

## CBSE Board Paper Solution-2020

<b>Class</b>	<b>: XII</b>
<b>Subject</b>	<b>: Entrepreneurship</b>
<b>Code No</b>	<b>: 98</b>
<b>Time allowed</b>	<b>: 3 Hours</b>
<b>Maximum Marks</b>	<b>: 70</b>

### General Instructions:

- i. This question paper comprises five section – A, B, C, D and E. there are 34 questions in the question paper. All questions are compulsory
- ii. Section A – Question No 1 to 17 are very short-answer type questions. Carrying 1 mark each.
- iii. Section B – Question No 18 to 24 are short-answer type I questions. Carrying 2 marks each.
- iv. Section C – Question. No 25 to 29 are short-answer type II questions. Carrying 3 marks each.
- v. Section D – Q. no 30 to 32 are long answer type-I questions. Carrying 4 marks each.
- vi. Section E – Question. No 33 and 34 are long answer type-II questions. Carrying 6 marks each.
- vii. Answer should be brief and to the point.
- viii. There is no overall choice. However, an internal choice has been provided in two questions of 1 mark, tow question of 2 marks, two question of 3 marks, one question of 4 marks and one question



of 4 marks and one question of 6 marks. You have to attempt only one of the choices in such questions.

- ix. In addition to this, separate instructions are given with each section and question, wherever necessary.

## Section A

### Fill in the blanks

**1. Samar is a budding rural entrepreneur who is working on improving the health index of the women in rural areas. Samar needs to understand various health issues confronted by women in order to create a socially committed organization. For this, he wants to gather information about the target market or customers in an organized manner. This organized effort Samar is known as\_\_\_\_\_.**

**(1)**

**Answer:** Marketing plan

Marketing Plan: This has the information related to the target market, potential customers, explanation of the market plans and strategies related to how will the product be distributed, priced and promoted.

**2. "Welsa Moto Corp's" electric vehicles with zero tail pipe emission are emerging as a good**



**alternative to two major problems; (i) climatic change due to auto exhaust and (ii) increasing pollution leading to ill health. This Act of "Welsa Moto Corp's" has taken care of \_\_\_\_\_ and \_\_\_\_\_ elements of macro environment.**

**(1)**

**Answer:** Ecological and technological environment

**3. Amit, an Entrepreneur, is always in touch with the changes taking place in the environment. He identifies opportunities and finds strategies to capitalize on these opportunities at the earliest. Sensing the requirement of providing reasonably priced food at their own place within no times with multiple options, he started the first online food network in India. Because of \_\_\_\_\_ advantage, he was able to capture more than 85% of the market share in no time.**

**(1)**

**Answer:** First mover advantage

First mover advantage: Business environment enables firms to identify opportunities for business success and be the first to exploit business opportunities instead of losing them to competitors.

**4. \_\_\_\_\_ feature of partnership states that any partner can act on behalf of the firm.**

**OR**



**\_\_\_\_\_ process of entrepreneurship involves the translation of a useful idea into an application which has commercial value.**

**(1)**

**Answer:**

Implied authority of partner states that any partner can act on behalf of the firm.

Or

Innovation process of entrepreneurship involves the translation of a useful idea into an application which has commercial value.

**5. \_\_\_\_\_ and \_\_\_\_\_ are the components of a Brand shown in the figure.**



**(1)**

**Answer:** Brand name (Amul) and brand logo (Girl of Amul)

**6. \_\_\_\_\_ is an affluent individual, who provides capital for a business start-up having a high-risk,**

**high-return matrix usually in exchange for convertible debt or ownership equity.**

**(1)**

**Answer:** Angel investor is an affluent individual, who provides capital for a business start-up having a high-risk, high-return matrix usually in exchange for convertible debt or ownership equity.

**State whether the following statements are true or false.**

**7. A financial plan is a projection of key financial data about the potential investment commitment needed for the new venture.**

**(1)**

**Answer:** True.

A financial plan explains key financial data about the potential investment commitment needed for the new venture.

