliance: The board of directors must ensure that the company maintains accurate financial records, prepares timely financial statements, and complies with all applicable laws and regulations.
5. Risk management: The board of directors must identify and assess the company's risks and implement appropriate risk management strategies to mitigate those risks.
6. Shareholder relations: The board of directors must maintain effective communication with shareholders and ensure that their rights are protected.

7. Appointment and evaluation of senior management: The board of directors is responsible for appointing and evaluating the performance of the company's senior management, including the CEO and other key executives.

6 Explain unlimited liability?

Ans: Unlimited liability is a term used in business to describe the legal responsibility of an individual or company for all debts and other obligations incurred by the business. This means that if a business with unlimited liability is unable to meet its financial obligations, the owners of the business may be required to use their personal assets to pay off the debts.

For example, if a sole proprietorship has unlimited liability and incurs significant debts or legal liabilities that it cannot pay, the owner's personal assets, such as their home, car, or savings, may be seized to pay off the debts. The same is true for partners in a general partnership, where each partner has unlimited liability for the debts of the partnership.

Unlimited liability is in contrast to limited liability, which is a legal structure that limits the liability of owners to the amount of their investment in the business. Limited liability is typically used by corporations and limited liability companies (LLCs), where shareholders and members are not personally responsible for the debts and obligations of the business beyond their investment.

While unlimited liability can be a significant risk for business owners, it can also provide certain advantages. For example, businesses with unlimited liability may be able to access credit or financing more easily since lenders may be more willing to lend to businesses where the owners have a personal stake in the success of the business.

7 Define sale promotion?

Ans: Sales promotion is a marketing strategy that aims to increase the demand for a product or service by offering incentives to potential customers. These incentives can take various forms, such as discounts, coupons, free samples, contests, loyalty programs, and other promotional offers.

Sales promotions are typically designed to achieve specific objectives, such as boosting sales during a particular time period, introducing a new product, or encouraging customers to try a new brand. They can be targeted to different audiences, such as retailers, wholesalers, or end consumers, and can be delivered through various channels, such as advertising, direct mail, or online marketing.

Sales promotions can be an effective way to generate interest and excitement around a product or service and can help businesses to differentiate themselves from competitors. However, they can also be costly and may not always result in long-term benefits, particularly if they are not aligned with the overall marketing strategy of the business. As such, it is important for businesses to carefully plan and execute sales promotions to ensure they are effective and generate a positive return on investment.

8 Differentiate marketing from selling?

Ans: Marketing and selling are two related, but distinct, concepts in business.

Marketing refers to the process of identifying and satisfying customer needs and wants through a range of activities, such as product development, pricing, promotion, and distribution. Marketing involves understanding the needs and preferences of target customers, creating products or services that meet those needs, communicating the benefits of the products or services to customers, and delivering them through an efficient and effective distribution system.

Selling, on the other hand, is a specific activity within the broader process of marketing that involves persuading potential customers to purchase a product or service. Selling involves interacting with customers directly, communicating the features and benefits of a product or service, and using persuasive techniques to encourage them to make a purchase.

The main difference between marketing and selling is that marketing is a broader process that encompasses a range of activities aimed at identifying and satisfying customer needs, while selling is a specific activity within that process that focuses on persuading customers to make a purchase.

In other words, marketing is about creating products or services that meet customer needs, while selling is about persuading customers to buy those products or services. Marketing takes a customer-focused approach, while selling takes a product-focused approach.

9 Define separation of ownership of management?

Ans: Separation of ownership and management is a concept in business that refers to the distinction between the owners of a business (shareholders or partners) and the individuals responsible for managing the day-to-day operations of the business (executives, managers, or directors).

In a business with separation of ownership and management, the owners delegate authority to a separate group of individuals to manage the business on their behalf. This separation allows owners to focus on investing in the business and receiving a return on their investment, while the managers are responsible for making strategic and operational decisions to ensure the success of the business.

This separation is typically found in larger corporations where the ownership is spread among many shareholders and the management team is responsible for running the company's operations. It is also common in public companies where shares are traded on stock exchanges and the owners are often not involved in the day-to-day management of the business.

The separation of ownership and management can help ensure that the business is managed effectively and efficiently, with decisions based on sound business principles rather than personal interests. It also provides a clear division of labor and accountability, allowing owners to hold managers responsible for the performance of the business.

10 Define business risk?

Ans: Business risk is the possibility of financial loss or failure faced by a company or organization due to various factors and uncertainties in the business environment. These risks can arise from both internal and external factors that can affect the success and profitability of the business.

Internal factors that can create business risk include inadequate financial management, operational inefficiencies, production problems, and employee turnover. External factors that can create

business risk include changes in market conditions, competition, economic conditions, government regulations, and natural disasters.

Business risk can manifest in a variety of ways, such as declining sales, reduced profits, decreased market share, or bankruptcy. Managing and mitigating business risks is an important part of business planning and decision-making, and involves identifying potential risks, assessing their likelihood and impact, and implementing strategies to reduce or avoid them.

