

**Surya Sen Mahavidyalaya**  
**Department of Commerce**  
**B.Com Honours Program & B.Com Program (CBCS) First Semester**  
**DSC1 – FINANCIAL ACCOUNTING ( Model Question-Answer)**

**Long Answer Type (12 marks each)**

1. From the following particulars extracted from the books of Rajesh, prepare Trading & Profit and Loss Account and Balance Sheet as on 31.03.2016 after making the necessary adjustments:

Capital account	5,40,000
Stock as on 01.04.2015	2,34,000
Sales	14,48,000
Sales Returns	43,000
Purchases	12,15,500
Purchases Returns	29,000
Carriage Inwards	93,000
Rent	28,500
Salaries	46,500
Interest Received	7,250
Cash with Trader Bank Ltd.	40,000
Discount received	14,950
Investments @ 5% as on 01.04.2015	25,000
Furniture as on 01.04.2015	9,000
Discount allowed	37,700
General expenses	19,600
Audit fees	3,500
Sundry debtors	1,20,000
Sundry creditors	74,000
Loan from Dena Bank Ltd @ 12%	1,00,000
Interest paid	4,500
Printing and stationery	17,000
Advertisement	56,000
Fire insurance premium	3,000
Travelling expenses	11,650
Postage and telegraph	4,350
Cash in hand	1,900
Deposit at 10% as on 01.04.2015 (dr)	1,50,000
Drawings	50,000

**Adjustments:**

1. Value of stock as on 31.03.2016 is Rs. 3,93,000. This includes goods returned by customers on 31.03.2016 to the value of Rs. 15,000 for which no entry has been passed in the books .
2. Purchases include furniture purchased on 1<sup>st</sup> January for Rs. 10,000.
3. Depreciation should be provided on furniture @ 10% p.a.
4. The loan account from dena bank in the books of Rajesh appears as follows:

To, Balance c/d as on 31.03.2016	1,00,000	By, Balance as on 01.04.2015	50,000
		31.03.2016	50,000
	1,00,000		1,00,000

5. Sundry Debtors include Rs. 20,000 due from X and Sundry Creditors include Rs. 10,000 to him.
6. Interest paid includes Rs. 3,000 paid to Dena Bank.
7. Interest received represents Rs. 1,000 from the sundry debtors and the balance on investments and deposits.
8. Provide for interest payable to Dena Bank and for interest receivable on investments and deposits.
9. Provide for doubtful debts 5% on the balance under Sundry Debtors. No reserves need to be created for the deposits.

HINTS: G.P= Rs. 2,79,500; N.P = Rs. 70,500; Balance Sheet = Rs. 7,28,000

2. Abinash has the following Trial Balance as on March 31, 2014. You are required to prepare Trading and Profit & Loss a/c for the year ended March 31, 2014 and a Balance Sheet as on that date after taking into consideration some other information given :

**TRIAL BALANCE**

Dr.

Cr.

Ledger A/cs	Amount	Ledger A/cs	Amount
Building	1,20,000	Capital	2,00,000
Machinery	50,000	Sales	4,15,000
Stock on 01.04.2013	46,000	10% Loan	60,000
Purchases	2,56,000	Creditors	40,000
Carriage	8,000	Bills payable	10,000
Debtors	62,000	Commission	3,000
Travelling Expenses	6,000	Discount	4,000
Stationery	5,000	Provision for bad debt	2,000
Advertisement	8,000	General Reserve	20,000

Wages	53,000		
Salaries	16,000		
Cash at Bank	11,000		
Cash in hand	3,000		
Discount	2,000		
Bad debts	7,000		
Goodwill	30,000		
Return Inward	3,000		
Trade Expenses	9,000		
Bills Receivable	16,000		
Interest on Loan	3,000		
Investments	40,000		
	<b>7,54,000</b>		<b>7,54,000</b>

#### Other Informations:

1. Stock on March 31, 2014 was Rs. 54,000.
  2. Goods of the value of Rs. 6,000 was taken by Abhinash for his personal use and of Rs. 2,000 was distributed as free sample.
  3. Interest on loan is to be provided for the whole year.
  4. Debtors of Rs. 2,000 is to be written off and a provision of 5% is to be maintained for bad debt.
- HINTS: G.P = Rs. 1,11,000; N.P = Rs. 54,000; Balance Sheet = Rs. 3,81,000

3.S. Ltd maintains a branch at Siliguri to which it sends goods at cost plus 25%. All expenses are paid by head office directly. From the following information prepare a) Siliguri branch account and b) memorandum branch debtors account in the books of head office:

Branch stock on 1.1.2013( invoice price)	30000
Branch debtors on 1.1.2013	40000
Goods send to branch at cost	140000
Goods returned by branch (invoice price)	10000
Goods returned by debtors to branch	3000
Credit sales	120000
Cash sales	30000
Bad debts	2000
Discount allowed	3000
Abnormal loss of goods (invoice price)	8000
Salary and rent paid by head office	12000
Branch stock on 31.12.2013( invoice price)	40000
Branch debtors on 31.12.2013	45000

Ans: collection from debtor –Rs.107000: loss –Rs 6000

4. Moonbeam of Kolkata has a branch in Cooch Behar where it sends goods at cost plus 50%. From the following details prepare: a) Branch stock Account: b) Branch Adjustment Account: c) Branch Debtors Account: and d) Branch Profit and loss accounts in the books Head Office:

Stock at cost on 1.04.2016	20000
Debtors on 1.04.2016	18000
Cash on 1.04.2016	5000
Goods sent to branch at invoice price	99000
Cash sale	27000
Credit sales	79000
Normal loss at cost	2000
Bad debts	200
Sales return to branch	3000
Expenses paid by Head Office	10000
Cash remitted to Head Office	80000
Stock at cost on 31.03.2017	27000
Debtors on 31.03.2017	30000
Cash on 31.03.2017	6000

5. Rs. 450000 worth of goods were invoiced by Rahul of Burdwan to Sumit of Kochi at a profit of 20% on invoice price. This price is covered up to 50% by advance from Sumit. The latter is to get 5% commission on sales and 2.5% del credere commission. 80% of the goods were sold for Rs. 570000 but Rs 30000 proved bad. Expenses of Rahul were Rs. 30000 and those of Sumit were Rs. 15000 (including recurring and selling expenses Rs. 4500). The settlement was made by payment of cash with the account sales.

Show consignment account and consignee account in the books of Rahul.

6. Virat of Delhi consignment 100 digital watches to Riddhi of Kolkata. The goods were invoiced at Rs. 150 each so as to yield a profit of 50% on cost. Virat incurred Rs 1000 on freight and insurance. Riddhi paid Rs. 500 as carriage and Rs. 800 as rent. He sold 50 units for cash @ Rs 160 per unit and 20 units for Rs 175 per unit on credit. He was entitled to receive 5% ordinary commission and 1% del credere commission on total sale value. He remitted all the balance on 31<sup>st</sup> March, 2017.

The consignee informed that 10 units were damaged on account of bad packing and he could sell them only for Rs. 80 per unit after 31<sup>st</sup> March 2017. A debtor for Rs 1000 to whom goods were sold by the consignee became insolvent and only 50% of that debt was recovered from the debtors estate. Riddhi remitted the accounts sales and the balance due in 31<sup>st</sup> March 2017. Prepare necessary accounts in the books of consignor.