**8. SWOT Analysis means to consider (a) Strengths (b) Weaknesses (c) Opportunities and (d) Tenure of Business.**

**(1)**

**Answer:** False.

SWOT analysis means to consider strengths, weakness, opportunities and threats.

**9. Primary Market facilitates transfer of resources from the savers to the entrepreneurs seeking funds for setting new enterprises.**

**(1)**

**Answer:** True.

Primary Market helps in facilitation of transfer of resources from the savers to the entrepreneurs seeking funds for setting new enterprises.

**10. Gupta is the owner of KYC stores dealing in grocery items. He has an equity stake of ₹ 4,00,000 in the business. He has borrowed ₹ 6,00,000 from State Bank of India. His net profit for the year is ₹1,40,000. The Return on Equity for Gupta will be 23.33%.**

**(1)**

**Answer:** False.

$$\text{ROE} = (\text{net income} / \text{equity}) \times 100$$

$$= (140000 / 400000) \times 100 = 35 \%$$

In case, we assume an interest of 10% on bank loan, then,

$$\text{ROE} = (\text{net income} - \text{interest} / \text{equity}) \times 100$$

$$= (140000 - 10\% \text{ of } 600000 / 400000) \times 100$$

$$= (80000 / 400000) \times 100$$

= 20%

**11. In a Reverse acquisition a public company takes over a private company.**

**(1)**

**OR**

**Sales promotions initiatives are often referred to as 'above the line' activities.**

**Answer:**

False.

In reverse acquisition, a private company takes over a public company.

**Or**

False.

Below the line approach involves organizing particular activities and events so as to get attention of people. It involves sponsorships public relations sales promotion personal selling and direct marketing.

**12. The secondary market enhances the marketability of securities and provides liquidity to investments.**

**(1)**

**Answer:** True.

The secondary market enhances the market ability and hence, the liquidity of securities by providing a platform where existing shareholders can sell their securities.

### Multiple Choice Questions

**13. Gross working capital means:**

- a) **Sum total of all assets.**
- b) **Sum total of all fixed assets.**
- c) **Sum total of all current assets.**
- d) **Current assets minus current liabilities.**

**(1)**

**Answer:** c. sum total of all current assets

Gross working capital refers to aggregate of investment in all the current assets.

Gross Working Capital = Total of all Current Assets

**14. Marketing Plan is a document:**

- a) **Regarding the marketing objectives, strategies and activities to be followed by the new enterprise.**
- b) **Which describes the flow of goods/services from production point to the customers.**
- c) **Which determines how many units must be sold or how much sales volume must be achieved in order to have break-even point.**



**d) Which reflects the projected cash available with the Enterprise.**

**(1)**

**Answer:** a. regarding the marketing objectives, strategies and activities to be followed by the new enterprise

Marketing plan explains the market plans and strategies related to how will the product be distributed, priced and promoted

**15. Growing flowers and selling to floral decorators is an example of the following source of idea field:**

- a) Service sector ideas**
- b) Treading related ideas**
- c) Natural resources**
- d) Market driven ideas**

**(1)**

**Answer:** c. Natural resources

Natural resources involves ideas and product may come from natural resources i.e., forest, agriculture, horticulture, marine or aqua mineral, animal husbandry, wind, etc.

**16. Rushan devised an apparatus to measure the quality of air at home which can be fitted in any Air conditioner and the air conditioner can**



**become an air purifier as well. His product is still in the pre-commercialization stage. Rushan wants to exclude others from making, using, selling and importing this apparatus. The intellectual property right which Rushan will have to obtain is:**

- a) Copyright**
- b) Patent**
- c) Industrial design**
- d) Trade mark**

**(1)**

**Answer:** b. patent

Patent grants an inventor the right exclude others from making, using, selling, offering to sell, and importing an invention for a limited time period.