Risk management strategies can include diversifying the business, reducing debt, maintaining adequate cash reserves, implementing sound financial management practices, and having insurance coverage for potential losses. By effectively managing business risks, companies can improve their chances of success and longevity in the market.

Q3 Give brief answer of the followings

1 Define insurance. What different types of insurance are available?

Ans: Insurance is a financial product that provides protection against financial losses resulting from unexpected events or risks. In exchange for a premium payment, the insurance company agrees to compensate the policyholder for specified losses or damages that may occur.

Types of Insurance: There are many different types of insurance available to protect individuals, businesses, and assets. Some of the most common types of insurance include:

1. Life insurance: Provides financial protection to the policyholder's beneficiaries in the event of the policyholder's death.
2. Health insurance: Covers medical expenses incurred by the policyholder, such as doctor visits, hospital stays, and prescription drugs.
3. Property and casualty insurance: Covers damage or loss to property caused by events such as fire, theft, or natural disasters. It can also include liability coverage for injuries or damages caused to others by the policyholder.
4. Auto insurance: Covers damage or loss to a policyholder's vehicle, as well as liability coverage for injuries or damages caused to others in an accident.
5. Disability insurance: Provides income replacement in the event of the policyholder's disability, which prevents them from working.
6. Long-term care insurance: Covers the cost of long-term care for elderly or disabled individuals, including nursing home care, in-home care, and assisted living.
7. Travel insurance: Provides coverage for unexpected events that may occur while traveling, such as trip cancellations, medical emergencies, or lost luggage.
8. Business insurance: Provides protection for businesses against financial losses resulting from unexpected events such as property damage, liability claims, or business interruption.
9. Marine insurance: Provide coverage for loss or damage to ships, cargo, terminals and any transport or property by which cargo is transferred, loaded or unloaded during transport by sea, air or land. It is a specialized form of insurance that is designed to protect the interest of business and individuals involved in maritime trade.

The type of insurance that an individual or business may need will depend on their specific circumstances and risks. It is important to carefully consider the coverage and limitations of each type of insurance and choose a policy that provides the appropriate level of protection.

2 Define business combination. What are various forms of business combination? Discuss several merits and demerits of forming business combinations.

Ans: A business combination refers to a transaction in which two or more independent companies or entities come together to form a single, larger entity. The purpose of a business combination is typically to increase market share, expand into new markets, or realize operational synergies by combining resources and expertise. Business combinations can take many different forms, including mergers, acquisitions, joint ventures, and consolidations. In general, the goal of a business combination is to create a more efficient and competitive entity that can better serve the needs of its customers and stakeholders.

Forms of Business Combinations: There are several forms of business combinations, including:

1. **Merger:** A merger is a business combination in which two or more companies combine to form a new entity, with both companies surrendering their original identities.
2. **Acquisition:** In an acquisition, one company purchases another company, and the acquired company loses its independence, becoming a subsidiary of the acquiring company.
3. **Consolidation:** A consolidation is a business combination in which two or more companies come together to form a new entity, and all the original companies lose their identities.
4. **Joint venture:** A joint venture is a business combination in which two or more companies form a new entity for a specific business purpose, with each company contributing resources, expertise, and capital.
5. **Strategic alliance:** A strategic alliance is a business combination in which two or more companies agree to work together to achieve a specific goal or objective, but do not form a new entity.
6. **Tender offer:** A tender offer is a business combination in which one company offers to purchase the shares of another company's stock directly from its shareholders.

Each form of business combination has its own unique characteristics, advantages, and disadvantages, and companies will choose the form that best suits their goals, circumstances, and resources.

Merits: There are several merits to forming business combinations, including:

1. **Increased market power:** Combining companies can result in increased market power, allowing the new entity to negotiate better terms with suppliers and customers, and potentially lower costs.
2. **Economies of scale:** By combining resources, companies can often achieve economies of scale, which can lead to reduced costs and increased efficiency.
3. **Increased diversification:** Business combinations can lead to increased diversification, spreading risk across a broader range of products, services, and markets.

4. Access to new markets: Business combinations can provide access to new geographic markets, customer bases, and distribution channels, allowing companies to expand their reach and increase revenue.
5. Complementary strengths: Combining companies with complementary strengths can result in a more well-rounded and competitive entity.
6. Enhanced bargaining power: Business combinations can provide enhanced bargaining power in negotiations with suppliers and customers, allowing the new entity to secure better deals.
7. Shared expertise: Combining companies can result in the sharing of expertise, knowledge, and resources, leading to increased innovation and improved performance.
8. Cost savings: Business combinations can result in cost savings through the elimination of duplicate functions, consolidation of operations, and reduction in overhead expenses.
9. Improved financial performance: Combining companies can lead to improved financial performance, including increased revenue, profits, and shareholder value.
10. Increased access to capital: Business combinations can provide increased access to capital through the pooling of resources, which can be used to fund expansion, research and development, or other strategic initiatives.
11. Improved competitiveness: Combining companies can result in improved competitiveness, allowing the new entity to better compete with rivals and respond to changes in the marketplace.
12. Improved product or service offerings: Business combinations can result in the development of new or improved product or service offerings, providing customers with more choices and better value.
13. Greater control over supply chain: Business combinations can provide greater control over the supply chain, leading to increased efficiency and reduced risk.
14. Increased employee motivation: Business combinations can provide increased opportunities for employee growth and development, leading to increased motivation and job satisfaction.
15. Enhanced corporate image: Business combinations can result in an enhanced corporate image, providing the new entity with greater credibility and respect in the marketplace.