7. Sucharita Agency purchased three trucks from Gupta and Sons on 1<sup>st</sup> January, 2010 under Hire-Purchase system. According to the terms and conditions as included in the agreement the cash price of each truck is Rs. 300000 and 10% of the cash price is to be paid on the date of taking delivery of the truck and the balance amount is to be paid in three equal installments along with interest @10% p.a. Suchitra Agency writes off 20% depreciation on straight line method. First and second installments were paid by them in due time but failed to pay the last installment which was due on 31<sup>st</sup> December, 2012.

As a result Gupta and sons agreed to leave two trucks with Suchitra Agency and takes back the third one adjusting the value against the amount due. The repossessed truck being valued @30% depreciation under diminishing balance method.

Gupta and sons sold the repossessed truck for Rs. 90000 in cash on 2<sup>nd</sup> February 2013 after incurring repairing expenses of Rs. 15000.

Prepare Truck Account and Gupta and sons account in the books of Suchitra Agency and repossession account in the books of Gupta and Sons.

Ans: machine taken at—Rs. 102900, loss on surrender Rs. 17100, loss on Resale – Rs. 27900

8. Mono and Anousa enter into a joint venture and agreed to share profit and losses in the ratio of 2:3. They opened a joint bank account in which Mono and Anousa contributed Rs. 8000 and Rs. 10000 respectively.

They purchased 10 condemned television sets at Rs. 1500 each. They met the reconditioning cost of Rs. 3000 from joint bank account. Carriage and other expenses of Rs. 2000 were borne by Anousa. Anousa received a cheque of Rs. 1000 from Mono. Nine set were sold @ Rs. 2500 each and the rest was taken over by Anousa at cost.

Pass necessary journal entries and prepare Joint bank Account, joint venture account and co-venturer account.

Ans: profit 4500: final payment Mono Rs 10800: Anousa Rs 11700

9. X and Y entered into a joint venture to build a multi storied building. They agreed to share profit and losses equally up to Rs. 50000 of the profit from the venture and rest in 3:2 ratios. X contributes plant and machinery worth Rs. 40000 and meets registration expenses amounting to Rs. 10000. Y contributes the plot on which the building is to be built valued at Rs 100000 and incurred the following expenses:

Fuel Rs. 40000, Raw materials Rs. 160000, labour charges Rs. 75000, Advertising Rs. 5000

At the end of the venture X agreed to take the plant and machinery valued Rs. 10000. Y sold off the multistoried building for a total of Rs. 720000 and collected all dues from the buyers except for one flat valued at Rs. 180000 which he kept for himself in lieu of the expected share of profit. You are required to prepare the joint venture account and venture capital account in the books of each venture.

10. Akash and Bikash entered into a joint venture to act as underwriters of a newly formed company which issued 50000 shares of Rs 10 each. The extent of underwriting is 80%. They opened a joint bank account by introducing Rs 65000 each. Public subscribed for 35000 shares and the underwriters duly discharged their obligations in consideration of a commission of 5% which they received by cheque. Miscellaneous expenses amounting to Rs. 4800 were met out of the joint bank account. Akash took 2000 shares @ Rs 9 per share and Bikash took 2500 shares @Rs. 9.5 per share. The rest of the shares were sold at Rs. 13 per share brokerage being 50 paise per share. Profit and loss on venture will be shared equally.

Prepare joint venture, joint bank and co venture account.

Ans: profit Rs. 30700, final payment Akash 62350, Bikash Rs. 56600.

11. East, West and South were in partnership sharing profit and losses in the ratio of 5:3:2. On 31<sup>st</sup> December 2013 their balance sheet was as follows:

Liabilities	Amount	Assets	Amount
Capital : East	37500	Cash and Bank	15000
West	15000	Other assets	112500
South	30000		
Reserve fund	15000		
Contingency Reserve	7500		
East Loan	7500		
Creditors	<u>15000</u>		
	127000		127000

The partnership firm was dissolved on the above date. The assets were realized as follows:

1<sup>st</sup> Realisation Rs. 57750

2<sup>nd</sup> Realisation Rs. 22500

3<sup>rd</sup> Realisation Rs. 45000

The expenses of realization were estimated at Rs. 5250 but actual expenditure was Rs. 4500. At the time of going into liquidation the firm has a liability for compensation under dispute for Rs. 4500 but in course of dissolution it was settled at Rs. 3000. Show distribution of cash.

Ans: profit on realization A—2625, B – 1575, C ---1050

### **Short Answer Type (6 marks each)**

1. A Siliguri merchant has a branch at Kolkata to which he charges goods at cost plus 25%. From the following information prepare Kolkata branch account in the books of head office:

1.1.2016	31.12.2016		
Stock	25000	15000	
Debtors	30000	20000	
Furniture	20000	?	
Prepaid expenses	2000	1000	
Outstanding expenses	1500	500	
Petty cash	1500	600	
Goods sent to branch	300000		
Goods returned to head office	30000		

Goods sent above includes invoice price of goods Rs. 25000 received by Kolkata branch on 5<sup>th</sup> January 2017. Head office sent cash to branch for:

Wages	10000
Salaries	15000
Rent	8000
Petty cash	2500

Advertisement 7000  
 Goods sold in cash 150000  
 Goods sold on credit 400000  
 Collection by H.O. directly from customer 240000  
 Collection from debtors 150000  
 Goods returned by customer 12000  
 Bad debt 5000  
 Discount allowed 3000  
 Furniture depreciated @10% p.a.

2. The following information and particulars relate to the Kolkata Branch for the year 2012-13:

	31.03.2012	31.03.2013
Stock	100000	150000
Debtors	140000	190000
Petty cash	500	240

Goods costing Rs. 1100000 was sold by the branch @25% on cost. Cash sales amounted to Rs. 300000 and rest credit sales.

Branch spends Rs. 60000 for salaries, Rs 24000 for rent, Rs 16000 for petty expenses all expenses are remitted by head office. Branch receives all goods from head office.

You are required to show the Kolkata branch account in the books of head office and prove your answer by preparing Trading and Profit and loss account.

1. On 1<sup>st</sup> July 2014 Sengupta of Siliguri sent 150 cases at a cost of Rs. 750 per case to Kapoor of Kolkata on consignment basis and paid Rs. 1900 for insurance premium, Rs. 3500 for freight and Rs. 2600 for dock charges. On arrival of the goods, Kapoor sent a bank draft for Rs. 10000 to Sengupta on 30<sup>th</sup> July 2014 and paid Rs. 2500 for clearing charges, Rs. 870 for cartage and Rs. 750 for godown Rent. 5 cases were damaged in transit and a sum of Rs. 3500 was realized by the way of compensation from the insurance company. Up to 31<sup>st</sup> December 2014, 100 cases were sold for Rs. 105000 incurring bad debt of Rs. 1150. Kapoor was entitled to a commission of 10% of the gross sales with 3% as delcedere commission. Show necessary accounts in the books of Sengupta.

Ans: abnormal loss- 4017: value of consignment stock –37196 : profit on consignment- 7943.

3. Sulekha and Sons of Kolkata consigned 100 LCD TV sets, invoice price of which is Rs. 20000 each, to Rajani Brothers of Siliguri on 2<sup>nd</sup> February 2013. Sulekha and sons paid Rs 2000 for insurance, Rs. 1000 for loading, Rs 2000 far carriage and Rs. 2000 for unloading. The invoice price of the TV set was calculated by adding 25% on cost price. On the way to Siliguri 2 TV set were damaged due to some normal reason while 5 Sets were damaged on account of abnormal reason. Sulekha and sons received Rs. 50000 on account of damage from insurance company as compensation. Rajani brothers received other sets of TV and paid the following expenses:

Clearing charges	2000
Loading charges	1000
Carrying charges	1000
Godown rent	5000
Advertisement expenses	5000

80 TV sets were sold by Rajani Brothers at Rs 30000 each. Rajani brothers are entitled to a commission at 10% on sale proceeds. Prepare consignment Account, Rajani Brothers Account and Abnormal loss Account in the books of Sulekha and sons.

