

**CBSE**  
**Class XII Business Studies**  
**Sample Paper – 2**

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**SECTION A**

**Answer 1**

The objective of management which is being described is 'social objective'. Organisation being a part of society must give back to it in the sense that it creates economic value for it. It includes such obligations as using environment-friendly techniques, creating employment opportunities, creating various social amenities such as schools, hospitals etc.

**Answer 2**

The organisational structure which follows scalar chain is 'formal organisational structure'. In a formal organisational structure, the boundaries of authority are systematically and clearly defined. In such an organisation, communication is according to the scalar chain or the hierarchy defined in the organisation.

**(OR)**

**Mental revolution** is the concept which involves a change in the attitude of workers and management towards one another from competition to cooperation.

**Answer 3**

Delegation refers to the act of transferring authority to lower levels in the hierarchy.

**(OR)**

Divisional structure is one wherein various diversified business activities of an organisation are grouped in different divisions. Each division is headed by a divisional manager responsible for the performance of that division.

**Answer 4**

According to Taylor, in a factory set up, the performance of the foreman must be improved. The foreman forms the link between managers and workers. Accordingly, the planning, production and control is dependent on the performance of the foreman. Thus, it is necessary to improve the performance of the foreman to improve the overall performance in the factory.

**(OR)**

The principles of management influence the behaviour of employees in the organisation and are formed on the basis of human behaviour in different situations. This helps in getting a clear picture with respect to the relationship between human and material

resources in an organisation. Thus, we say that management principles are behavioural in nature.

**Answer 5**

Financial risk refers to the risk that borrowed funds would not be repaid. Debt involves large financial risk.

**Answer 6**

Basic objectives of financial planning:

- i. Identifying sources from where funds can be raised and ensuring that the required funds are available to the firm as and when needed.
- ii. To ensure that there is no surplus or excess funding by the firm.

**Answer 7**

The marketing management philosophy which is being described is the 'production concept'. According to this concept, demand in the market always exceeds the supply. Accordingly, anything that is produced can be sold in the market. For profit maximisation, the primary focus of the business should be on production.

**Answer 8**

The right being described in the given situation is 'right to seek redressal'. Every consumer has the right to seek redressal in case of a complaint or if the product is not according to the expectations of the consumer.

**SECTION B****Answer 9**

- i. The business environment is dynamic. The various dimensions of business—social, political, economic, legal and technological—change continuously. Business organisations must continuously adapt their operations to various changes. However, continuous changes make it difficult to assess the future accurately. So, it becomes difficult to formulate effective plans.
- ii. Planning involves huge costs in terms of time and money. Drafting detailed plans requires research and calculations which prove costly. Moreover, there are other expenses as well such as the expenses on meetings and discussions and investigations. All these expenses make the planning expensive in terms of money. In addition, drafting plans consumes much time, such that at times little time is left for actual implementation.

**(OR)**

- i. Identification of opportunities and threats: The business environment is ever evolving. An interaction with the environment and careful analysis will help a business identify positive opportunities and possible threats. An identification of the threats can enable the organisation to take appropriate measures such as improving

the quality and features of its mobile, advertising. It enables the organisation to grab these opportunities, gain maximum benefit and move ahead of its competitors.

- ii. Accumulating useful resources: Environment offers itself as a source of inputs such as raw material, machinery, labour, for the running of an organisation. In return, the business supplies the environment with its output. This is possible only if the enterprises have an understanding of what the environment desires and what it can offer. Thus, it is rational for the organisations to take up those resources from the environment that can be converted into the desired output.

**Answer 10**

- i. The communication barrier which is being described is 'semantic barrier'. Semantic barriers refer to those barriers wherein there is problem in decoding the message because of such factors as difficulty in interpretation, wrong translations or use of wrong words. In the given case, the use of technical words makes it difficult for workers to clearly interpret and understand the message.
- ii. Two other kinds of semantic barriers:
- ***Gesture of the communicator***: Gestures of the communicator are also seen as part of the communication. There must be a match between what is said and what is conveyed through body language or gesture; else the message would be wrongly interpreted.
  - ***Different meanings of words and symbols***: Sometimes a single word may have many different meanings. The receiver of the message must correctly interpret the meaning of the word as intended to be used by the sender.

**Answer 11**

- i. The process which is being described is 'recruitment'. Recruitment refers to searching for prospective candidates and convincing them to apply for job vacancies.
- ii. Recruitment involves the following activities:
- Identifying the sources of obtaining competent personnel
  - Assessing the validity of the source
  - Selecting the most suitable source
  - Inviting applications from suitable candidates from the selected source

(OR)

The following sources can be used by the organisation to fill the vacancies from within the organisation:

- a. ***Transfers***: A suitable person identified for a profile is shifted from another department to the concerned department.
- b. ***Promotions***: Vacant positions at the higher level are filled by suitably promoting employees at the lower level.

