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Model Answer

Class- M.Sc. (Forestry) III Semester Specialization: Forest Management

Subject: Finance and Marketing management of Forest Resources

Q.1Ans.(A)

(a)True

(b)True

(c)True

(d)False

(e) True

Ans. (B) Define following:

1. **Trade secret**

A trade secret is a formula, practice, process, design, instrument, pattern, or compilation of information which is not generally known or reasonably ascertainable, by which a business can obtain an economic advantage over competitors or customers. In some jurisdictions, such secrets are referred to as "confidential information", but are generally not referred to as "classified information" in the United States, since that refers to government secrets protected by a different set of laws and practices.

2. **Working Capital:**

A measure of both a company's efficiency and its short-term financial health. The working capital ratio is calculated as: Working Capital = Current assets- Current liability.
This ratio indicates whether a company has enough short term assets to cover its short term debt. Anything below 1 indicates negative W/C (working capital). While anything over 2 means that the company is not investing excess assets. Most believe that a ratio between 1.2 and 2.0 is sufficient. Also known as "net working capital", or the "working capital ratio".

3.Cost:

In production, research, retail, and accounting, a cost is the value of money that has been used up to produce something, and hence is not available for use anymore. In business, the cost may be one of acquisition, in which case the amount of money expended to acquire it is counted as cost. In this case, money is the input that is gone in order to acquire the thing. This acquisition cost may be the sum of the cost of production as incurred by the original producer, and further costs of transaction as incurred by the acquirer over and above the price paid to the producer. Usually, the price also includes a mark-up for profit over the cost of production.

4.Supply: In economics, supply is the amount of some product producers are willing and able to sell at a given price all other factors being held constant. Usually, supply is plotted as a supply curve showing the relationship of price to the amount of product businesses are willing to sell.

5. Monopoly: A monopoly (from Greek monos (alone or single) + polein (to sell)) exists when a specific person or enterprise is the only supplier of a particular commodity (this contrasts with a monopsony which relates to a single entity's control of a market to purchase a good or service, and with oligopoly which consists of a few entities dominating an industry).

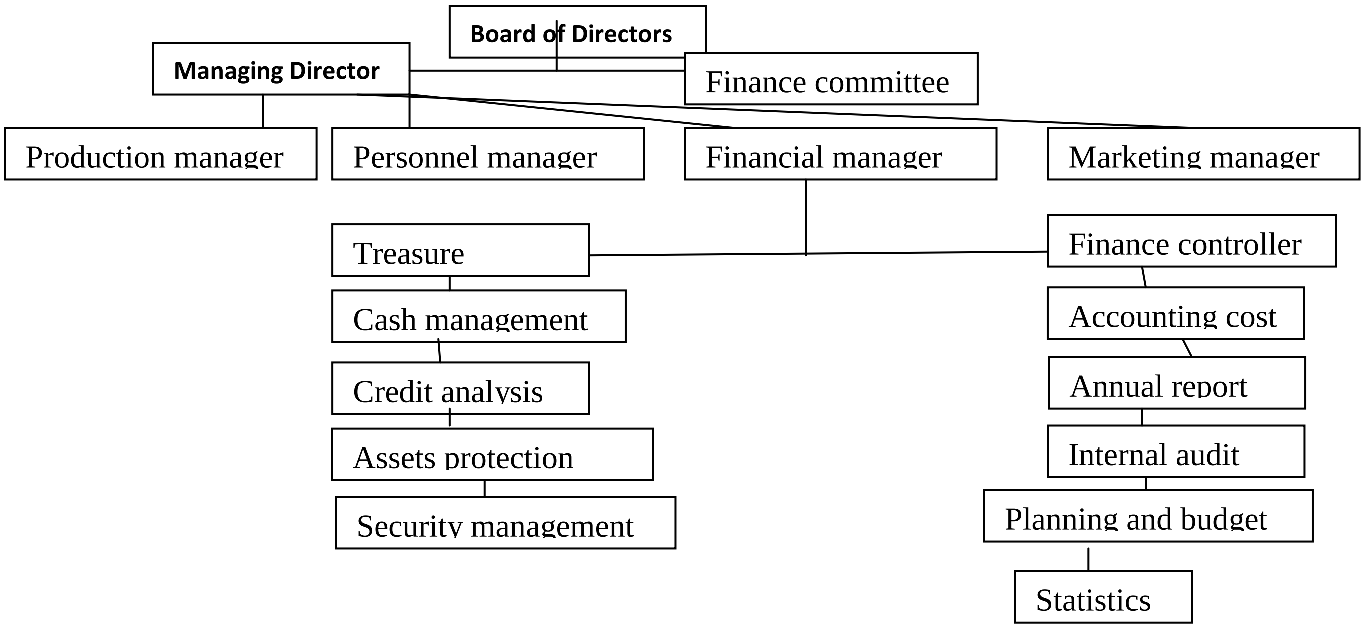
Q.2.
Ans. Classification of market 12 criteria as follows:
1. On the basis of place
2. On the basis of area
3. On the basis of time spend
4. On the basis of volume transaction
5. On the basis of nature of transaction
6. On the basis of number of commodity.
7. On the basis of degree of competition
8. On the basis of nature of commodity
9. On the basis of stage of marketing
10. On the basis of public interrelation
11. On the basis of population served
12. On the basis of accrual of market margin

