

**CBSE**  
**Class XII Business Studies**  
**Sample Paper – 3**

---

**SECTION A**

**Answer 1**

In the given statement, management is being described as an art. Management has a bank of theories and principles which were developed over years through continuous observation and experimentation by managers in different organisations and situations. However, managers must apply these theories and principles according to the situation in a unique manner. Accordingly, management can be called an art.

**Answer 2**

The element of authority which is described is 'authority'. Authority refers to the right to command subordinates. It increases as one goes up the hierarchy.

**(OR)**

The ***principle of authority and responsibility*** is violated. According to this principle, authority and responsibility must go hand in hand. When a responsibility is given to a subordinate, he must also be given a fair degree of authority to enable smooth functioning.

**Answer 3**

Accountability means answerability to the outcome. It arises from the responsibility which is assigned.

**(OR)**

Decentralisation refers to the delegation of authority or power to the lower level in the hierarchy. The decision-making power is distributed to subordinates at different levels.

**Answer 4**

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.

**(OR)**

The method study refers to the 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.

**Answer 5**

The financial decision which is being described is investment decision (capital budgeting decision). Capital budgeting decisions are long-term investment decisions. For example, investment in a new fixed asset and new machinery. Such investment involves a large amount of money, so, it is very difficult to reverse such decisions. Such decisions have an impact on the earning capacity of a business firm.

**Answer 6**

Usually a trading firm requires less working capital as compared to a manufacturing firm. This is because in a trading firm there is no processing. The goods are immediately sold in the market as soon as they are received. On the other hand, the manufacturing firm first converts raw material into finished goods before selling them in the market. Accordingly, its working capital requirements are high.

In the given case, the working capital requirements of PN Ltd. are higher than that of SP Ltd.

**Answer 7**

One of the advantages of personal selling is that there is flexibility. The sales person can adjust his communication according to the needs and demands of the customer.

**Answer 8**

The consumer right which is being violated is the 'right to safety'. According to this, every consumer has the right to be protected against goods which can be harmful to life, property or health.

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

Single use plans are plans which are drafted for a single project and are not used again in the future.

**Budget:** A budget is a single use plan which drafts the desired results in quantifiable figures. For instance, a budget on production defines the number of machines or the number of workers which would be required and the expected units of products which would be produced. This representation in quantifiable figures makes it easier to compare the actual results with the expected results, and thereby take corrective actions.

**Programme:** Programme involves minute details of a project with respect to objectives, policies, rules and the requirement of human and material resources. In other words, it would include the details of the various activities involved in a project and how the project would contribute to the overall plan and objective of the organisation.

**(OR)**

Strategic decisions are concerned with the whole business environment in which the organisation works, the resources used, the stakeholders and the concerned departments. In order to survive in the ever-evolving environment, organisations have to keep on updating and evolving their strategic methods and procedures. This would have an impact not only on the entire organisation but also on the stakeholders involved. Thus, strategy refers to a broad outline for the business of an organisation. Strategic decisions mainly include the decision whether to continue on the same business lines or to adapt new organizational activities or to bring about any major kind of change so as to make a dominant stand for itself in the competitive market. It has three broad objectives:

1. To determine the objectives
2. To decide the course of action
3. To allocate of necessary resources for the achievement of the objectives

**Answer 10**

- i. The source of recruitment which is used is 'internal source'. Internal sources are the ones where the job vacancies are filled from within the organisation. In the given situation, promotion of an existing employee is used to fill the job vacancy.
- ii. Advantages of internal source of recruitment:
  - By getting promoted to higher positions, the employee feels motivated to further improve performance.
  - It makes the selection and placement process simple and economical.

**Answer 11**

- i. The function of management which is being described is directing. Directing refers to the process of providing instructions, guidance, counselling and motivation towards achieving the goals and objectives of an organisation.
- ii. Elements of directing:
  - **Supervision:** Supervising and guiding the activities of workers.
  - **Motivation:** Inducing workers to work and perform in a desired manner so as to achieve the goals of the organisation.
  - **Leadership:** Influencing the behaviour so as to influence the workers to improve performance and work towards the objectives of the organisation.
  - **Communication:** It refers to the exchange of information, facts, feelings etc. such that a common understanding is created.

(OR)

**Directing** is the function of management in which managers tell the people in the organisation as to what they should do, when they should do and how they should do and see that their instructions are implemented in proper perspective.

Importance of directing:

- i. Directing initiates action by providing instructions, guidance, counselling and motivation to employees towards achieving the goals and objectives of an organisation.
- ii. It makes employees aware of their abilities and potential by motivating, guiding and leading them.

