

Class XI BUSINESS STUDIES

CHAPTER -9 Small Business

IMPORTANT QUESTIONS

MULTIPLE CHOICE QUESTIONS (1 MARKS)

Question 1

Which type of Industry uses family labour and local available talent while running the business?

Answer

Cottage industries uses labour and local available talent while running the business

Question 2

A micro small scale industry has investment of Rs. 24 lakhs and engaged in manufacturing business. Now, it wants to increase its investment by Rs. 4 Lakhs. what type of small Business will it become and what is the maximum investment limit in such cases?

Answer

It will become small type of small business and can invest upto 5 crore

Question 3

Which type of enterprise is owned, controlled and managed by a woman or a group of women holding share capital not less than 51%?

Answer

Question 4

Name areas where SSLs feel threatened from global enterprises

Answer

It is difficult to withstand the quality standards, technological skills, financial creditworthiness, managerial and marketing capabilities

Question 5

Name any 2 merits of SSLs in the export trade of India.

Answer



- Small industries are best suited for customised production. i.e. designing the product as per the tastes/ preferences/needs of individual customers
- Small industries have inherent strength of adaptability and a personal touch and therefore maintain good personal relations with both customers and employees.

Question 6

What different parameters are used to measure the size of service business?

Answer

In the case of enterprises engaged in providing or rendering of services there are three types of enterprises:

Micro enterprise: investment in equipment does not exceed ten lakh rupees.

Small enterprise: investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.

Medium enterprise: investment in equipment is more than two crore rupees but does not exceed five crore rupees

Question 7

What different parameters are used to measure the size of manufacturing business?

Answer

In the case of enterprises engaged in the manufacture or production of goods pertaining to any industries specified in the first schedule to the Industries (Development and Regulation) Act, 1951, there are three types of enterprises:

Micro enterprise: investment in plant and machinery does not exceed twenty-five lakh rupees

Small enterprise: investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees

Medium enterprise: investment in plant and machinery is more than five crore rupees but does not exceed ten crores rupees.

Question 8

State any feature of cottage industries.

Answer

Cottage industries are characterised by certain features like the following:

- these are organised by individuals, with private resources;
- normally use family labour and locally available talent;



- the equipment used is simple;
- capital investment is small;
- produce simple products, normally in their own premises;
- production of goods using indigenous technology

VERY SHORT AND SHORT ANSWER QUESTIONS (2 OR 3 MARKS)

Question 1

Write the objective of Marketing Assistance scheme?

Answer

- ❖ To enhance marketing capabilities and competitiveness of the MSMEs.
- ❖ To showcase the competencies of MSMEs
- ❖ To update MSMEs about the prevalent market scenario and its impact on their activities.
- ❖ To facilitate the formation of consortia of MSMEs for marketing of their products and services.
- ❖ To provide platform to MSMEs for interaction with large institutional buyers.
- ❖ To disseminate/propagate various programmes of the Government.
- ❖ To enrich the marketing skills of the micro, small and medium entrepreneurs

Question 2

What is the aim of NSIC.

Answer

National Small Industries Corporation (NSIC) aims at providing:

- ◆ Supply indigenous and imported machines on easy hire-purchase terms.
- ◆ Procure, supply and distribute indigenous and imported raw materials.
- ◆ Export the products of small business units and develop exportworthiness.
- ◆ Mentoring and advisory services

Question 3

Write any two objectives of establishment of NABARD.

Answer

- ◆ It has been adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country.
- ◆ Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches.



- ◆ It offers counselling and consultancy services and organizes training and development programmes for rural entrepreneurs

Question 4

Write any three problems of small business in India

Answer

❖ Finance:

- Many of the units in the small sector lack the credit worthiness required to raise as capital from the capital markets.
- They are exploited by the money lenders
- These units frequently suffer from lack of adequate working capital, either due to delayed payment of dues to them or locking up of their capital in unsold stocks

❖ Raw Material:

- If the required materials are not available, they have to compromise on the quality or have to pay a high price to get good quality materials
- They cannot afford to take the risk of buying in bulk as they have no facilities to store the materials

❖ Managerial Skills

- Promoted and operated by a single person, who may not possess all the managerial skills required to run the business
- They may not find enough time to take care of all functional activities. At the same time they are not in a position to afford professional managers

