

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

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**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. Hence, due to these characteristics, management can be called an art.

**Answer 2**

**Correct option: b**

The first step in the selection process is the screening of applications made by the candidates. Under this process, the basic qualification and other skills are checked to evaluate whether they fulfil the basic criteria required for the job. Hence it helps in rejecting candidate which are unfit or unqualified for job.

**Answer 3**

The element of delegation which is described is 'authority'. It refers to the power of giving commands and directions to subordinates. In other words, it also refers to the right to take decisions. Authority flows from top to bottom, i.e. the top level management has the highest authority, then the middle level and the lowest is the lower level management. Hence, as one goes up the hierarchy, the right to command the subordinates.

**Answer 4**

**Correct option: a**

The statement 'Planning is done for an infinite time' is not correct. It must be remembered by managers that plans must have a particular timeline. In other words, it is necessary that plans are implemented within a given timeframe, else the planning exercise would be futile.

**Answer 5**

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.

**Answer 6**

Rohan could not invest in treasury bills because they are available for a minimum of ₹ 25,000 and in multiples thereof.

**Answer 7****Correct option: d**

Controlling refers to the process of evaluation and assessment of the work done. Under the process of controlling, standards are set for various tasks and activities. These are evaluated against the set standards. Accordingly, deviations from the set targets are identified and corrective actions are decided.

So, all of the statements in the question are correct.

**Answer 8**

The Act which is being called is the 'Consumer Protection Act, 1986'. The three levels of the consumer protection machinery includes a District Forum, State Commission and National Commission.

**Answer 9**

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 10****Correct option: a**

The type of communication network being described is 'wheel network'. In this network, all the subordinates working under a superior communicate with each other only through the superior. Subordinates are not allowed to communicate directly with each other.

**Answer 11**

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. will be higher than that of SP Ltd.

**Answer 12****Correct option: a**

Advertising is an impersonal mode of promoting a product. This is because under advertising there is no direct interaction between the customer and the advertiser.

**Answer 13**

One advantage of personal selling is that it helps to obtain direct feedback as there is direct communication between the customer and the seller.

**Answer 14****Correct option: a**

Among the instruments mentioned in the question, commercial paper is not traded in the capital market. Rather, it is traded in the money market. The capital market deals in equity, bonds, debentures, preference shares etc.

**Answer 15**

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.

**Answer 16****Correct option: d**

The type of plan which is being described in the given situation is a single-use plan. A single-use plan is drafted for a single project and is not used again in the future. In the given situation, the plan is drafted particularly for the annual function.

**Answer 17**

Interest coverage ratio means the number of times 'earnings before interest and tax' can meet the interest obligations. If this ratio is high, then it implies lower risk for the company, thereby the company can opt for more debt.

**Answer 18****Correct option: d**

Under the Consumer Protection Act, the following can file a complaint in a consumer redressal agency:

- i. Any consumer
- ii. Any registered consumer association or organisation
- iii. The Central and State Government
- iv. A consumer or a group of consumers on behalf of a number of consumers having common interest.
- v. A legal heir or a representative of the deceased consumer.

**Answer 19**

Marketing mix refers to the set of various marketing tools used by an organisation to achieve the desired objectives of marketing in a target market.

**Answer 20**

Financial leverage refers to the proportion of debt in the total capital of the firm. It is said to be favourable when the return on investment is higher than the cost of debt. Higher return on investment implies higher earnings per share, which in turn implies a favourable financial leverage.

**SECTION B****Answer 21**

Planning must be done at all levels of management and in all departments of the organisation. However, its scope differs along the various dimensions of business levels. For example, top level managers have to chalk out policies regarding the overall management, whereas middle level managers plan out the authority to be assigned to subordinates or are involved in departmental planning. On the other hand, lower level managers have to perform day-to-day operational planning and make out small targets.

**OR**

**Answer****Following are the limitations of planning**

- **Planning reduces creativity:** Under planning, rigid plans are made and management does not permit anyone to change or deviate from the plan. Hence, this reduces the creativity as people think on the same lines as others and there is no innovation.
- **False security of success:** Good planning does not guarantee success. The probability of attaining success once the plans have been put into action is odd. Often managers tend to rely on previously tried and tested successful plans. However, the business environment is dynamic in nature and a pretested plan may or may not work in the future.
- **Involves gigantic/huge costs:** Planning involves analysis, research and scientific calculations. These activities incur high cost and take much time. Moreover, sometimes it might happen that benefits derived from planning fall short of the costs incurred.

**Answer 22**

- a) 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 up the job vacancy.
- b) Advantages of internal source of recruitment:
  - Promotion of one employee will lead to a chain of promotions which always inspires employees to work with commitment.
  - Filling jobs internally is cheaper than hiring fresh candidates from outside.

**Answer 23**

Development functions of SEBI:

1. **Training:** SEBI provides training and development programmes for intermediaries of the securities market. This helps in promoting healthy growth of the securities market.
2. **Research:** SEBI conducts research on various important areas of the securities market, reports of which are then published. The reports by SEBI help investors and other market players in decision making with regard to investment.
3. **Flexible approach:** SEBI has adopted a flexible approach towards various activities of the securities market. For instance, it has permitted Internet trading and IPOs. This encourages the development of the capital market.