Ans: profit – 836192 , abnormal loss - 102398

4. Mr. A of Kolkata and Mr. B of Mumbai entered into joint venture with the objective of buying and selling tea. Mr. A agreed to arrange the purchase and Mr. B agreed to effect sales. They agreed to sharing profit and loss in the ratio of 2:1.

Mr. A purchased 100 boxes of tea at Rs. 1500 per box subject to 10% trade discount and paid freight Rs. 3500 and insurance Rs. 500.

Mr. B remitted Rs. 45000 to Mr. A towards joint venture. Mr. B took delivery of the goods and paid Rs. 350 for cartage. He sold 95 boxes of tea for Rs. 190000 and kept 5 boxes for himself at an agreed value of Rs. 9500. His other expenses were godown rent Rs. 150 and insurance charges Rs. 75.

Prepare memorandum joint venture account and the accounts as they would appear in the ledger of each of the two parties.

Ans: profit on venture – Rs. 44925: Remittance – Rs.

138950

5. Ajay, Bijay and Sanjay undertake to erect a five storied building for National Housing Trust Ltd. The contract price is agreed at Rs. 3750000 to be paid in cash Rs. 3300000 by four equal installments and the balance amount is 8% debenture of the company. They agreed to share equally the profits or losses.

They opened the joint bank account as Ajay Rs. 400000, Bijay Rs. 525000 and Sanjay Rs. 300000.

Ajay arrange the preparation of building, plant etc., and pays Rs. 48000 as architect's fees. Bijay brings a concrete mixer at Rs. 120000 and Sanjay brings a motor lorry valued at Rs. 112500.

They pay in cash for the following:

Material	1840200
Wages	1099800
Sundry expenses	30000
Plant	90000

On completion of the venture concrete mixer is sold for Rs. 75000 and plant and other implements are sold as scrap for Rs. 15000. Sanjay take back the motor lorry at Rs. 60000.

Subsequently Ajay takes over the debentures issued by the company at a valuation of Rs. 420000.

Show necessary ledger account for the joint venture.

6. A, B and C are partners sharing profits and losses in the ratio of 4:3:3 decided to dissolve and appoint B to realize 2% of the amounts realized from stock and debtors as his remuneration and is to bear all expenses of realization. The following is the balance sheet as on 31<sup>st</sup> December 2005 on the date of dissolution:

Liabilities	Amount	Assets	Amount
Capital : A	300000	Cash and Bank	15000
B	200000	Debtors	455000
		Less: PDD	<u>25000</u>
Creditors	590000	Stock	600000
		C's capital	45000
	1090000		1090000



B reports the results of realization: debtors – Rs 450000, Stock----350000, Goodwill -----Rs 20000; creditors were paid ---- Rs 575000, outstanding creditors were paid ----Rs 5000  
The expenses of realization came to Rs 6000 which B met personally. A and B agree to receive from C, Rs. 30000 in full settlement of the firm's claim against him.  
Show the necessary ledger accounts (apply Garner vs Murray rule).  
Ans : loss on realization ---Rs 216000, C's deficiency born by A –Rs 47880 and by B – 31920. Final payment to A –252120, and B 184080.

7.What are the objectives of accounting?

Ans. See pg1.12 SN,Suneel K, Sharad K Maheshwari.

8.State the limitation of Financial accounting

. Ans. See pg1.10 SN,Suneel K, Sharad K Maheshwari

9.Describe the different methods of Depreciation

. Ans. See pg1.284-295 SN,Suneel K, Sharad K Maheshwari.

10.State the advantages and limitations of GAAP.

. Ans. See pg1.21-22 SN,Suneel K, Sharad K Maheshwari

11.Give the difference between Income & Expenditure and Receipts & Payments.

. Ans. See pg1.354-355 SN,Suneel K, Sharad K Maheshwari

### **Objective Type (3 marks each)**

#### **1. What is a branch accounting?**

Branch accounting is an accounting system in which separate accounts are maintained for each branch of a corporate entity or organization. The primary objectives of branch accounting are better accountability and control, since profitability and efficiency can be closely tracked at the branch level. The system of branch accounting depends upon the size, nature of activity, location, preference of accounting method etc. for each branch.

#### **2. What are the main features of branch business?**

A branch is not a separate legal entity; it is a part of the head office.

The head office shall appoint a managing director to run the business activities.

The managing director represents the branch and is responsible for registering the branch.

A branch has no independent capital and its assets and liabilities are a part of the total assets of the head office.

A branch is to keep its own accounting records, and these are to be kept separate from the head office.

The accounts of a branch and the administration of the managing director are, when required, subject to examination by an authorized or approved public accountant.

### **3. Distinguish between independent and dependent branches.**

**Dependent Branch:** Dependent branches are those which do not maintain separate books of account and wholly depend on Head Office. The result of the operation, i.e., profit or loss, is ascertained by Head Office. In other words Head Office maintains and opens a Branch Account in its book in order to find out the result of the operation. Branches supply some related information to the Head Office, i.e., position of cash, debtors stocks, etc.

**Independent Branch:** Independent branches are those which maintain complete system of accounting. This particularly happens when their sizes are very large due to various functional complexities. In short, they prepare their accounts independently, i.e., they also purchase and sell goods for cash and credit independently in addition to the goods that are supplied by the Head Office.

### **4. Why is branch adjustment accounts prepared?**

Branch adjustment account is prepared with a view to ascertain the gross profit of the branch.

### **5. What are rights of 'Hire Vendor'?**

It is a general right enjoyed by the seller under hire purchase system that he can re-possess the goods sold if the buyer fails to pay the installments. When the seller sells different goods to the same party under hire purchase agreement, he may, at his option, either re-possess all the goods or a part thereof in case of default in payment of installments by the buyer. Often the seller gives some scope to the buyer leaving a portion of the goods sold so that the latter can somehow continue his business. Thus we find two distinct cases of re-possession 1) Complete re-possession and 2) Partial re-possession.

### **6. Distinguish between 'Hire Purchase' and 'Installment payment System'.**

<b>Hire Purchase System</b>	<b>Installment System</b>
1. The ownership or title of the goods passes to the buyer only on payment of the last installment.	1. The ownership passes to the buyer as soon as the sale transaction is made.
2. The Hire Vendor can take back the possession if the buyer becomes a defaulter.	2. The seller cannot take the goods back. He can sue for goods of the recovery and damages.
3. The buyer is given the option to return the goods and repudiate the agreement. He can thus save himself from the payment of the balance of the installments.	3. The buyer does not enjoy such right to terminate agreement.
4. The legal status of the buyer is that of a bailee. He does not have any right to dispose of the goods till he acquires the ownership.	4. The buyer can dispose of the goods as he gets immediate title of the goods.
5. If the purchaser takes reasonable care of the goods as a bailee, any loss occurring to the goods before final payment, is to be borne by the seller.	5. The buyer has to bear such loss as he has already become the legal owner

### **7. What are rights of 'Hire Vendor'?**

It is a general right enjoyed by the seller under hire purchase system that he can re-possess the goods sold if the buyer fails to pay the installments. When the seller sells different goods to the same party

under hire purchase agreement, he may, at his option, either re-possess all the goods or a part thereof in case of default in payment of installments by the buyer. Often the seller gives some scope to the buyer leaving a portion of the goods sold so that the latter can somehow continue his business. Thus we find two distinct cases of re-possession 1) Complete re-possession and 2) Partial re-possession.