**17. How many whole time members are nominated by the Union Government of India to Securities and Exchange Board of India?**

- a) 2**
- b) 3**
- c) 4**
- d) 6**

**(1)**

**Answer:** b. 3

The management of SEBI involves five members being nominated by Union government of India, out of which 3 are whole time members.

## Section B

**18. Sanjana graduated from national Institute of Fashion Studies and wants to start her own boutique. She wants to understand the feasibility and viability of the proposed venture. This will also facilitate her in assessing and making provisions for the bottlenecks in the progress and implementation of the idea. She also wants to know about the success of the project along with the risk factors involved.**

**Identify and give the meaning of the document which is required by Sanjana on the basis of the above para.**

**(2)**

### **Answer:**

The document required by Sanjana is business plan.

A business plan is a statement of business goals and plans for reaching them. It represents an entrepreneur's vision for the business and is prepared by an entrepreneur listing all the external and internal factors involved in starting a new venture.

It is a comprehensive report that:

- helps in assessing feasibility and viability of the proposed venture.
- Helps to assess and make provisions for the hurdles in the implementation of an idea.



- Outlines the potential for success of the project along with the risk factors.

**19. Mahesh, an entrepreneur is planning to enter into a new business of manufacturing laptop bags with an inbuilt lock facility. Being highly complex and tedious, its manufacturing operations need to be well planned. He decides that the complete bag will be manufactured at his own factory i.e. no part of its manufacturing process will be outsourced.**

**Identify the important component of business plan that is discussed above. Also, state what needs to be described in the above stated manufacturing situation.**

**(2)**

**Answer:**

The component of business plan discussed is Production plan.

Mahesh decided to the enterprise will manufacture the bags completely and there will no outsourcing of activities.

In this case, production plan explains layout of the plant, machinery and equipment required, details of raw material and suppliers, terms and conditions, cost involved, etc.



The plan also needs to describe production schedule, process of manufacturing involved, time, motion and work study, workforce and inventory required.

**20. State any four ways in which creative ideas can be generated.**

**OR**

**State any four sources which lead to the emergence of basic ideas.**

**(2)**

**Answer:**

Creativity is used to spot and harness opportunities, develop new products, etc. and leads to problem solving.

Four ways in which creative ideas can be generated:

- Developing a new product or service
- Improving an existing product or service
- Discovering new process or resource for manufacturing a product
- Exploring new markets for existing products or services
- Creating a new use of an existing product or service

**OR**

An opportunity or an idea can be perceived from following sources:



- Solution of a problem: Solution to a problem may lead to generation of idea. E.g. battery operated vehicles.
- Change: Change in social, legal or technological aspects may lead to a new business opportunity.
- Invention: Invention of a new product or service may lead to new opportunity that can be converted into an enterprise.
- Competition: It results in new business opportunities.
- Innovation is Adding value to existing product by introducing new process, idea, etc.

**21. State any four advantages 'penetration pricing' method to the firm.**

**OR**

**State any four purposes of 'Logo'**

**(2)**

**Answer:**

Four advantages of penetration pricing are:

- It increases market share quickly due to fast diffusion and adoption of practices.
- It helps in encouraging customers to buy product.
- It leads to high turnover of stock.



- It creates goodwill among early users with the help of word of mouth.

**Or**

Four purposes of logo are:

- It is an anchor for the company's brand that provides identity, uniqueness and important information about the company through use of colors, pattern, etc.
- It also provides shortcut to advertising and act as visual component
- Tagline is the powerful message that communicate company's goal, mission, qualities, etc.
- It helps in conveying a particular thought effectively.