**Answer 12**

The stock exchange is an institution which is constituted with the primary objective of assisting and controlling the sale and purchase of securities.

Transactions in a stock exchange are safe. Membership in the stock exchange is highly regulated. Dealings in the stock market are according to the defined legal framework. Accordingly, it ensures safety in transactions and a fair deal for investors.

The stock market contributes to economic growth in the sense that it acts as a channel through disinvestment and reinvestment of securities. It helps in channelising the securities to productive use which in turn leads to economic growth.

**Answer 13**

Important features of the National Commission:

- i. The National Commission comprises a President and four additional members one of whom is a woman. The members along with the President are appointed by the Central Government.
- ii. A consumer can make a complaint in the National Commission when the value of the good (along with the compensation claimed) is more than Rs 1 crore. In addition, an appeal can be made in the National Commission if the consumer is not satisfied with the orders of the State Commission.
- iii. A consumer can further appeal against the orders of the National Commission in the Supreme Court.

**SECTION C****Answer 14**

Organisational objective of management refers to the objective of using various resources optimally and efficiently such that they yield maximum advantage. In other words, it must be able to fulfil the economic objective. According to the law, it is mandatory for tobacco-producing companies to print a warning message regarding the effect of tobacco on the packet of the product. So, the awareness among people regarding the health hazard of consuming tobacco has increased significantly. Accordingly, the demand for tobacco has reduced drastically.

**Answer 15**

Dimensions of business environment described in the given situation:

- i. **Legal dimension:** Legal environment comprises various laws and orders passed by the government. The organisations in the economy must abide by the rules and regulations as prevalent. The law to print the warning message is the legal dimension for tobacco-producing companies.
- ii. **Social dimension:** The social dimension of business comprises the social forces such as customs, consumer tastes and preferences, values of society etc. In the given situation, there is a change in demand due to a change in the tastes and preferences of consumers of management:

- iii. **Survival:** The management must work towards the survival of the organisation in the sense that it must ensure that the revenues earned by the organisation are far above the costs incurred.
- iv. **Profit:** Management must ensure that the organisation not only survives but also makes a profit. Profit is important for an organisation to continue operations.
- v. **Growth:** An organisation must strive to grow in the long run. The management must ensure that various resources are fully exploited.

(OR)

- i. **Privatisation:** Privatisation refers to the process of gradual transfer of ownership or management from the state/public owned enterprises to individuals or private units i.e. from public sector to the private sector enterprises. It implies assigning a greater role to the private sector undertakings. This dilutes the stake of the government in the public enterprise and results in a transfer of ownership of that enterprise to a private sector. Privatisation was followed in India in the following manner:
  - a. Disinvestment of the public sector enterprises
  - b. Establishing Board of Industrial and Financial Reconstruction for the revival of the sick and loss making enterprises
  - c. Diluting the stake of government in the public sector enterprises
- ii. **Globalisation:** Globalisation refers to the process of securing socio-economic integration and development of various economies of the world. It is a conscious and active process associated with free flow of information, knowledge, services and goods so as to expand business and trade across the borders of the countries. It aims at increasing openness, growing economic independence and promoting economic integration in the world economy. In India, the following policies were followed with regard to globalization:
  - a. Removal on restriction on imports.
  - b. Abolishing the export duty
  - c. Reducing import duty

#### Answer 16

- i. The type of organisational structure being described is divisional organisational structure. Divisional structure is one wherein various diversified business activities of an organisation are grouped in different divisions. Each division is headed by a divisional manager responsible for the performance of that division.
- ii. Two of the advantages of divisional structure of organisation:
  - It promotes growth of the organisation as new divisions can be formed without affecting the performance of the existing ones.

- It promotes fast decision making as each unit is an independent unit that is responsible for its own performance, profit and loss.
- iii. One of the values communicated is women empowerment. The organisation seeks to empower women by providing them employment and autonomy.

**Answer 17**

- i. The kind of leadership which is followed is authoritative. Under such kind of leadership, the manager believes that once he has given the commands or orders, the subordinates must follow them. The leader does not like contradiction. He believes in giving both rewards and punishment. This leadership style promotes quick decision making. It proves to be most suitable in factory settings.
- ii. The kind of leadership which is being followed is *laissez faire*. Under such leadership, the leader believes that the subordinates must be given the freedom to work independently. He believes that they must be encouraged to set their own objectives and work towards them. In this way, he provides the subordinates the complete responsibility of work while he supports them as and when required.