#### **8. Distinguish between 'Joint venture' and 'Consignment'.**

<b>Consignment</b>	<b>Joint Venture</b>
1. The relationship between the Consignor and Consignee is that of a Principal and an Agent.	1. The relationship between the Co-ventures is that of co-owners or partners.
2. The Consignor is entitled to the profit or loss whereas the consignee is entitled to commission.	2. The ventures share profits and losses.
3. The law of Agency governs it.	3. The Partnership Act and the Contract between the ventures govern it.
4. It continues so long as there is willingness and capability among the parties.	4. It is terminated as soon as the venture is over.
5. The methods of accounting are more or less uniform.	5. There are different methods or ways of recording transactions.

#### **9. Distinguish between partnership and joint venture.**

<b>Partnership</b>	<b>Joint venture</b>
1. It is a going concern.	1. It is a temporary.
2. They follow the accrual basis of accounting.	2. They follow the cash basis of accounting.
3. P/L is calculated at the end of each financial period.	3. P/L is computed on conclusion of particular venture.
4. It is governed by Partnership Act.	4. It is not governed by Partnership Act.

#### **10. What is joint venture?**

A joint venture is a business arrangement in which two or more parties contribute resources in order to achieve a goal. Instead, the joint venture uses the assets and other resources of the venturers. Each venturer uses its own assets, incurs its own expenses, and raises its own financing

#### **11. What do you mean by del credere commission? Why is it given to consignee?**

It is a special commission given by the consignor to the consignee. When of commission is given, the consignee undertakes upon himself the risk of any bad debts arising out of the credit sale. So this Del Credere commission in the form of insurance premium against the risk of bad debts.

#### **12. How would you treat normal loss and abnormal loss in consignment business?**

**Normal Loss:** It is that loss which is due to the nature of the goods consigned. Such loss may arise due to loading and unloading of the goods, cutting the bulk material into smaller parts, evaporation, drying, sublimation of goods etc. For example, some of the quantity of coal consigned is bound to be converted into dust because of loading and unloading. In other words, such loss is unavoidable because some of the goods are bound to be lost even after taking all precautions. Being normal such a loss is a part of the cost of the consignment, so no entry is passed in the books of the consignor. Anyhow, such type of loss is considered while calculating the cost of stock left unsold with the consignee.

**Abnormal Loss:** Such loss is an avoidable loss because it does not arise due to the nature of the goods. Such loss may arise due to bad luck (i.e., destruction of goods by fire, mischief i.e. theft of goods) and inefficiency (abnormal breakage due to careless handling). The value of such a loss is calculated in the

same way as the value of unsold stock on consignment and is credited to consignment account and debited to abnormal loss account or accidental loss account to ascertain the correct profit or loss of the consignment.

**13. How would you treat normal loss and abnormal loss in joint venture business?**

No separate treatment is made for normal loss in joint venture account but if unsold stock is to be accounted for, it is to be valued as= units of unsold stock X value of goods purchased

Units of goods left after normal loss

No treatment is made for abnormal loss in joint venture account. Gross amount of loss and net amount of loss remain the same if no insurance claim is received. The joint venture account serves the purpose of both Trading and Profit and Loss account. So the same amount need not be credited and debited in the single account.

**14. What is 'Joint bank Account'?**

For better financial control, a Joint Bank Account is opened specially for the venture. The co-ventures will operate this account jointly. This account is just like a cash book —all cash deposited into the bank are debited and all withdrawals are credited. Generally, capital contribution of the ventures and sale proceeds are deposited in this account. Similarly, all major payments are made from this account. It is finally closed by payment to the co-ventures.

**15. State the Indian application of Garner vs Murrey rule?**

When a partner's capital account shows a debit balance on dissolution of the firm, he has to pay in cash the debit balance to the firm to settle his account. If the partner becomes insolvent, he is unable to pay back the amount owed by him to the firm in full. The amount not paid is a loss to the firm which under the Garner vs Murray Rule is to be borne by the solvent partners.

The loss on account of insolvency of a partner is a CAPITAL loss which should be borne by the solvent partners in the ratio of their capitals standing in the balance sheet on the date of dissolution of the firm.

**16. What do you mean by piecemeal distribution in relation to partnership firm?**

When a firm is dissolved all assets are realized or sold out at a time only if the entire business is sold out as a single unit. Otherwise the assets are realized gradually over a considerable span of time. In reality, payments are not held up till the completion of all realizations. Rather these are made to different parties following a definite order of preference as and when the assets are realized and necessary cash is available. This is known as piecemeal distribution of Cash.

The Cash available out of gradual realization of assets is utilized for making different payments in the following manner: (1) To pay the expenses of realization; (2) To discharge the creditors having preferential claims [Like Arrear Income Tax etc]; (3) To discharge other creditors. Other creditors are paid off in the ratio of their individual claims; (4) to meet loans taken from partners; (5) To pay off partners' Capitals.

Unless the capitals of the partners are proportionate to their profit sharing ratio, proceeds realized from any asset cannot be distributed in profit sharing ratio, because the unpaid balances, in that case, will not be in the profit sharing ratio

**Surya Sen Mahavidyalaya**  
**Department of Commerce**  
**B.Com Honours Program & B.Com Program (CBCS) First Semester**  
**DSC2 – BUSINESS LAW ( Model Question-Answer)**

**Group – A (3 marks each)**

**1. What do you mean by limited liability partnership?**

In case of a partnership, the liability of a partner in case of the dissolution of the firm is unlimited. Therefore, partners are liable to personally contribute towards discharge of the outstanding debts of their partnership. However, in case of LLP, the partners' liability in such cases shall be limited by the amount of capital contribution or as otherwise mentioned in the incorporation document. Partners are not individually liable to contribute any amount over and above that in case of dissolution.

**2. Explain “Designated Partner” in the context of LLP Act.**

- Must be at least 2. (both individuals, at least 1 Indian Resident).
- All designated partners shall obtain Designated Partners Identification Number from Central Government.
- Responsible for all compliances as required under the Act and is also liable for penalty for contravention.
- If he does not do so, his liability in LLP will become unlimited and the LLP will get wound up by the Tribunal.

**3. What are the advantages of LLP over Partnership?**

- Limited liability of partners.
- Unlimited Number of Partners.
- Distinct Legal Entity.

**4. Write a short note on Cheque.**

A cheque is the mean by which a person who has fund in the hand of a bank withdraws the same or some part of it.

A cheque is a kind of bill of exchange but it has additional qualification namely-

- it is always drawn on a specified banker.
- it is always payable on demand without any days of grace.

## **5. What are the types of 'Crossing of Cheque'?**

- General Crossing
- Special crossing
- Restrictive crossing: Not negotiable, Account payable

## **6. Write a note on Criminal action on dishonour of cheque.**

Section 138 of Negotiable Instrument Act, 1881 lays down criminal action on dishonoured cheque. It states that where any cheque drawn by a person, on an account maintained by him with a banker, for payment of any amount of money to another person, from out of that account, for discharge of whole or in part of any debt or other liability, is returned by the bank unpaid either because:-

- The amount of money standing to the credit of that account is insufficient to honour that cheque, or
- That it exceeds the amount arranged to be paid from that account.

such person shall be deemed to have committed an offence and shall be punishable-

- with imprisonment for a term extending to one year, or
- with fine, which may extend to twice the amount, of the cheque, or
- both.