**22. Government banned the use of polythene bags and single use plastic material in order to curb the increasing pollution level by dumping of plastics. Harjot took this as an opportunity and is planning to manufacture biodegradable bags of different size by processing the sugarcane bagasse. Create a logo and a tagline for the bags manufactured by Harjot.**

**(2)**

**Answer:**

**Logo:**





**Tagline: Let Go Green**

**23. Give the meaning of 'Cash Conversion Cycle'.  
How Cash Conversion Cycle of a trading concern  
different from a manufacturing concern?**

**(2)**

**Answer:**

Operating cycle or cash conversion cycle is the time required for a business to convert raw material into cash. It represents the time period between buying the raw material and receiving cash from the customer.

In a trading concern, operating cycle will be time period between buying of goods and money realised from sales.

In a manufacturing concern, it will be the time required to convert:

- cash into raw materials,
- raw materials into work-in-progress
- work-in-progress into finished goods
- finished goods into accounts receivable
- finally, accounts receivable into cash





**24. 'Pipro Ltd.' is a software company based in Bengaluru, India. It is already listed at National Stock Exchange. In order to expand its business in north-east, under the 'Look East policy' of the Government, it needs financial resources.**

**State any two methods through which she can fulfill her financial requirements through Primary Market other than Public issue.**

**(2)**

**Answer:**

Two methods through which Pipro Ltd. can fulfil its financial requirements are:

**Stock options:**

- These are the securities issued to the employees where in holder gets the right, but not the obligation, to purchase (or sell) securities at a specified price.

**Private placement**

- This involves issue of securities by a company to the institutional investors and some selective individuals.
- It is quicker and the cheaper method of raising capital compare to a public issue.

## Section C

**25. With the help of any three points explain why is it important for a business to understand the environment in which it operates.**

**OR**

**Explain proforma investment decisions and proforma financing decisions as components of a financial plan.**

**(3)**

**Answer:**

Importance of Business Environment can be understood from the following points:

- Threats and warning signals

Business environment helps firms to identify threats for business and perceive early warning signals for the business and industry.

- Coping with rapid changes

Business environment helps firms to deal with continuous changes taking place such as less brand loyalty, fragmentation of market, more demanding customers, rapid changes in technology, intense global competition, etc. And develop suitable courses of action to cope with the changes.

- Planning & policy formulation:

Business environment helps firms in deciding the future course of action or training guidelines for decision making and understanding and analysing the business dynamics.

**OR**

Proforma investment decision:

- This shows the plan of an enterprise to invest in assets (both fixed and current) for maximum returns.
- This helps an entrepreneur to choose an optimum capital structure i.e., mix of equity plus debt.

Proforma financing decisions:

- This provides brief idea of various sources of funds available.
- Its sources of funds could be owner's fund or borrowed fund.
- The source should be such where cost of capital is minimum and return on investment is maximum.

**26. Rohit is working on designing of unique face mask which would not only filter the air inhaled but also send alert messages on the registered mobile number of the user is in a zone of high pollution. This idea is germinated because of the interest and curiosity of Rohit as he is always interested in finding out the specific current**



**problems and their solution. Before launching his idea he also analyzed the pros and cons of the product. Not he has to complete two more steps of and important process.**

**Identify the process. Explain the steps to be completed by Rohit in the process identified.**

**(3)**

**Answer:**

The process followed by Rohit is creativity. It involves idea germination, preparation, incubation, illumination and verification.

The remaining two steps to be completed by Rohit is:

- **Illumination:**

This is the stage when idea is re-surfaces in a realistic way.

An entrepreneur comes with a viable plan to give practical shape to his idea

This is done by collecting raw materials, arranging for finance, etc.

- **Verification:**

It is the validation or testing stage in which the idea or plan is translated into useful application that has value.

At this stage knowledge is converted into application.