(OR)

No, I do not agree with the statement that managers and leaders are different. Differences between managers and leaders are tabulated below:

Basis	Manager	Leader
<i>Existence</i>	Exists only in a formal organisation.	Exists in both formal and informal organisation.
<i>Objective</i>	The main objective of a manager is to influence the behaviour of employees such that they work towards achieving the common goals of the organisation.	The main objective of a leader is to ensure individual satisfaction and achievement of group goals of his followers.
<i>Power and Authority</i>	A manager has formal power and authority in the organisation through which he modifies the behaviour of employees.	A leader does not have any formal authority and power. He uses the values of trust and faith to influence behaviour.
<i>Functional Spread</i>	The functions of a manager include planning, organising, staffing and directing.	A leader primarily performs the function of directing.

**Answer 18**

Packaging performs the following functions for a product:

- i. With the help of packaging, customers are able to identify the product.
- ii. Proper packaging protects the product from breakage and spoilage.
- iii. For certain products to be used, such as toothpaste, packaging is essential.

- iv. Packing can also be used for promoting the product. Packing can be used for attracting customers towards the purchase of the product.

**Answer 19**

NSE (National Stock Exchange) was incorporated in 1992. It was recognised as a stock exchange in 1993 and started operations in 1994.

Basic objectives of NSE:

- i. Establishing countrywide facility for trading.
- ii. Ensuring that all investors get equal access through a proper communication network.
- iii. Providing an electronic trading system which is fair and efficient.
- iv. Enabling a book entry system and ensuring that settlement cycles are short.
- v. Ensuring that various operations and activities meet international standards.

**SECTION D****Answer 20**

Planning refers to the process of deciding what is to be done and how it is to be done. In general terms, it formulates the basic idea of the nuances of a task.

Importance of planning for an organisation:

- i. **Guides action:** Planning states clearly what is to be done and how it is to be done. In this way, it guides the actions of managers. Planning promotes proper coordination in the activities of various individuals and departments in an organisation.
- ii. **Reduces uncertainty:** Planning helps managers to anticipate in advance the changes that may take place. Accordingly, it helps them to decide the suitable course of action to be taken. It must be remembered that while changes that take place cannot be avoided, planning helps managers to deal with them better.
- iii. **Reduces wastages:** Proper planning promotes coordination of activities of various individuals and departments towards common goals and objectives. It states in advance what is to be done and the course of action to be followed. In this way, it helps in reducing the wastages of human and material resources.
- iv. **Promotes creativity:** Planning is a challenging activity which involves foreseeing the future and defining the appropriate course of action. In this way, it promotes creativity and innovation in ideas. New ideas and thinking forms the base of planning.
- v. **Forms base for controlling:** Planning states in advance the goals and objectives to be achieved. In this way, it sets the standards against which the actual performance is evaluated. Accordingly, a corrective course of action can be developed. If there are no objectives or goals in the first place, then there is nothing against which the actual performance can be compared. Thus, planning forms the base for controlling.

**Answer 21**

Motivation refers to the process of inducing employees to work towards the desired goals and objectives.

Importance of motivation:



- i. **Improving performance:** Good motivation stimulates workers to work to the best of their capabilities and improves performance. With proper motivation, the needs of employees are satisfied and they are encouraged to work efficiently towards the goals of the organisation.
- ii. **Helps develop positive attitude:** Good motivation helps in developing positive attitude among employees towards work and towards achieving organisational objectives. This can be done through positive encouragement in the form of reward or praise.
- iii. **Helps reduce employee turnover:** Lack of motivation and incentives is one of the major reasons for employees quitting the organisation. If the needs of the individual can be properly identified and worked upon through incentives, then the employee would be better satisfied and encouraged to work.
- iv. **Helps reduce absenteeism:** Absenteeism in the organisation arises out of factors such as poor working conditions and lack of incentives and rewards. Good motivation can work towards improving such factors.
- v. **Introduction of change:** With good motivation, resistance to change can be greatly reduced. With motivation, employees can be convinced with respect to the benefits of change.

(OR)

The process of satisfaction of human needs is the **motivation process** which is as follows:

- i. **Unsatisfied Want:** An unsatisfied want is the basis of the motivation process.
- ii. **Frustration:** Because of the unsatisfied want, the individual develops frustration.
- iii. **Drives:** Frustration prompts the individual to search for alternatives to satisfy his need.
- iv. **Behaviour:** From among the numerous alternatives, he selects one and modifies his behaviour according to it.
- v. **Satisfaction:** After following a particular behavioural pattern, he evaluates whether his need is satisfied.
- vi. **Reduced Frustration:** When the desired need is satisfied, the frustration which had built up reduces.

### Answer 22

Controlling is closely related to planning. A good control system requires that there are set standards for evaluation. These standards are provided by the plans defined by the organisation. In other words, plans serve as the base for controlling.