## **7. What is Negotiation?**

The transfer of an instrument by one party to another so as to constitute the transferee a holder is called Negotiation. Negotiation means as the process by which a third party is constituted the holder of the instrument so as to entitle him to the possession of the same and to receive the amount due thereon in his own name.

Negotiation can be done by –

1. Delivery and
2. Endorsement and Delivery

## **8. What is Endorsement?**

When the maker or holder of a negotiable instrument signs the instrument for the purpose of negotiation, it is said to be endorsement of the instrument.

The person who effects an endorsement is called an 'endorser', and the person to whom negotiable instrument is transferred by endorsement is called the 'endorsee'.

Types – 1. Blank/General      2. Special/Full      3. Partial      4. Restrictive  
5. Conditional

**9. What do you mean by Contract of Sale?**

A contract of sale of goods means a contract where by a seller transfers or agrees to transfers the property in goods to buyer for a price. A contract of sale may be absolute or conditional. It includes both a sale and agreement to sale.

**10. Write down the definition of Goods.**

The term “Goods” means and includes every kind of movables, stocks and shares, growing crops etc. except immovable property, actionable claims and legal tender money. Goods may be of four types ---

- a. Existing goods,
- b. Future goods,
- c. Specific goods
- d. Contingent goods.

**11. What is “Sale” and “Agreement to Sale”?**

“Sale” occurs when the seller transfers property in the goods to the buyer immediately after sale, where “agreement to sale” occurs where the seller agrees to transfer the property in the goods or to fulfil some conditions in the property of goods or subject matter of the contract, both on some future date.

**12. What are the essential elements of Contract of Sale?**

Some essential elements of contract of sale are:-

1. Two parties, the buyer and the seller.
2. The subject matter of the contract of sale.
3. A price in legal tender should be paid or promise to pay.
4. Transfer of property in goods from seller to buyer must take place.
5. A contract of sale in form of absolute or conditional.

**13. What do you mean by delivery?**

According to sale of goods act 1930, “Delivery” means voluntary transfer of possession of movables from one person to another. Such delivery may be two types, actual and constructive.

The delivery is “Actual” when physical possession is transferred from one to another. It is “Constructive” when the possession is deemed to be transferred by operation of law.

**14. Discuss various types of delivery?**

There are various forms of delivery as follows:

- **Actual Delivery:** If the goods are physically given into the possession of the buyer, the delivery is an actual delivery.
- **Constructive delivery:** The transfer of goods can be done even when the transfer is affected without a change in the possession or custody of the goods. For example, a case of the delivery by attainment or acknowledgment will be a constructive delivery.
- **Symbolic delivery:** This kind of delivery involves the delivery of a thing in token of a transfer of some other thing. For example, the key of the go-downs with the goods in it, when handed over to the buyer will constitute a symbolic delivery.

#### **15. What do you mean by Condition and Warranty according to Sale of Goods Act?**

According to sec 12(2), of sale of goods act 1930, a “Condition” is a stipulation essential to the main purpose of contract, the breach of which gives rise to a right to the aggrieved party to treat the contract as repudiated. On the other hand, as per sec 12(3), of sale of goods act 1930, a “Warranty” is a stipulation collateral to the main purpose of the contract, the breach of which gives rise to claim for damages but not to a right to reject the goods and treat the contract as repudiated.

#### **16. What are the consequences in case of breach of Condition and Warranties?**

According to sec 12(2), of the sale of goods act 1930, breach of condition arises a right to treat the repudiated. In case of Warranties, a breach of warranty results in a claim for damages but does not give rise to a right to reject the goods and treat the contract as repudiated.

#### **17. Write down a note on express and implied contract.**

“Conditions” and “Warranties” may be either (1) express or (2) implied. The express terms are those which are expressly agreed by the parties. The implied terms are those which the law implies into the contract unless the parties stipulate to the contrary.

Sec 16(4) further provides that an express warranty or condition does not negate an implied warranty or condition unless the express warranty or condition is inconsistent with the implied warranty or condition.

#### **18. What do you mean by sales by description?**

According to the sec 15 of the sale of goods act 1930, it is an implied condition that the goods shall correspond with the description, which goes to the root of the contract and the breach of it entitles the buyer to reject the goods whether the buyer is able to inspect them or not. It may be---

- i. Where the buyer has not seen the goods and relies on their description,



- ii. Where the buyer has seen the goods but he relied not on what he has seen but on what was stated to him and the deviation of the goods from what was described is not apparent.

#### **19. What do you mean Doctrine of Caveat Emptor?**

Caveat Emptor is a Latin phrase which means “buyers beware”. The Doctrine of Caveat Emptor is based on the concept that the buyer must ordinarily buy goods after satisfying himself of their quality and fitness and the seller is under no obligation to disclose defects, if any, of the goods. If the buyer makes a bad choice, he cannot blame the seller or recover damages from him. The rule of caveat emptor, therefore, does not apply where the buyer has disclosed the purpose for which the goods are required and relied on the seller’s skills or judgement.

#### **20. What is the meaning of Passing of Property and what the stages of Transfer of Ownership?**

Passing of property means transfer of ownership and not the physical possession of goods. When a principal sends goods to his agent, he only transfers the physical possession of the goods, not the ownership of the goods. In such a case, the principal, although not having possession of the goods, remains the owner of the goods and the agent remains in possession of the goods without having the ownership of the same. There are three stages for transfer of ownership, these are

1. Transfer of property in the goods.
2. Transfer of possession of the goods by delivery.
3. Passing of the risk.

#### **21. What do you mean by FOB contract?**

FOB means “free on board”. In case of FOB the seller shall have to put the goods on board a ship named by the buyer at his own expense under a contract of carriage by sea for transmission to the buyer. As soon as the goods are put on board a ship for transmission to the buyer the duty of the seller ends and it transfers the possession of property in the goods and the risk thereof to the buyer. The buyer has to arrange for the affreightment of goods and to pay for all charges and bear all risks subsequent to delivery of the goods on board the ship.

#### **22. Write down some the duties of seller of the goods?**

1. It is the duty of the seller to deliver the goods and duty of the buyer to accept and pay for them (sec 31).
2. Unless otherwise agreed, the seller shall be ready and willing to give possession of the goods of the buyer in exchange of price, and the buyer shall be ready and willing to pay the price (sec 32).
3. Where the seller wrongfully neglects or refuses to deliver the goods to the buyer, the buyer may sue the seller for damages for non-delivery (sec 57).

**23. Write down some the duties of buyer of the goods?**

1. The buyer must pay for the price of the goods according to the terms of the contract (sec 31).
2. If the buyer refuses to accept delivery wrongfully, he is liable to pay compensation to the seller.
3. Apart from any express contract, the seller is not bound to deliver the goods without application of the buyer for delivery (sec 35).

**24. What is meant by Unpaid Seller?**

According to the sec 45 of sale of goods act 1930, A seller is a person who sells or agrees to sell goods and deemed to be an unpaid seller within the meaning of this Act,

- i. When the whole of the price has not been paid or tendered:
- ii. When a bill of exchange or other negotiable instrument has been received as conditional payment and the condition on which it was received has not been fulfilled by reason of dishonour of the instrument or otherwise.