**27. The footwear industry in India is dominated by 'B-relax Footwear'. 'B-relax Footwear' procures**



**70% of its raw material from 'Polymers Ltd'. The major production of 'Polymers Ltd' is plastic chips. PU foam and elastic which is used by 'B-relax Footwear' in its manufacturing processes. After due diligence. They decide to merge with each other. If they merge, 'B-relax Footwear' doesn't need to look for a vendor and sourcing raw materials would be seamless. On the other hand, as a result of the merger, 'Polymers Ltd' doesn't need to worry about the sales and marketing. All they need to do is to improve their processes to produce better raw materials for 'b-relax Footwear'. After the merger the combined entity will be known as 'B-relax Ine'.**

**(i) Identify and explain the type of merger between 'B-relax Footwear' and 'Polymers Ltd'.**

**(ii) Why is due diligence required before merger?**

**(iii) Which is the most dominant reason for this merger? Explain.**

**(3)**

**Answer:**

(i) The type of merger between B-relax Footwear and Polymers Ltd. is vertical merger.

Vertical merger is the merger between two companies producing different goods or services for one specific finished product. It involves joining of hands by the entities operating at different levels within an industry.

(ii) Due diligence is required before merger as it gives the buyer a better understanding of the target company's binding agreements as well as overall legal related issues.

(iii) The most dominant reason for merger is synergy benefits.

Synergy benefits: This implies that combined value of the merging firm exceeds the individual value of the merged firms.

The merger will help both the firms B-relax Footwear and Polymers Ltd. in earning operating synergy.

Operating synergy refers to the savings in cost that arise through economies of scale or from increased turnover resulting in increased profits.

**28. Calculate the Economic Order Quantity from the following information:**

- a) Annual consumption – 120 units.**
- b) Cost of placing and receiving an order – ₹ 20.**
- c) Price per unit – ₹ 100.**
- d) Storage cost as percentage of average inventory – 12%**

**OR**

**State any six features of Venture Capital Finance.**

**(3)**

**Answer:**



## Economic Order Quantity (EOQ)

$$EOQ = \sqrt{\frac{2PD}{C}}, \text{ where}$$

Here,

P= Cost of placing one order or ordering cost per order

D= Annual demand for the inventory

C= Inventory carrying cost per unit

**Therefore, EOQ:**

$$\begin{aligned} &= \sqrt{\frac{2 \times 120 \times 20}{12}} \\ &= \sqrt{400} \\ &= 20 \end{aligned}$$

**OR**

Six features of venture capital finance:

- For the new companies or early stage startup, venture capital is a major source of financing.
- It is also known as risk capital and involves high risk-return spectrum.
- It tends to focus on emerging companies seeking substantial funds for the first time.

- It is a long term equity finance invested in growth oriented business.
- It provides business skills to start ups.
- Venture capital institutions disinvest their holdings to promoters or in the market.

**29. From the given situations, identify and explain the method of floatation of new issues:**

**(i) ICICI is in need of additional capital for its new venture. It decides to raise funds by selling the issues mainly to General Insurance Corporation of India and Life-Insurance Corporation of India.**

**(ii) Jay is holding 100 shares of company. He has been given a privilege offer to subscribe to a new issue of the same company in proportion of his current shareholding with the company. Jay was unwilling to subscribe, so he renounced the offer in favor of Veeru who bought the shares.**

**(iii) Gopal is working as the Regional Chairman in well reputed Non-banking Finance Company which is listed in Stock Exchange. As performance bonus, the company gave 25 equity shares to Gopal.**

**(3)**

**Answer:**

(i) Private Placement

- This involves direct issue of securities by a company to the institutional investors and some



selective individuals like Unit Trust of India, Life Insurance Corporation of India, etc.

- It is quicker and the cheaper method of raising capital compare to a public issue.

#### (ii) Right Issue

- This is a method to raise additional funds by company by offering shares first to its existing shareholders. The shares are offered on pro rata basis i.e. in the proportion to shares already held by them.
- The existing shareholders can also renounce their right in favour of another person, in case they are not willing to buy more shares.
- It is comparatively a cheaper method as there is no involvement of intermediaries like brokers, underwriters, etc.

#### (iii) Stock option or offer to employees

- These are the securities issued to the employees where in holder gets the right, but not the obligation, to purchase (or sell) securities at a specified price.