Question 5

Define the role of small business in the following area:

a) Variety of products c) Industry output & export

b) Balance development d) customization

Answer

a) Variety of products: Small industries in our country supply an enormous variety of products which include mass consumption goods, readymade garments, hosiery goods, stationery items, soaps and detergents, domestic utensils, handlooms, handicrafts etc

b) Industry output & export: Small industries in India account for 95 per cent of the industrial units in the country. They contribute almost 40 per cent of the gross industrial value added and 45 per cent of the total exports (direct and indirect exports) from India.



c) Balance development: The contribution of small industries to the balanced regional development of our country. Promotion of small scale industries and rural industrialization has been considered by the Government of India as a powerful instrument for realising the twin objectives of 'accelerated industrial growth and creating additional productive employment potential' in rural and backward areas

d) Customization: Small industries are best suited for customised production. i.e. designing the product as per the tastes/ preferences/needs of individual customers

Question 6

On the basis of capital contribution identify the type of SSI from the following:

a) Capital contribution on plant and machinery is Rs. 9 lakh.

b) Capital contribution on plant and machinery is Rs. 7.5crore

c) Capital contribution on plant and machinery is Rs. 2650000/-

Answer

a) Capital contribution on plant and machinery is Rs. 9 lakh is a Micro enterprise specified in the first schedule to the Industries (Development and Regulation) Act, 1951

b) Capital contribution on plant and machinery is Rs. 75000/- is a Medium enterprise specified in the first schedule to the Industries (Development and Regulation) Act, 1951

c) Capital contribution on plant and machinery is Rs. 2650000/- is a Small enterprise specified in the first schedule to the Industries (Development and Regulation) Act, 1951

LONG ANSWER QUESTIONS (5 OR 6 MARKS)

Question 1

What are the incentives given by Govt. to the Industries set up in hurry, backward and rural areas

Answer

Incentives given by the govt to the industries set up in hurry, backward and rural area are as follows:

- Land:
Every state offers developed plots for setting up of industries. The terms and conditions may vary. Some states don't charge rent in the initial years, while some allow payment in instalments.
- Power:
Power is supplied at a concessional rate of 50 per cent, while some states exempt such units from payment in the initial years.
- Water:



Water is supplied on a no-profit, no-loss basis or with 50 per cent concession or exemption from water charges for a period of 5 years.

- **Sales Tax:**
In all union territories, industries are exempted from sales tax, while some states extend exemption for 5 years period.
- **Octroi:**
Most states have abolished octroi.
- **Raw materials:**
Units located in backward areas get preferential treatment in the matter of allotment of scarce raw materials like cement, iron and steel etc.
- **Finance:**
Subsidy of 10-15 per cent is given for building capital assets. Loans are also offered at concessional rates.
- **Industrial estates:**
Some states encourage setting up of industrial estates in backward areas.
- **Tax holiday:**
Exemption from paying taxes for 5 or 10 years is given to industries established in backward, hilly and tribal areas

Question 2

Preet food Industries set up food and beverages processing plant in the rural area of Haryana and opted for labour intensive technique due to easy availability of labour and to provide employment to local people. Board of director decided to invest 50 lakhs to acquire plant & machinery, Rs. 1 crore to buy land, Rs. 20 Lakhs to buy raw material and Rs. 20lakhs to maintain day to day expenses.

- (a) Name the Act of Industries which is applicable to the above industry.**
- (b) which category of part (a) will the above industry come?**
- (c) State the investment limit in this category.**
- (d) what value have been followed by the above company.**

[Hints:-MSMED Act, 2006, Small Scale Industry, Rs. 5 crores, Employment Generation, Balanced Regional Development, concern for social

Answer

a) The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 addresses these issues relating to definition, credit, marketing and technology upgradation. Medium scale enterprises and service related enterprises also come under the purview of this Act. The MSMED Act, 2006 came into force w.e.f., October, 2006. Accordingly, enterprises are classified into two major categories viz., manufacturing and services

b) It is a small scale industry



c) In the case of enterprises engaged in the manufacture or production of goods pertaining to any industries specified in the first schedule to the Industries (Development and Regulation) Act, 1951, Small enterprise: investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees

d) Values followed by the company are as follows:

1. Employment generation: The company opted for labour intensive technique due to easy availability of labour and to provide employment to local people
2. Balanced Regional Development: The company set up food and beverages processing plant in the rural area of Haryana thereby helping in balanced regional development
3. Concern for society: The company opted for labour intensive technique thereby showing concern towards the society

Question 3

Board of Directors of "Bio Pure water Ltd." decides to set up its first unit in the hilly area of Himachal Pradesh Company requires Rs. 3 crores for it and Rs. 50 Lakhs for working capital. The company has earned marked 15% of its profit for Educational and Health needs of its employees and their family members.