So, an unpaid seller means the person who has sold the goods for a price and the payment of price has not been made to him or the instrument which was given to him has been dishonoured in its maturity. Such seller is known as an unpaid seller.

**25. What do you mean by Auction Sale?**

According to the sec 64, of the Sale of Goods Act 1930, "Auction Sale" is a mode of selling property by inviting bids publicly and the property is sold to the highest bidder. In the case of Auction Sale ----

1. Where the goods are put for sale as a lot, each lot is deemed to be subject matter of a separate contract of sale,
2. The auction sale is complete when the auctioneer announces its completion by the fall of hammer or in any other customary manner until such announcement is made, any bidder may retract from his bid.
3. Right to bid may be reserved expressly by or on behalf of the seller and where such a right is expressly reserved but not otherwise, the seller or any one person on his behalf may bid at the auction.

**26. What do you mean by Del credere agent?**

Del credere agent is one who guarantees the performance of the contract by the other party, in return for an extra remuneration. If the other party fails or causes damages, the Del credere agent must pay compensation to the principal.

**27. Define a void contract?**

It is a contract without any legal effect and cannot be enforced in the court of law.

**28. When is consent said to be free?**

Section 14 lays down that consent is said to be free when it is not caused by-

1. Coercion
2. Undue influence
3. Fraud
4. Misrepresentation
5. Mistake

**29. What do you mean by contingent contract?**

A contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

**30. What is quasi contract?**

In the absence of a valid contract, obligation of contractual nature may be imposed by law upon one person and right conferred on another person even though there is no offer, no acceptance and no consensus ad idem. In fact, there is neither agreement nor promise. Such contracts constituted by law are called quasi-contract.

**31. What is meant by voidable contract?**

An agreement which is enforceable by law at the options of one or more of the parties, but not at the option of the other or others is a voidable contract. It arises when the essential elements of free consent in a contract is absent.

**Group – B (6 marks each)**

**1. Distinguish between LLP and Partnership.**

{Hints – No. of Partners, Legal Entity, Partner's Responsibilities, Registration, Perpetual Succession, Compliance.}

**2. Distinguish between LLP and Company.**

{Hints – Procedural Complexity, Ownership-Management, Capital Structure, Oppression-Mismanagement, Perpetual Succession, Compliance}

**3. Discuss the Incorporation Procedure for LLP.**

{Hints – Acquire DSC, Register, Availability of Name, Forms, Filing with ROC, Status Tracking, Certificate.}

**4. Write a note on Bill of Exchange and its characteristics.**

{Hints - Writing, Unconditional Order, Signed by maker, Certain maker and certain sum, only money, Drawer-Drawee-Payee, Acceptance.}

**5. Who is a holder in due course? What are his privileges?**

{Hints – Rights in case of inchoate, prior parties, fictitious bills, prior defects, estoppel.}

**6. Define Negotiable Instrument. Briefly describe its characteristics.**

{Hints – Free transferability, Title free of defects, Transferee can sue.}

**7. Briefly classify the types of goods according to Sale of Goods Act 1930.**

{Hints:- there are four types of goods, (a) Existing Goods, (b) Future Goods, (c) Specific Goods and (d) Contingent Goods.}

**8. What do you mean by Document of Title to Goods?**

{Hints:-Documents mean evidence for possession of goods. There are mainly two types of documents naturally represent for title of goods. (a) Document in nature of right is attached and (b) right to receive documents.}

**9. Point out some difference between Sale and Agreement to Sale.**

{Hints: - it can be differentiate by some basic points like transfer of ownership, risk, nature of contract, right to sue, liability, rights of buyer and sellers. Sale means immediate transfers of goods from buyer to seller where in case of agreement to sale means goods will be pass in future date.}

**10. Write down a note on sale and bailment.**

{Hints: - in case of sale, the ownership of goods passes to buyer but in case bailment the ownership of goods does not pass to bailee.}

**11. Differentiate between Sale and Hire-Purchase.**

{Hints:- Hire-purchase means an agreement for under which goods are let out on hire on terms where in case sale of sale the title of property is transferred from seller to buyer by maintaining the law of Sale of Goods Act 1930.}

**12. Conditions and Warranties are generally distinguished from mere statements of representation. Discuss.**

{Hints: - a contract of sale may be either absolute or conditional, depends on the various statements of representation made by contracting parties. Again a mere expression of opinion forming no part of the contract depends on the construction of the contract.}

**13. Write a note on Condition vs. Warranty.**

Write down some exceptions under a contract of sale as against implied condition as per Sec 16 (quality and fitness of goods supplied) of the Sale of Goods Act 1930.

**14. Write down a small note on implied Conditions according to Sale of Goods Act.**

{Hints: - it may be on base of Condition as title, Sale by Description, Sale by Sample, Implied Conditions as to Quality and Fitness, Condition Implied by Customs, Conditions as to Wholesomeness.}

**15. Write down a small note on Implied Warranties.**

{Hints: - It may be pointed by Quiet possession, Free from encumbrance, Disclosure by Dangerous nature of Goods.}

**16. Briefly discuss some exceptions of “Caveat Emptor”.**

{Hints: - the seller has made false representation relating to the goods and the buyer has relied on his detriment. Sometimes the seller has deliberately concealed a defect which is not apparent on the reasonable examination of the goods. According to sec 16(1), in case of contract for the sale of an article under trade or patent name, there is no implied condition that the goods shall be reasonably fit for any particular purpose.}

**17. Discuss shortly the Rights of an Unpaid Seller against goods.**

{Hints: - section 47, section 50, section 54 deals with the Rights of an Unpaid Seller against goods.

The rights are Right of Lien, Right of Stoppage in Transit, and Right of Re-sale.}

**18. Differentiate between Right of Lien and Right of Stoppage in Transit.**

{Hints: - The main themes of these two are right of retain possession and right of regain.}

**19. “Mere silence is not fraud”. – Comment.**

{Hint: Silence is in itself equivalent to speech.}

**20. What are the essential features of a bailment?**

{Hints: Change of possession, moveable goods, ownership, and return of specific goods.}

**21. What are the various remedies available to a party in case of a breach of contract?**

{Hints: Rescission of the contract, suit for damages, suit upon quantum meruit, suit for injunction.}

**22. “Parties to a contract must be competent to contracts” – Explain.**

{Hints: Section 11 of the Act states that – every person (i). Who is the age of majority (ii). Who is of sound mind, (iii) who is not disqualified to enter into a contract is competent to contract.}

**Group – C (12 Marks each)**

**1. Discuss the Salient Features of LLP.**

{Hints – Governed by LLP Act, Limited liability, Distinct Entity, No. of Partners, Perpetual Succession, Mutual Rights, Designated Partner, Accounts & Audit, Conversion, Compliance.}

**2. Explain Partners and Their Relationship in the context of LLP Act.**

{Hints – No. of Partners, Mutual Rights, Capital Contribution, PSR, Rights & Duties, Agency, Admission and Retirement, Bindings, Designation.}

**3. Define Promissory notes. What are its essential characteristics? What is difference from Bill of Exchange?**

{Hints – Essentials - Writing, Undertaking, Unconditional Undertaking, Sign of maker, Certain maker, Payee must be certain, Sum of money must be certain, Promise to pay money only, Formalities, Stamping

Difference – Parties, Nature of Payment, Liability, Acceptance, Notice, Protest}

**4. Discuss the presumptions that apply to all negotiable instruments.**

{Hints – As to consideration, date, time of acceptance, transfer, endorsement, stamps, holder in due course, dishonour.}