On the basis of area:
  a. Local market: Local market confined to local area. Ex. Saraf market
  b. Village market: Those are held at village level. Ex- Haat or bazaar
  c. Regional market: There market is larger than the local market. Ex. Iron
  d. National market: Exchange of goods at national level. Ex. Food grain

On the basis of stage of marketing:
  a. Producing market: Market mainly assembled the commodity for future distribution of market such markets are situated in producing area.
  b. Consuming market: Consuming market collects the producing for the final disposal for consuming population. Cities are consuming market for agricultural production.

On the basis of population served:
  a. Rural market: Serve the rural population
  b. Urban market: Serves the population residing in towns and cities.
  c. Corporative market: It is the market which served the people by formation of cooperate people by formation of cooperative society

Q.3.
Ans. The organization of finance function deals with division and classification of functions related to finance. Such as estimation of requirement of function arrangement of funds, preparation of budget etc.
Organisation of finance function in a small size firm:
Organization of finance function is not similar for all business. I t depends on nature, size and characteristics of the firm. For small business no separate officer is appointed for the finance function. Owner of the business himself look all the business with the increase in size of business decentralization of the finance function began and specialist were appointed for the finance function.
For the medium size business the responsibility of financial function is either known as financial controller, finance manager, finance executive, treasure.
Organization of finance function in large size business



In large size company finance function become more difficult and complex. The financial manager become very important. He is the member of top management and directly repot to the managing director of the company due to complex nature of finance function in big companies, the finance function is divided into 2 sub departments

1. Finance sub-department: Finance sub department is headed by treasurer which perform the functions like cash management, credit analysis, assets, protection, securities management.
2. Finance control sub department: Finance control sub department is headed by the finance controller who perform the function like accounting and cost, annual report, internal audit, planning and budget, statistics.

Q.4

Ans. a) Components of working capital:

Ans. There are two main components of working capital:

a. Current assets: It is comprises of following items-
   i. Cash in hand to meet expenses.
   ii. Accounts receivable (Trade debitors)
   iii. Inventory of raw materials, store supplies, work in progress, finished goods
   iv. Advance payments towards expenses or purchase
   v. Temporary investment of surplus trends which could be converted into cash wherever needed?
b. Current liabilities: It is generally consist of following items:
   i. goods purchased on credit
   ii. unpaid expenses during operation of firms wages, salaries, telephone bill, electricity bill
   iii. Temporary or short term borrowings from banks and other financial institution, persons
   iv. Advance received from the parties but good has not been delivered yet.
   v. Short term deposits (Company deposits) fixed deposits
   vi. Other liabilities tax, devident

b) Sources of working capital:

i. Permanent (Long term sources)

ii. Temporary (Short term sources)

i. Permanent (Long term sources):

1. Equity shares
2. Debenture
3. Public deposits
4. Retained earnings (ploughing back profit)
5. Loans from financial Institution

Sources of working capital can be broadly divide into two major category

i. Permanent sources: this sources are more reliable and stable in nature. They reduce the risk of payment when required. These are further divided in to following main types:
   1. Equity shares: It is the primary and most important source of permanent working capital.
   2. Debenture: the debenture is a debt instrument just like a fixed deposit usually issued by a company backed by general credit.
   3. Public deposits: Public deposits is the source of fund for private and non banking company. The interest on this deposit more then interest given by nationalized bank and post office.
   4. Retained earnings (ploughing back profit): retained earning refers to the portion of net income or profit retained by the company rather than distributing it to the share holders.
   5. Loans from financial Institution: Long term loans from different financial institutions such as nationalized bank, private bank etc. are also a good source of permanent working capital.

ii. Secondary sources or Temporary source: They are several temporary sources of working capital which are less reliable than permanent sources some of the examples are;
   a. Indigenous bankers- local banks
   b. Trade credit- getting goods on credit
   c. Installment credit
   d. Advance received from customers
   e. Commercial papers

Q. 5.

Ans. The term market structure refers to size and design of market. It also includes the manner of operation of the market. The structure of market is changing constantly as these components change in relationship to each other. All of them affected the other and each of them must be seen in context with the others.The market structure is dynamic process that is slightly different all the time, but when it is working as a whole, it basically functions as an ebb and flow.

It refers to those organizational characteristics of market which influence the nature of competition and pricing and affect the conductivity of business firm.

It refers to those characteristics of market which influence the trades, behaviour and performance.

It is the formal organization of the functional activity of a marketing institution.