### Section D

**30. There are various ways in which an entrepreneur can spot trends. Describe the four**



## **ways of identifying the trends with the help of examples.**

**(4)**

### **Answer:**

Trend spotting refers to the identification of new trends. This helps to design the products according to the trends of the market.

- **By reading the trends:** Information about latest trends can be collected from sources such as by reading the leading publications, various websites related, etc. Tech-tools like RSS feeds, e-mails, newsletters or websites and forums can be used to get the information required.
- **Talk Trends:** Entrepreneurs should participate in events organized by specific industry's trade association, to be social and to talk to people. Advantage of social networking tools like social network sites and forums is available to them
- **Watch Trends:** Entrepreneurs should observe, study the habits, preferences and likes and dislikes of the consumers. In case the target consumers are youth, then, visiting a mall, observing trends of clothing, eating habits, etc. can be done.
- **Think about the trends:** An entrepreneur begins gathering information and becomes a trend-spotter. They use their thinking abilities, analyzing and synthesizing information to make connections



with their business and get great ideas for a new product, a new product line or a new business.

**31. Explain with the help of any four points the advantages of franchising to the franchisee.**

**OR**

**Explain internal expansion and external expansion as part of growth and development of Enterprise.**

**(4)**

**Answer:**

Franchisee is an entity that purchases the franchise and gets the opportunity to enter a new business with a better chance of success.

Advantages of franchise to Franchisee are:

- **Acceptance of Product:** Franchisee gets an opportunity to enter into a business that has an accepted name, product or service. As the creditability is already there based on the years the franchise has existed, franchisee need not to spend resources for the same.
- **Managerial expertise:** Franchisor provides managerial assistance, trainings which includes classes in accounting, personnel management, marketing and production to the franchisee.



- Financial requirements: Franchise offers up-front support to start ups and this saves time and capital of the franchisee.
- Knowledge about the market: With the experience and knowledge, franchisors provide necessary advice and assistance to the franchisees for carving out a market for themselves.

### **OR**

Expansion is the diversification of activities and acquisition of ownership and control of other businesses are the forms in which an enterprise can expand their activities. It can be internal expansion or external expansion.

Internal expansion is a slow and time taking process. It is a result of a gradual increase in the activities of the enterprise and is generally financed through long-term sources of finance and also retained profits.

Internal expansion results in

- Increase in the capacity and business activities.
- Widening the present capital structure

External expansion is when two or more business enterprises join hands together with a common objective of expanding their business.

External expansion results in

- Broadening of capital base as well as business activities



- Removing of unnecessary competition
- Obtaining synergy benefits

**32. 'Flavouright Foods Ltd'. Started a business of making nachos (corn chips) in three variants. Classic Cheese, toasted corn and Tangy Tomato. To start with, all the three variants will be sold in a standard packing of 100 gms each. The selling price would differ due to the ingredients used. Fixed costs are RS 38,000**

**Sales price and variable costs per unit are as follows:**

<b>Particulars</b>	<b>Classic Cheese</b>	<b>Toasted Corn</b>	<b>Tangy Tomato</b>
<b>Sales Price (₹)</b>	<b>80</b>	<b>45</b>	<b>60</b>
<b>Variable Cost (₹)</b>	<b>40</b>	<b>15</b>	<b>20</b>
<b>Packets sold</b>	<b>100</b>	<b>40</b>	<b>60</b>

**From the above information calculate:**

- Weighted contribution margin per unit.**
- Breakeven point – total and per product.**

**(4)**



**Answer:**

(a)

Particulars	Classic Cheese	Toasted Corn	Tangy Tomato
Sales Price (₹)	80	45	60
Variable Cost (₹)	40	15	20
Contribution (SP-VC) (₹)	40	30	40
Sales Mix (%) (Units of packets sold/total sales) X100	50%	20%	30%
Weighted Contribution (Contribution X Sales mix %) (₹)	20	6	12