**5. Briefly discuss the concept of Sale of Goods Act 1930 and its scope.**

{Hints: - In 1930 Indian Sale Goods Act were passed after repealing sections 76 to 123 of the Indian contract act. As regards the scope is concern, this act is deals with sale but not with mortgage or pledge. This act covers the entire lawful concepts relating to sales of goods and the parties attached with it.}

**6. Distinguish between (a) Sale and Agreement to Sale, (b) Sale and Bailment.**

{Hints: - in case of sale, the ownership of goods passes to buyer but in case bailment the ownership of goods does not pass to bailee.}

**7. Distinguish between Sale and Hire –purchase.**

{Hints: - sale is governed by Sale of Goods Act 1930 where Hire-purchase is govern by Hire-purchase act 1972. In case of hire-purchase the property in the goods does not pass till all the instalments are paid.}

**8. “No seller of goods can give the buyer of goods a better title of goods than he himself has”. Discuss.**

{Hints: - It is only owner of the goods or a person authorised by him, who enjoys right to sell the goods. As laid down sec 27, where goods are sold by a person who is not the owner or who is not authorised by the owner, the buyer acquires no better title to the goods than the seller. This general rule is subject to certain exceptions that have to be explained further.}

**9. Discuss the rules regarding delivery.**

{Hints: - As per sec 2(2) of the Sale of Goods act 1930, delivery means voluntary transfer of possession of goods from seller to buyer. There are some rules regarding this delivery, like effect of part of delivery sec 34, buyer to apply for delivery sec 35 etc.}

**10. Discuss the Right of Stoppage in Transit.**

{Hints: - The right of stoppage in transit means right to stop further transit of goods in order to regain possession and to retain the same till the price is paid.}

**11.What are the various rights of an unpaid seller?**

{Hints: - Right of an unpaid seller can be three types viz. Rights of Lien, Rights of Stoppage, Rights of Resale.}

**12.Discuss the rights of unpaid seller against buyer personally.**

{Hints: - It is necessary to discuss pertinent point about an unpaid seller's rights, mainly in two types. 1. Rights in persona and 2. Rights in rem.}

**13. Define the term 'Contract'? What are the essentials of a valid contract?**

{ Hints: Section 2(h) of the Act defines a contract as an agreement enforceable by law. Essentials – Offer and acceptance, lawful consideration, intention to create legal obligations.}

**14. "All contracts are agreement but all agreements are not contracts" – Discuss the statements in the light of essential elements of a contract?**

{Hints: Essence of an agreement and a contract. All agreements are not contract. All obligations too do not create contracts.}

**15. Define Bailment? State the rights and duties of bailor?**

{Hints: Section 148 – delivery of goods upon a contract. Rights: enforcement of rights, right to demand back goods, right to terminate the contract of bailment. Duties: Gratuitous bailment, bailor's responsibilities to bailee.}

**16. State the rules of offer and acceptance?**

{ Hints: Rules regarding offer: an offer may be expressed or implied, definite and unambiguous offer. Rules regarding acceptance: mode of acceptance, time of acceptance, acceptance must be communicated by words or conduct.}

**Surya Sen Mahavidyalaya**  
**Department of Commerce**  
**B.Com Honours Program (CBCS) First Semester**  
**GE:1 – Microeconomics ( Model Question-Answer)**

**Long Answer Type (12 marks each)**

- 1) Explain consumer's equilibrium condition with the help of indifference curve approach.  
(See A. Koutsoyannis, Modern Microeconomics 2<sup>nd</sup> Edn; page 18)
- 2) Using indifference curve analysis, show how price effect of a commodity is decomposed into income effect and substitution effect.  
(See A. Koutsoyannis, Modern Microeconomics 2<sup>nd</sup> Edn; page 24)
- 3) Distinguish between Hicks' and Slutsky approach to the measurement of income and substitution effect.  
(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 167)
- 4) Explain the effect of a food subsidy on the welfare of consumers and compare it with an outright cash transfer of the same cost.  
(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 183)
- 5) Using revealed preference hypothesis, show that substitution effect is negative.  
(See Henderson and Quandt, Microeconomic Theory 3<sup>rd</sup> Edn; page 47)
- 6) How would you measure point price elasticity of demand at a point on a straight line demand curve?  
(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 119)
- 7) Explain the relationship between total revenue of a firm and price elasticity of demand for price reduction.  
(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 126)
- 8) What is Cobb-Douglas production function? What are its important properties?  
(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 176)



- 9) Using isoquant and isocost line, explain producer's equilibrium.  
(See A. Sen, Microeconomics 2<sup>nd</sup> Edn; page 94)
- 10) Explain how the LRAC is derived from SRACs.  
(See D. Besanko, Microeconomics 4<sup>th</sup> Edn; page 306)
- 11) What is meant by equilibrium of the firm? Using total revenue and total cost approach, explain how firm maximises profits to attain equilibrium.  
(See D. Besanko, Microeconomics 4<sup>th</sup> Edn; page 334)
- 12) Critically explain Baumol's sales maximisation hypothesis.  
(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 606)
- 13) Explain the conditions of long run equilibrium of a firm operation under conditions of perfect competition.  
(See E. Mansfield, Microeconomics 11<sup>th</sup> Edn; page 306)
- 14) Explain the equilibrium of monopoly firm.  
(See A. Sen, Microeconomics 2<sup>nd</sup> Edn; page 138)
- 15) Explain the equilibrium under monopolistic competition.  
(See E. Mansfield, Microeconomics 11<sup>th</sup> Edn; page 407)
- 16) Explain Sweezy's kinked demand curve model of oligopoly.  
(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 576)
- 17) Explain how price and output are determined under Cournot's duopoly model.  
(See D. Salvatore, Microeconomics 4<sup>th</sup> Edn; page 363)
- 18) Explain Stackelberg model of oligopoly.  
(See Hall R. Varian, Intermediate Microeconomics 6<sup>th</sup> Edn; page 474)
- 19) Explain price leadership model of oligopoly.  
(See Hall R. Varian, Intermediate Microeconomics 6<sup>th</sup> Edn; page 480)
- 20) Explain the methods of pricing public utilities.  
(See D. Salvatore, Microeconomics 4<sup>th</sup> Edn; page 434)

**Short Answer Type (6 marks each)**

- 1) Distinguish between movement along a demand curve and a shift in the demand curve.  
(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 42)
- 2) Distinguish between cardinal and ordinal utility.

(See Pindyck and Rubinfeld, Microeconomics 6<sup>th</sup> Edn; page 77)

3) What are the assumptions on which indifference curve analysis of a demand is based?

(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 70)

4) What are the properties of indifference curves?

(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 72)

5) What is the relationship between price consumption curve and price elasticity of demand?

(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 239)

6) How is Engel curve derived from income consumption curve?

(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 133)

7) If a consumer spends all his income on two goods, can both the goods be inferior?

(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 133)

8) Can indifference curve be (i) straight line and (ii) right angled?

(See A. Koutsoyannis, Modern Microeconomics 2<sup>nd</sup> Edn; page 20)

9) Distinguish between strong ordering and weak ordering forms of preference hypothesis.

(See Henderson and Quandt, Microeconomic Theory 3<sup>rd</sup> Edn; page 45-46)

10) What are the factors which determine price elasticity of demand?

(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 224)

11) What are the importance of price, income and cross elasticities of demand?

(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 225, 232, 235)

12) Establish the relationship among AR, MR and price elasticity of demand.

(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 123)

13) Distinguish between elastic and inelastic demand curve.