### Answer 12

Development functions of SEBI:

- i. Providing training to intermediaries in the stock market
- ii. Providing useful information to the participants of the market
- iii. Taking up various measures towards the development of capital market

### Answer 13

Responsibilities of a consumer:

- i. Purchase only standard goods which provide the required assurance with respect to quality.
- ii. Carefully read the labels and get the required information such as date of manufacturing, directions to use, ingredients etc.
- iii. Always ask for a cash memo or a receipt so as to have a proof of the purchase made.

## SECTION C

### Answer 14

Management is a process wherein various activities and functions are performed to achieve the various goals and objectives of an organisation effectively and in an efficient manner.  
Importance of management:

- i. **Achievement of goals:** An organisation requires management for the achievement of its various goals and objectives. The management unifies the activities and efforts in an organisation towards the achievement of common goals and objectives.
- ii. **Efficiency in work:** Through management in the form of planning, organising, directing, staffing and controlling, efficiency and productivity can be increased in the organisation.
- iii. **Creating dynamism:** Every organisation must adapt itself to the continuously changing business environment. Management helps the people of the organisation to comfortably adapt to these changes.
- iv. **Achievement of personal objectives:** In addition to achieving the organisation goals, management helps in achieving the personal goals of the individuals in the organisation. This is done with motivation and leadership by the managers.
- v. **Serving society:** In the process of achieving the various organisational goals, the management helps in the development of society as well. For instance, producing high-quality goods and services, creating employment opportunities, adopting efficient and environment-friendly techniques of production, and helping society to grow and develop.

**Answer 15**

- i. The dimension of business environment described is 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, due to rising awareness, the taste and preferences of consumers change in favour of organic food, and accordingly, their demand rises.
- ii. The dimension of business environment described is legal dimension. Legal environment comprises the various laws and orders passed by the government. Organisations in the economy must abide by the rules and regulations as prevalent. In the given situation, the passing of the Competition Act by the government is a legal dimension. The business firms must abide by the rules and regulations as stated by the law.

**(OR)**

Business environment refers to the ***totality of various individual and institutional forces*** which ***affect the performance of an organisation***. Various external forces such as social, political, economic and technological forces affect the business environment. For instance, a change in the taste and preferences of consumers, change in the political scenario, change in economic policies or change in the technology of production would impact the performance of business firms.

The various elements of business environment—***social, political, technological, economic and legal—are interrelated***. A change in one of the dimensions affects the other dimensions as well. For example, with the coming up of the festive season, the demand for decorative items increases. Here, a change in social environment (festive season) brings about a change in the economic environment (increase in demand).

The business environment is said to be uncertain as it is very dynamic. As changes in the business environment take place continuously, it becomes very difficult to predict the future. For instance, changes in technology take place very frequently, so it becomes very difficult to predict what would be the best technique of production in the future.

**Answer 16**

Steps involved in organising:

- i. ***Identifying and dividing work***: The first step in the organising process is to identify the work and divide it appropriately. This must be according to the plans and policies previously developed. Division of work ensures that there is no duplication of work. In this way, it avoids wastages of resources.
- ii. ***Grouping in departments***: When the work is divided, activities which are similar in nature are grouped together in departments. This promotes specialisation in work.

- iii. **Assigning duties:** Within each department, work is assigned and allocated to different employees. It must be ensured that the work assigned is according to the skills and capabilities of the employees.
- iv. **Establishing work relations:** Every employee must be clear from whom he would take orders. This helps in maintaining a clear hierarchy in the organisation.

**Answer 17**

Qualities of a good leader:

- i. It is a general perception that people with good physical features and attractive personality make good leaders.
- ii. He should have sound knowledge and competence.
- iii. He should be honest and must be a role model with respect to moral values.
- iv. He must be the one who takes initiatives.
- v. He must have good communication skills. He must be a good speaker and a good listener.
- vi. He should be able to effectively motivate people.
- vii. He must possess high self-confidence.
- viii. He must be a strong decision maker and must not be influenced easily.

**(OR)**

Functions performed by a supervisor are

- i. A supervisor guides workers and provides support to them. He ensures that workers work with harmony and unity.
- ii. He serves as the link of communication between the manager and workers. While on one hand, he communicates the information and ideas of the management to workers, on the other hand, he communicates the problems of workers to managers. In other words, the management and workers communicate through the supervisor.
- iii. It is the responsibility of the supervisor to ensure that work is performed efficiently and smoothly and that the set targets are met.
- iv. The knowledge or skill as required by workers for various activities is provided by the supervisor.