Hence,

Total weighted contribution margin

$$= 20 + 6 + 12$$

$$= ₹ 38/\text{unit}$$

(b)



Breakeven point

= Fixed Cost / weight average contribution per unit

= ₹ 38,000/ 38

= 1,000 units

Break even per product:

Particulars	Classic Cheese	Toasted Corn	Tangy Tomato
Sales Mix (%)	50%	20%	30%
BEP per product	500 units (1000x50%)	200 units (1000x20%)	300 units (1000x30%)

### Section E

**33. While preparing an operational plan, an entrepreneur has to pay attention towards various elements. Explain these elements.**

**OR**

**Explain the steps for idea and opportunity assessment after the product identification has been done by the entrepreneur.**

**(6)**

**Answer:**



Operational plan is a system whereby there is achieved a smooth and coordinated flow of work within the factory so that, by planning and control of all the productive operations in all the stages of manufacture, the final product is completed in accordance with the plans.

Elements of an operational plan are:

- **Route:** It is an activity concerned with listing the exact route or path a product has to follow starting from purchase of raw material till its conversion into finished products.
- **Timeline:** It involves analysing time frame of each operation i.e., date of commencement and date of completion.
- **Dispatch:** Includes issuing required orders, instructions and guidelines for the work. This is the initiation point of production process.
- **Evaluation or Follow-up:** It involves appraisal of work done for early detection of errors and also helps an entrepreneur:
  - ✓ In developing ways to review the present situation related to inventory
  - ✓ Evolving ways to improve performance of departments lagging behind
  - ✓ Removing hurdles in the way of production and giving remedial measures
- **Inspecting:** It involves comparing performance with established standards to ensure adherence to pre-





determined standard quality of the product, these can be tested also.

- Shipping of products: This is beyond the manufacturing process and defines the flow of goods or services from production to the ultimate consumers.

**OR**

In case of opportunity assessment, steps after the product has been identified by the entrepreneur are:

- ✓ Application of ideas: Practical and real life application of ideas are examined. In case it is an existing product, alterations shall be made for its better use.
- ✓ Level of operation: This depends on the type of product, skill required, expertise, etc. This also depends on the type of industry to be set i.e., cottage industry, small scale industry or large scale industry.
- ✓ Cost involved: At various levels of operation, cost shall be determined. Along with this, price of competitors shall also be determined.
- ✓ Competitive analysis: This provides insight about the strength and weakness of competitors and can be done through demand and supply position.
- ✓ Complexity involved: Type of technology, training, application, etc., required shall be known. Whether these requirements could be met locally or will have to be sourced from outside shall also be known.



- ✓ Turnover and Profits: Finally the turnover and profits shall be calculated.

**34. Explain any six reasons for the failure of mergers and acquisitions.**

**(6)**

**Answer:**

Mergers and acquisitions provide competency or capability that one do not have and which the other does.

But there are several reasons for the failure of mergers and acquisitions:

- Overvaluation of the target company: When the acquiring company pays more than the actual value of the target company, then overpriced assets will dilute the earning capacity of the resultant company, leading to its failure.
- Cultural integration difficulties: There is difference in the corporate cultures, styles of leadership, etc. of the two entities. In this case, merger should be carried out in such a way, so as to be able to accommodate these differences.
- Overestimation of synergy benefits: Overestimation of synergies such as increased revenues, reduced costs, etc., can lead to failure of mergers.



- Not a good business fit: When the products or services of the merging entities do not naturally fit into the overall business plan, mergers and acquisitions fail.
- Due diligence not adequate: Due diligence is the comprehensive appraisal of a business undertaken by a prospective buyer that helps in detecting risks that the acquirer inherits from the acquiring company. Not applying due diligence can result in the failure of the merger.
- High leverage: Buying a company creates a very high leveraged structure. This increases the interest burden of the company that in turn reduces the profitability.