(See D. Besanko, Microeconomics 4<sup>th</sup> Edn; page 44)

14) Distinguish between fixed inputs and variable inputs.

(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 275)

15) What is the relationship between marginal product and average product of labour?

(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 280)

16) What are the properties of isoquant?

(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 155)

17) Distinguish between fixed proportion and variable proportion production function.

(See A. Koutsoyannis, Modern Microeconomics 2<sup>nd</sup> Edn; page 68)

- 18) Explain the concept of elasticity of substitution between two factors of production.  
(See D. Besanko, Microeconomics 4<sup>th</sup> Edn; page 222)
- 19) Using isoquant, explain the concept of returns to scale.  
(See Pindyck and Rubinfeld, Microeconomics 6<sup>th</sup> Edn; page 207)
- 20) Distinguish between economic cost and accounting cost.  
(See Pindyck and Rubinfeld, Microeconomics 6<sup>th</sup> Edn; page 214)
- 21) Explain the concepts: total cost, total fixed cost, total variable cost, average cost, average fixed cost, average variable cost and marginal cost.  
(See A. Sen, Microeconomics 2<sup>nd</sup> Edn; page 90-93)
- 22) What is the relationship between MC and AVC?  
(See A. Sen, Microeconomics 2<sup>nd</sup> Edn; page 93)
- 23) Distinguish between Marshallian and Walrasian conditions of stable equilibrium.  
(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 57)
- 24) How is monopoly power measured?  
(See Pindyck and Rubinfeld, Microeconomics 6<sup>th</sup> Edn; page 353)
- 25) Why does supply curve not exist under monopoly?  
(See D. Besanko, Microeconomics 4<sup>th</sup> Edn; page 449)
- 26) Explain the conditions under which price discrimination is both possible and profitable.  
(See A. Koutsoyannis, Modern Microeconomics 2<sup>nd</sup> Edn; page 192)
- 27) What is collusive oligopoly? How are price and output determined under it?  
(See J. Sarkhel, Microeconomic Theory 2<sup>nd</sup> Edn; page 319)
- 28) Explain the features of contestable market theory.  
(See H.L. Ahuja, Modern Economics 18<sup>th</sup> Edn; page 587)

**Objective Type (3 marks each)**

**1) State the law of demand.**

[The law of demand states that other things remaining the same if the price of any commodity decreases its quantity demanded increases and vice-versa. The other things which remain the same are income of the consumer, consumer's tastes, prices of other commodities etc.]

**2) What is indifference curve?**

[Consider the utility function of the consumer  $U = f(q_1, q_2)$ . We assume that the function is continuous and differentiable. Furthermore, it is assumed that the partial derivatives of the utility function are strictly positive. If the utility level is assumed to be constant at  $U^0$ , then this fixed amount of utility can be obtained by different combinations of  $q_1$  and  $q_2$ . The locus of all such combinations of  $q_1$  and  $q_2$  from which the consumer gets a fixed amount of utility is called an Indifference curve.]

### **3) What is budget line?**

[Budget line is a set of combinations of different commodities that, given a consumer's income, can just be afforded. Given the prices and consumer's income, it would be a straight downward sloping line cutting each axis at the quantity of that commodity which could be purchased if all income were devoted to it.]

### **4) What is marginal rate of substitution (MRS)?**

[Marginal rate of substitution (MRS) is the rate at which a consumer needs to substitute one commodity for another in order to maintain constant total utility from the commodities taken together. MRS is equal to the negative of the slope of indifference curve. Mathematically it is the ratio of marginal utilities of two items.]

### **5) What is revealed preference?**

[If a consumer purchases a commodity bundle A, rather than the available alternatives B,C,D,... etc, and if it is seen that none of the latter is more expensive than A, then it is said that A has been revealed preferred to the others.]

### **6) What is price elasticity of demand?**

[Price elasticity of demand is the percentage change in quantity demanded due to one percent change in the price of a commodity.  $e_d = (\% \text{change in quantity demanded}) / (\% \text{change in price})$

$$e_d = \frac{\Delta q/q}{\Delta p/p} = \frac{\Delta q}{\Delta p} \cdot \frac{p}{q}$$

### **7) What is income elasticity of demand?**

[Income elasticity of demand is the percentage change in quantity demanded due to one percent change in the income of the consumer.  $E_I = (\% \text{change in quantity demanded}) / (\% \text{change in income})$

$$E_I = \frac{\Delta q/q}{\Delta I/I} = \frac{\Delta q}{\Delta I} \cdot \frac{I}{q}$$

### **8) What is cross elasticity of demand?**

[Cross elasticity of demand is the percentage change in quantity demanded due to one percent change in the price of related commodity.  $E_x = (\% \text{change in quantity demanded}) / (\% \text{change in price of related commodity})$ ]

$$E_x = \frac{\Delta q_x / q_x}{\Delta p_y / p_y} = \frac{\Delta q_x}{\Delta p_y} \cdot \frac{p_y}{q_x}$$

### **9) State the law of diminishing returns.**

[The law of diminishing returns states that as we go on employing more of one factor of production, other factor remaining the same, its marginal productivity will diminish after some point. For example, if we employ more of  $x_1$ ,  $x_2$  remaining the same, the marginal productivity of  $x_1$  will increase at first but after some time it will decrease.]

### **10) What is isoquant?**

[Suppose there are two factors of production which are variable and perfectly divisible. The amounts of the two factors are given by  $x_1$  and  $x_2$ . The amount of output to be produced is denoted by  $q$ . Then the production function states that  $q = f(x_1, x_2)$ . We assume that this production function is continuous and differentiable. The two factors of production are substitutable and we can employ more of one and less of another to get the same level of output. Isoquant is the set of different combinations of  $x_1$  and  $x_2$  which give the same level of output.]

### **11) What is MRTS?**

[Marginal rate of technical substitution (MTRS) is the rate at which a firm needs to substitute one input for another in order to maintain same level of output from the inputs taken together. MRTS is equal to the negative of the slope of isoquant. Mathematically it is the ratio of marginal productivities of two inputs.]

### **12) What is perfect competition?**

[Perfect competition is a market structure characterized by a complete absence of rivalry among the individual firms. The model of perfect competition is based on the assumptions: (a) large number of sellers and buyers, (b) product homogeneity, (c) free entry and exit of firms, (d) profit maximisation, (e) no government regulation, (f) perfect mobility of factors of production and (g) perfect knowledge.]

### **13) What is monopoly?**

[Monopoly is a market structure in which there is a single seller, there are no close substitutes for the commodity it produces and there are barriers to entry. Since there is a single seller in the industry, the firm's demand curve is the industry demand curve. This curve is assumed known and has a downward

slope. In monopoly there is no unique relationship between price and quantity supplied. The MC curve is not the supply curve of the monopolist.]

#### **14) What is monopolistic competition?**

[Monopolistic competition is a market structure where there are many firms each producing products that are close but not perfect substitutes. The producers are assumed to maximise profits. Free entry and exit are there.]

#### **15) What is oligopoly?**

[Oligopoly is a market which is dominated by a few large suppliers. Oligopolistic markets are often characterised by heavy product differentiation though advertising with long periods of price stability. The behaviour of oligopolistic firm is determined by the reaction and behaviour of their rival firms.]

#### **16) What is cartel?**

[Cartels are associations of producers to regulate prices by restricting output and competition. They tend to be unstable because a single member can profit by undercutting the others, while price-fixing stimulates the development of substitutes. The most prominent example of an international cartel is the OPEC.]