Controlling is essential for effective implementation of plans. It is essential to keep a close watch on plans, identify any deviations and take appropriate corrective actions. Without proper controlling, planning would be futile.

In a similar manner, planning forms the base for controlling. Without planning, there would be nothing to control. Controlling is done only when there are predetermined standards against which evaluation can be done.



While planning involves intellectual thinking, decision making and deciding a course of action, controlling ensures that plans take the required course of action.

### SECTION E

#### Answer 23

- i. **Method study:** According to method study, one must determine the best way of doing a particular task. The method so determined must aim at minimising the cost and maximising the quality. For example, the concept of assembly line. Various activities in a particular task are part of the method study.
- ii. **Standardisation and simplification:** Standardisation refers to the process wherein a standard is set for various activities in production. The standard is then used as a benchmark for evaluating the task done. On the other hand, simplification means that unnecessary varieties in design and size add to the cost and thereby must be avoided.
- iii. **Differential piece wage system:** According to this technique, based on the fixed standards and parameters, workers can be classified in two categories as efficient and inefficient. Accordingly, higher wages must be given to those who are efficient compared to those who are inefficient.

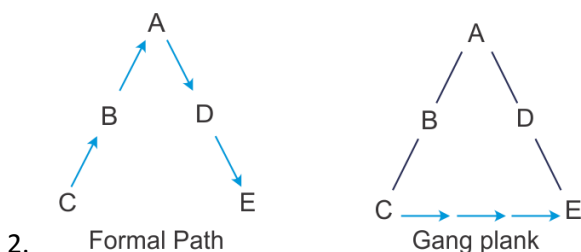
(OR)

Scalar chain refers to the **formal line of authority** (in the order of rank) as followed in the organisation. Formal communication in an organisation follows the scalar chain:

A scalar chain refers to a pre-defined, formal path of authority and communication in the order of highest to the lowest. For example, A is the project manager in an organisation and he further has a project lead (B) and a team member (C) under him. So, the chain of communication would be A-B-C. Suppose there is another hierarchical order wherein he has a team manager (D) and a team member (E), i.e. the chain of communication is A-D-E. Now, if C wants to communicate with E, then he would follow the communication path  $C \rightarrow B \rightarrow A \rightarrow D \rightarrow E$ . That is, C would first contact the higher authorities ( $C \rightarrow B \rightarrow A$ ) who would then send the message to E ( $A \rightarrow D \rightarrow E$ ).

However, in case of an emergency situation, C may directly communicate with E through 'Gang Plank'.

Gang plank refers to a **shorter emergency route** through which workers can communicate with each other.



### Answer 24

- i. Capital structure refers to the ratio of debt and equity. Capital structure is said to be optimal when the ratio of debt and equity is such that the value of equity share increases, or in other words, the shareholder's wealth increases.
- ii. Financial risk refers to the risk that the borrowed funds would not be repaid. Debt involves large financial risk.
- iii. Financial leverage refers to the proportion of debt in the total capital of the firm.
- iv. Trading of equity refers to a rise in profit of shareholders due to the presence of interest.
- v. Interest coverage ratio refers to the number of times the interest obligations are covered by earnings before interest and taxes.
- vi. Floatation costs refer to the cost of raising funds from different sources.

### Answer 25

Factors which must be considered before price fixation:

- i. **Cost of production:** It is the most important factor determining the price of the product. Cost (including the cost of production, selling and distribution) forms the base for determining price. Generally, firms fix such a price that they are able to cover the costs and earn profits in the long run.
- ii. **Intensity of demand:** Generally, the firms fix a price according to the intensity of demand. Higher the intensity of demand, higher would be the price which consumers would be ready to pay and *vice versa*. In other words, if the product has inelastic demand, the firm would be able to charge a higher price.
- iii. **Competition in the market:** If the competition in the market is high, the firm would tend to fix a lower price. The firm must analyse carefully the price charged by competitors, features and quality of their products. The price must be set in careful consideration of all such factors.
- iv. **Rules and regulations:** Sometimes to protect the interests of consumers, the government intervenes in the market and regulates the price which can be charged. The firm must have sufficient knowledge of all the rules and regulations before setting the price.
- v. **Objectives of pricing:** One of the major objectives of pricing is profit maximisation. If firms wish to maximise profits in the short run, it would tend to charge a higher price per unit. On the other hand, if the objective is to maximise profits in the long run, it would tend to charge a lower price so as to capture a greater share of the market.

Besides profit maximisation, other major objectives of pricing can be obtaining leadership in market, surviving in competition and obtaining leadership in quality.

- vi. ***Methods of marketing used:*** Various elements of marketing also affect the price charged by the firm. The other factors are the distribution channel used, advertising used by the firm and facilities provided to customers (credit facility and customer services).