Demerits: There are several demerits to forming business combinations, including:

1. Loss of Control: One of the major demerits of forming business combinations is the loss of control over the operations of the company. As more partners and investors come in, the original owners may have to share control over the business with others.
2. Conflict of Interest: Business combinations may also lead to conflicts of interest between the different partners, especially if they have different objectives and goals for the company.
3. Cultural Differences: Companies that merge may have different cultures, which can lead to problems in communication and decision-making.
4. Integration Issues: Combining two or more companies can be a complex and challenging process that requires significant planning and coordination. Integration issues can lead to delays and disruptions in operations.
5. Increased Competition: Business combinations can lead to increased competition, which can be detrimental to smaller businesses.
6. Regulatory Challenges: Business combinations may also face regulatory challenges, such as antitrust laws and other government regulations.

7. Financial Risk: Merging companies may have different financial situations, which can create financial risks for the combined company.
8. Legal Liabilities: The legal liabilities of one company can transfer to the combined entity, which can be a significant burden.
9. Management Conflicts: Combining companies can lead to conflicts between management teams, which can be challenging to resolve.
10. Cultural Resistance: Employees of the merging companies may resist changes in company culture and may not easily adapt to new processes and procedures.
11. Employee Retention: Mergers and acquisitions may lead to employee turnover, as employees may feel uncertain about their job security.
12. Integration Costs: Combining companies can be expensive, and integration costs can add up quickly.
13. Reduced Flexibility: Larger companies may be less flexible and agile than smaller ones, which can make it challenging to respond to changes in the market.
14. Loss of Brand Identity: Combining companies can also result in the loss of brand identity, which can be detrimental to the reputation of the combined entity.
15. Uncertain Outcomes: Business combinations can be risky, and there is no guarantee that the merger or acquisition will be successful.

3 What are different classes of partners? Discuss the different modes in which a partnership firm may be dissolved?

Ans: Definition: Partnerships are a common form of business organization that involve two or more individuals or entities that join together to operate a business for profit. There are different classes of partners that may exist in a partnership, depending on the nature of the partnership agreement and the specific roles and responsibilities of the partners.

Types of Partners: Here are some common classes of partners:

1. General Partners: These partners have the right to manage the partnership and make decisions on behalf of the business. They are also responsible for the partnership's debts and liabilities.
2. Limited Partners: Limited partners are not involved in the management of the partnership and are only liable for the debts and obligations of the partnership up to the amount of their investment.
3. Silent Partners: A silent partner is typically a limited partner who does not participate in the day-to-day management of the business.
4. Active Partners: Active partners are involved in the day-to-day management of the partnership and contribute to its operations and decision-making.
5. Sleeping Partners: Sleeping partners are similar to silent partners, but they may have some involvement in the management of the business, even if they are not actively involved in its day-to-day operations.
6. Nominal Partners: Nominal partners are those who are not actively involved in the partnership but may lend their name or reputation to the business.
7. Secret Partners: Secret partners are those whose identity is not disclosed to the public and who may be involved in the partnership's operations or decision-making.

The specific classes of partners in a partnership will depend on the terms of the partnership agreement and the goals and objectives of the partners involved.

Modes of dissolution:

There are several modes in which a partnership firm may be dissolved, including:

1. Dissolution by Agreement: A partnership firm may be dissolved with the mutual agreement of all partners. This type of dissolution occurs when the partners decide to dissolve the firm due to various reasons such as retirement of partners, change in business direction or other reasons.
2. Dissolution by Notice: A partnership firm can be dissolved by giving a notice to the other partners. This mode of dissolution is applicable when the partnership deed specifies the period for which the partnership is to run. The notice period may vary from state to state and can range from one month to six months.
3. Compulsory Dissolution: A partnership firm may be compulsorily dissolved by the court in the following cases:
 - When a partner becomes insolvent or bankrupt.
 - When the partnership business becomes illegal or against public policy.
 - When a partner is found to be of unsound mind or is permanently incapable of performing his/her duties.
4. Dissolution by the Happening of an Event: The partnership firm may be dissolved by the happening of a specific event as specified in the partnership deed. For example, the partnership may be dissolved upon the death of a partner or when a partner becomes incapacitated.
5. Dissolution by Order of Court: A partnership firm may be dissolved by order of court in the following cases:
 - When a partner wilfully or persistently breaches the partnership agreement.
 - When the business cannot be carried on except at a loss.
 - When it is just and equitable to do so, such as in cases of serious disputes or disagreements between the partners.

In all cases of dissolution, the partners must wind up the affairs of the partnership by settling all debts and liabilities, distributing the remaining assets among the partners according to their agreed upon shares and filing the necessary paperwork with the authorities.