- (a) The above company comes under which category as per MSME Act 2006.
- (b) Write any one commercial reason for setting up of unit in the hilly region.
- (c) According to you, what are the options available to the company for meeting its long term and short term needs.
- (d) what are the values promoted by the company.

[Hints: Small scale Industry, Cheap price of Land and Labour, Equity share Capital and Loans from Bank, Balanced Regional Development, Motivation to employees, Employment Generation and upliftment of rural areas]

Answer

a) It comes under small scale industry. In the case of enterprises engaged in the manufacture or production of goods pertaining to any industries specified in the first schedule to the Industries (Development and Regulation) Act, 1951, Small enterprise: investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees

b) The Board of Director decides to set up its first unit in hilly area of Himachal Pradesh because of cheap price of land and labour

c) The company for meeting its long term and short term needs should opted for equity source of fund and by loans from bank

d) Values promoted by the company are as follows:



1. Balance Regional Development: The company set up its first unit in hilly area of Himachal Pradesh, thereby helping development of the region
 2. Motivation to employees: The company by providing educational and health needs of its employees and their family members , motivates the employees
 3. Generation of employment: The company set up its first unit in hilly area of Himachal Pradesh because of cheap price of land and labour , thereby increasing the employment opportunity
 4. Upliftment of rural area: The company has earned marked 15% of its profit for Educational and Health needs of its employees and their family members of hilly region which in turn improves the standard of living and achieves upliftment of the rural area
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Question 4

Explain in detail the problems faced by the small business?

Answer

❖ Finance:

- Many of the units in the small sector lack the credit worthiness required to raise as capital from the capital markets.
- They are exploited by the money lenders
- These units frequently suffer from lack of adequate working capital, either due to delayed payment of dues to them or locking up of their capital in unsold stocks

❖ Raw Material:

- If the required materials are not available, they have to compromise on the quality or have to pay a high price to get good quality materials
- They cannot afford to take the risk of buying in bulk as they have no facilities to store the materials

❖ Managerial Skills

- Promoted and operated by a single person, who may not possess all the managerial skills required to run the business
- They may not find enough time to take care of all functional activities. At the same time they are not in a position to afford professional managers

❖ Labour

- They cannot afford to pay higher salaries to the employees, which affects employee willingness to work hard and produce more
- Unskilled workers join for low remuneration but training them is a time consuming process

❖ Marketing



- These organisations have to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments
 - They lack the necessary infrastructure for direct marketing
- ❖ Quality
- They concentrate on cutting the cost and keeping the prices low.
 - They do not have adequate resources to invest in quality research and maintain the standards of the industry, nor do they have the expertise to upgrade technology
- ❖ Capacity Utilisation
- They have to operate below full capacity due to which their operating costs tend to increase.
 - Gradually this leads to sickness and closure of the business.
- ❖ Technology
- Use of outdated technology is often stated as serious lacunae in the case of small industries, resulting in low productivity and uneconomical production.
- ❖ Sickness
- The causes of sickness are both internal and external.
 - Internal problems include lack of skilled and trained labour and managerial and marketing skills.
 - Some of the external problems include delayed payment, shortage of working capital, inadequate loans and lack of demand for their products.
- ❖ Global Competition
- Competition is not only from medium and large industries, but also from multinational companies which are giants in terms of their size and business volumes
 - It is difficult to withstand the quality standards, technological skills, financial creditworthiness, managerial and marketing capabilities
 - There is limited access to markets of developed countries due to the stringent requirements of quality certification like ISO 9000

Question 5

SSI's are at distinct disadvantage as compared to LSI's. Discuss some important areas of SSI which need support