An understanding of knowledge of market structure is essential for identifying the short coming a market.

i. Size

iii. Design

iv. Manner in which market operates

Components of market structure:

1. Concentration of market power
2. Degree of product of differentiation
3. Conditions for entry of firms in market
4. Flow of market information
5. Degree of integration

1. Concentration of market power: It refers to number of size of firms existing to the market. The extent concentration representation control of a firm or group of firm over buying and selling of the production. Higher degree of market concentration restrict the movement of goods between buyers and sellers at of competitive and create an oligopoly.
2. Degree of product differentiation: It refers the variation in product available in market If products are homogeneous then price variation in product the price will be more. If products are heterogeneous then price will be less.
3. Conditions for entry of firms in market: It refers the restrictions or conditions or entry of new firms in the market. Sometimes big firms do not allow for make the entry for new firms difficult. Govt. may also sometimes restrict entry of firms in the market.
4. Flow of market information: It refers to easiness of information sharing among the traders. The well organized market information sharing system help to organize freely interact with each other for making negotiation and dealing.
5. Degree of integration: It refers to transparency of fareness in market firms for different business activities.
6. Higher Integrity establishes goods. Record of market and benefits the trades in long term

Q. 6.

Ans. Budget: One in a series of briefs for civil society organizations, written from a founder's perspective and intended to stimulate inquiry, rather than provide rigid instructions. project or organization. It estimates the income

A budget is a key management tool for planning, monitoring and controlling the finances of a project or organization. It estimates the income and expenditure for a set period of time for your project organization.

Purpose of budget:

- Monitoring the income and expenditures over the course of a years.
- Helping to determine if adjustments need to be made in programs and goals
- Forecasting income and expenses for projects, including the timing and the availability of income
- Providing a basis for accountability and transparency

Preparation of budget:

1. Who should involved in the process of preparing a budget?
2. What key questions need to be addressed?
3. What external factors need to be considered?
4. When should you create your budget?

Budget components:

1. Income: Funders like to see a diverse source of revenue which shows that sustainability does not really on one sole source of funding. The income could include product sales, government contracts, foundation grants, and individual contributions. In some cases, organizations may not have an income to report.
2. Expenses: Expenses should be itemized and include unit costs, for example, daily fees or travel for number of participants. Budget heading make sure that the same budget headings or categories are consistent throughout the organization for both income and

expense items. This will simplify your bookkeeping and help with reporting and financial reviews.

3. Currency: Be sure to note what currency and exchange rate you are using when presenting your budget to a funder. Some may require you to convert your currency in to the dollar or other currency.
4. Notes: Keep notes to record the budgeting process. Notes explain how and why budget calculations are made. Combined with the budget, notes can serve as a clear guide for your organization spending and decision making. Budget clarity and notes also helps in case of the activity of audited.
5. Contingency funds: Include a line item that will incorporate fluctuation of costs or unexpected expenses.
6. In linked contribution: It is helpful to show the costs or services contributed by your organization.

Q.7 Discuss the source of long term finance in detail?

Ans. Normally the methods of raising finance are also termed as the sources of finance. But as a matter of fact the methods refers only to the forms in which the funds are raised and hence may or may not include the sources from, or through which the funds are raised. The sources of long term finance refer to the institutions or agencies from, or through which finance for a long period can be produced. As stated earlier in case of sole proprietary concerns and partnership firms, long term funds are generally provided by the owners themselves and by the retained profits. Sources for long term finance are as follows:

1. Capital market
2. Special financial institutions
3. Mutual funds
4. Leasing companies
5. Foreign sources
6. Retained earnings

1. **Capital market:** it refers to the organization and the mechanism through which the companies, other institutions and the govt. raise long term funds so it constitutes all long term borrowings from banks and financial institutions borrowings from foreign market and raising of capital by issuing various securieties such as shares, debadents, bonds. All trading of securities, there are two different segments in capital market
   1. Primary market: deals with new fresh issues of securities and therefor it known as new issue market.
   2. Secondary market: In other hand provides a place for purchase and sale of resisting securities and is known as stock market or stock exchange.
2. **Special financial institutions:** There are a nuber of special financial institutions for raising the funds in the large size business
   a. Industrial Finance corporation of India (IFCI)
   b. Industrial Investment Bank of India (IIBI)
   c. Industrial Credit and Investment Corporation of India (ICICI)
   d. Infrastructure Development Finance Company Ltd. (IDFC)
   e. Small Industries Development Bank of India (SIDBI)
   f. Development Banks or Development Financial Institution (DFI)

Functions of these institutions are:

To grant loans, establishment of business units, provide support for development, for special services operating in the areas and to provide technical and professional services.

3. Mutual funds: Mutual funds refers to a funds established in the form of a trust by a sponsor to raise money through one or more schemes for investing in securities. It is special type of investment institution, which acts as an investment intermediary that

collects or pools the savings of a large number of investors and invests them in a fairly large and well diversified portfolio of sound investments. Mutual funds act as an investment agency for ensures good source for long term finance for business.

Types of mutual funds

i. Open ended funds

ii. Closed ended funds