**Answer 18**

- i. The marketing management philosophy which is being described is marketing concept.
- ii. Marketing concept is based on the following points:
  - Identifying the target customer base and the market for which the efforts of market would be made.
  - Researching and analysing the needs of target consumers.
  - Developing products which are according to the needs of customers and satisfy them.

- Ensuring that the product can satisfy the needs of customers better than the competitors.
- All the activities stated above are done for profit.

**Answer 19**

Functions of financial market:

- Mobilising savings:** Financial market acts as a channel for mobilising the savings to productive use. This is done by providing the savers a wide choice in investment.
- Establishing price:** The financial market facilitates the interaction between those who demand securities (households) and the suppliers of securities (business firms). This helps in establishing a competing price for securities.
- Providing liquidity to assets:** By easing the process of sale and purchase of securities, the financial market provides liquidity to securities. That is through the financial market, securities can be easily converted to cash.
- Reduction in cost of transaction:** Information required for trading in the securities is provided by the financial market. In this way, it helps reduce the cost in terms of both time and money.

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

On the basis of what they aim to achieve, plans can be classified as follows:

- Objective:** Objective refers to a position or a situation which is desired to be achieved. In other words, it refers to the result or the end position of various activities. Objectives are set by the top level of management. Various activities in the organisation must be directed towards achieving these objectives. Objectives must be clearly defined and quantifiable.
- Strategy:** Strategy refers to a comprehensive plan which defines the course of direction for the organisation in the long run. It involves the following three main dimensions:
  - Determining objectives for the long run
  - Determining the course of action to be followed
  - Determining the allocation of resourcesIt must however be noted that, while formulating a policy, the business environment must always be taken into consideration. Changes in the various dimensions of business environment affect the formulation of strategy. Moreover, drafting an appropriate strategy is important as it would define an organisation's identity in the future.
- Policy:** Policy refers to the general guidelines for managerial behaviour and actions. They guide managers in the implementation of strategy. In other words, policy refers to the general response or action which would be taken in a particular situation or in response to a particular problem. However, in actual situations, a manager may apply the policy according to his own discretion or according to the need of the situation. Policies are framed at all levels in the organisation. While major policies are for the



organisation as a whole and are known to even those outside the company, minor policies contain minute details and information which are defined only for those within the company.

- i. **Procedure:** It refers to the chronological order of steps which must be followed in an activity. In other words, they define the general steps which must be followed in an activity with the aim of achieving the set objectives.
- ii. **Method:** Method refers to the way in which an activity is to be performed. It deals with individual steps of the procedure and defines the way in which it is to be performed. Different tasks or activities can be performed with a different method. An appropriate method must be selected so as to save time and money.
- iii. **Rule:** Rules define what exactly is to be done. When a rule is defined, managers are not allowed to deviate from it. Rules are said to be the simplest versions of a plan.
- iv. **Budget:** A budget is a single use plan which drafts the desired results in quantifiable figures. For instance, a budget on production defines the number of machines or the number of workers which would be required, the expected units of products which would be produced etc. This representation in quantifiable figures makes it easier to compare the actual results with the expected results, and thereby take corrective actions.
- v. **Programme:** Programme involves minute details of a project with respect to objectives, policies, rules and the requirement of human and material resources. In other words, it would include the details of the various activities involved in a project and how the project would contribute to the overall plan and objective of the organisation.

### Answer 21

Formal channels of communication are the ones where the flow of information is according to the organisation chart. Various types of formal communication channels:

- i. **Single chain:** A single chain is followed for flow of information from the superior to the subordinate.
- ii. **Wheel:** All the subordinates who work under a superior communicate with each other only through the superior. They are not allowed to communicate directly with each other.
- iii. **Circular:** A circular network is formed wherein each individual can communicate with his adjoining two individuals.
- iv. **Free flow:** Herein, there is free flow of communication among people.
- v. **Inverted V:** A subordinate can communicate with the superior immediately above him and the superior of his superior.

(OR)

Some measures which can be adopted to overcome various barriers of communication:

- i. The understanding level of the receiver must be kept in mind while providing information.



- ii. The language, tone and content of the information should be such that it does not harm the sentiments of the receiver.
- iii. While communicating, the receiver must be regularly prompted to respond so as to ensure that information is being understood.
- iv. The sender must ensure that the information provided is complete in all respects.
- v. Both sender and receiver must be clear with respect to the basic idea of communication.
- vi. The sender must also be a patient listener and invite response and communication from the receiver as well.