Answer

SSI's are at distinct disadvantage as compared to LSI's. Competition is not only from medium and large industries, but also from multinational companies which are giants in terms of their size and business volumes. It is difficult to withstand the quality standards, technological skills, financial creditworthiness, managerial and marketing capabilities. There is limited access to markets of developed countries due to



the stringent requirements of quality certification like ISO 9000. These organisations have to depend excessively on middlemen, who at times exploit them by paying low price and delayed payments. They lack the necessary infrastructure for direct marketing

They need marketing support which can be done by following ways:

- ❖ Organising International Technology Exhibitions in Foreign Countries by NSIC and Participation in International Exhibitions/Trade Fairs
 - facilitate them in exploring new business opportunities in emerging and developing markets
 - helps in promoting trade, establishing joint ventures, technology transfers, marketing arrangements and image building of Indian MSMEs in foreign countries
 - participation of Indian MSMEs in the select international exhibitions and trade fairs.
 - Participation in such events exposes MSMEs to international practices
- ❖ Organising Domestic Exhibitions and Participation in Exhibitions/Trade Fairs in India
 - help the MSMEs in enhancing their marketing avenues by way of capturing new markets
 - expanding existing markets
- ❖ Support for Co-sponsoring of Exhibitions Organised by other Organisation and industry Associations/Agencies
 - This support would be in the form of co-sponsoring of the event by NSIC. In order to apply for co-sponsoring of an event by NSIC, the applicant organisation/agency must fulfill the centre criteria/conditions
- ❖ Buyer-Seller Meets
 - Participation in these programmes enables MSMEs to know the requirements of bulk buyers on the one hand and help the bulk buyers to know the capabilities of MSMEs for their purchases.
- ❖ Intensive Campaigns and Marketing Promotion Events
 - To disseminate information about the various schemes for the benefit of the micro, small and medium enterprises.
 - They are also facilitated to enrich their knowledge regarding latest developments, quality standards etc. and improve the marketing potential of their products and services.
- ❖ Other Support Activities
 - Development of Display Centres, show windows and hoarding etc., for promoting products and services of MSMEs.
 - Printing of Literature, Brochures and Product-specific catalogues and CDs etc., and preparation of short films for disseminating information.
 - Development of website/portal for facilitating the marketing of MSME products and services
 - Development and dissemination of Advertising and Publicity material about various programs/schemes for MSME sectors and events.
 - Preparation and Upgradation of MSME Manufacturers/ Suppliers/ Exporters Directory.
 - Documentation of the success stories of MSMEs.



- Conducting studies to explore and assess new markets/ businesses and product ranges for both domestic and international markets.
- Hosting international delegations and networking events

Question 6

Write notes on the following:

a) NABARD

b) SFURTI

c) RSBDC

d) DIC'S

e) SIDBI

f) NCEUS

Answer

a) National Bank for Agriculture and Rural Development (NABARD): It has been adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country. Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches. It offers counselling and consultancy services and organizes training and development programmes for rural entrepreneurs

b) Scheme of Fund for Regeneration of Traditional Industries (SFURTI): To develop clusters of traditional industries in various parts of the country. To build innovative and traditional skills, improve technologies and encourage public-private partnerships, develop market intelligence etc., to make them competitive, profitable and sustainable. To create sustained employment opportunities in traditional industries.

c) The Rural Small Business Development Centre (RSBDC): It aims at providing management and technical support to current and prospective micro and small entrepreneurs in rural areas. RSBDC has organized several programmes on rural entrepreneurship, skill upgradation workshops, mobile clinics and trainers training programmes, awareness and counselling camps

d) The District Industries Centers (DICs): Provides all the services and support facilities to the entrepreneurs for setting up small and village industries. Identification of suitable schemes, preparation of feasibility reports, arranging for credit, machinery and equipment, provision of raw materials and other extension services are the main activities undertaken by these centers.

e) Small Industries Development Bank of India (SIDBI): It is set up as an apex bank to provide direct/indirect financial assistance under different schemes, to meet credit needs of small business organisations. It coordinate the functions of other institutions in similar activities

f) The National Commission for Enterprises in the Unorganised Sector (NCEUS): To recommend measures considered necessary for improving the productivity of small enterprises in the informal sector. To generate more employment opportunities on a sustainable basis, particularly in the rural

areas. To enhance the competitiveness of the sector in the emerging global environment. To develop linkages of the sector with other institutions in the areas of credit, raw materials, infrastructure, technology upgradation, marketing and formulation of suitable arrangements for skill development.