### Answer 22

Controlling refers to making sure that various activities and tasks in an organisation are carried out according to predefined goals and objectives.

Importance of planning in an organisation:

- i. **Achieving goals:** Controlling ensures that various activities are carried out correctly according to plans. It ensures that deviations if any are identified and appropriate corrective action is taken.
- ii. **Reviewing standards:** An effective control system ensures that the standards are set accurately. As the business environment changes, it ensures that the standards are also reviewed so as to adapt to the changes taking place.
- iii. **Enables efficiency in resource utilisation:** Effective control system ensures that there is minimum wastage of resources. In other words, it ensures that resources are utilised optimally and in the most efficient manner.
- iv. **Better motivation:** With controlling, employees know what is expected from them and how their performance would be evaluated. This clarity motivates employees to perform better.
- v. **Maintain order:** Controlling helps keep a close watch on the activities and behaviour of employees. In this way, it helps maintain order and discipline in the organisation.
- vi. **Ensures coordination:** With proper controlling, the efforts of the various departments can be unified towards the common goals and objectives of the organisation. The existence of predefined standards of evaluation ensures coordination in the activities of various departments.

## SECTION E

### Answer 23

Differences between Fayol and Taylor:

<b>Basis of Difference</b>	<b>Fayol</b>	<b>Taylor</b>
Represents	Fayol's principles of management represent the top level management.	Taylor's scientific management represents the floor level factory system.
Applicable to	Fayol's principles of management are	Taylor's principles of scientific management are

	universally applicable.	primarily applicable only to the factory system.
Formation	They are formed on the basis of various personal experiences and observations.	They are formed on the basis of observation and consequent experimentation.
Focus	It focuses on improving the overall management and administration in the organisation.	It focuses on improving the productivity in work.
Personality	Fayol was an engineer.	Taylor was a scientist.

(OR)

The following Fayol's principles of management have been discussed above:

- Initiative:** *there is an employee suggestion system, and any employee who gives good suggestions which result in substantial cost/time reduction is rewarded.*  
According to this principle, there must be motivation and an incentive among employees to work. They must be encouraged to come up with new, exciting ideas and suggestions. However, it must be ensured that the new initiatives and ideas are in accordance with the usually followed rules and practices in the organisation. In addition, good initiatives can be suitably rewarded by managers.
- Esprit de corps:** *There is also team spirit of unity and harmony among employees, which results in the spirit of mutual trust and belongingness among team members.*  
According to this principle, the management must work towards promoting team spirit among employees. In other words, there must be unity in work. Employees must have a feeling of belongingness and mutual trust towards each other. Following this principle is specifically important for large organisations where team work is essential for the achievement of objectives. Working together as a team helps in building mutual understanding, which in turn helps in improving efficiency.
- Subordination of individual interest to general interest:** *employees give priority to the interests of the organisation over their interests.*  
According to this principle, employees should give priority to organisational objectives over their personal objectives as interest of the organisation is more important than the interest of any employee.

#### Answer 24

- Production cycle:** It refers to the time gap between receiving the goods and their processing into final goods. Longer the production cycle for a firm, larger are the requirements of working capital and *vice versa*.
- Scale of operations:** Firms which operate on a larger scale require greater working capital than those that operate on a lower scale.

- iii. **Credit allowance:** If a firm follows a liberal credit policy for its customers, then the amount of debtors would be high. Accordingly, its requirement of working capital would be high.
- iv. **Level of competition:** Under high competition, firms must maintain greater stocks to meet the needs of customers. Accordingly, the working capital requirements are high.
- v. **Availability of raw material:** If the required raw material is easily available, then the firm need not maintain high stocks. In other words, the requirement of working capital would be low.
- vi. **Business cycle:** In the phase of boom, both production and sale are high, so, the requirements of working capital are higher.

**Answer 25**

- i. In terms of marketing, a product refers to the mix of various tangible and intangible attributes which have value and can be exchanged. They are capable of satisfying the needs of consumers.  
Besides physical goods, a product also includes services.  
Thus, a product is anything which can be offered for sale in the market and which has the capability to satisfy the needs of consumers.
- ii. The type of product which is being described is speciality product. A speciality product has the following features:
  - Only a small section of people purchase the product/service.
  - These products are generally very expensive.
  - A very high promotion is required for the sale of such products.
  - For many of these goods, after sale services are also required.