**Answer 24**

Responsibilities of a consumer:

- 1) **Awareness:** A consumer must be aware about the availability of various goods and services in order to take wise decisions.
- 2) **Looking for quality marks:** A consumer must always purchase goods and services which have the concerned quality certification marks. For instance, they must look for an ISI mark on electrical goods and the AGMARK on agricultural goods.
- 3) **Asking for Cash Memo:** For every purchase of a good or service, a consumer must always ask for a cash memo or bill. The bill is the proof of purchase and can be used for reference purposes.

**Answer 25**

Divisional structure is reflected in the question. It is an organisational structure wherein various diversified business activities of an organisation are grouped in different divisions.. Each division is headed by a divisional manager who is responsible for the performance of that division. Further, under each division, multiple functions are performed such as production, sales and marketing. In other words, under each division, there is a functional structure.

**SECTION C****Answer 26**

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

Importance of management:

1. **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.
2. **Efficiency in work:** Through management in the form of planning, organising, directing, staffing and controlling, efficiency and productivity can be increased in the organisation.

3. **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.
4. **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.

### Answer 27

A business environment refers to the aggregate of external and internal factors that affects the performance of the business. For example, consumers, social trends, change in taste and preferences of consumers, change in government policies, change in political scenario, etc., all make up the business environment. Following are the three features of business environment:

1. **Aggregate of external forces:** Business environment can be considered the aggregate sum of the external forces such as individuals, consumers, government and legal matters which affect the performance of an organisation, either positively or negatively.
2. **Interrelation:** Different forces and factors such as legal, technological, political and social conditions of business environment are closely related to each other. For example, an increase in the income of consumers increases the demand for consumer durables such as televisions and refrigerators. Thus, a change in one factor affects the other factor.
3. **Dynamic in nature:** Being a mixture of numerous forces and factors, changes are bound to happen in a business environment. Any business should cope with the dynamic nature of an environment. For example, the tastes and preferences of a consumer, technology, government rules and policies keep changing continuously; therefore, a business must be well-equipped to adapt to a dynamic business environment.

### Answer 28

Qualities of a good leader:

1. **Honesty and Integrity:** A good leader should maintain a high level of honesty and integrity such that he is an idol or role model for others in terms of these values. He must demonstrate an ethical behaviour.
2. **Ability to take decisions:** A leader must have the ability to take appropriate rational decisions which are based on logic and facts. Moreover, once a decision is taken he should be confident enough to hold on to it.
3. **Social behaviour:** He should be socially active and friendly. He must be supportive and understanding towards the subordinates.
4. **Effective communication skills:** One of the important qualities of a good leader is to possess effective communication skills. He must be able to express his thoughts and ideas clearly. Moreover, he must be a good listener and counsellor. He must be able to

act as a link between the higher management and the subordinates such that he can communicate the problems and grievances of the subordinates to the superiors.

**OR**

**Answer**

Functions performed by a supervisor are

1. A supervisor guides workers and provides support to them. He ensures that workers work with harmony and unity. In case of internal differences, the manager tries to sort it out and bring about a feasible solution.
2. 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.
3. It is the responsibility of the supervisor to ensure that work is performed efficiently and smoothly and that the set targets are met.
4. A good supervisor successfully influences employees and sets a high standard of morale among workers.

**SECTION D**

**Answer 29**

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

1. **Objective:** Objectives refers to a future position/goal of the organisation which are to be achieved by the management by way its operations. In simple terms it means objectives determines what is to be done or what is to be achieved. All managerial activities are directed towards the achievement of objectives. Objectives must be defined using specific terms which can be measured. It must be in a format of sentence which expresses the desired results to be achieved within a given time.
2. **Strategy:** Strategy refers to a comprehensive plan for the accomplishment of organisational objectives. It provides broad contours of an organisation's business and is regarded as the blue print of the business. It also defines the future decisions regarding organisation's directions and scope in the long run. These strategies are formulated in consonance with the business environment i.e. after taking into consideration the social, legal and technological environment which shall have an affect over the business. A strategy includes three dimensions:
  1. determining long-term objectives
  2. adopting a particular course of action, and
  3. allocating necessary resources to achieve the objective
3. **Policy:** Policy refers to the general guidelines for organisational behaviour and actions. 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. They guide managers in the implementation of strategy. 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.

4. **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 or enforcing policies. These procedures are generally meant for insiders to follow. Procedures and policies are linked to each other. One can also say that procedures are nothing but steps carried on within the framework of an organisational policy.
5. **Rule:** Rules define what exactly is to be done. When a rule is defined, none of the employees are allowed to deviate from it. Rules are said to be the simplest versions of a plan. There can be no change in a rule unless a policy decision is taken.

**OR**

### **Answer**

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:

1. **Guides action:** Planning clearly states what is to be done and how it is to be done which means it sets clear objectives for the organisation and also develops an appropriate action plan to achieve those objectives. In this way, it guides the actions of every employee in an organisation and thereby promoting proper coordination in the activities of various individuals and departments in an organisation.
2. **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. Certain changes or events are unavoidable and so planning helps managers to cope up with such changes.
3. **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. This helps avoiding confusion and reduces the wastages of human and material resources.
4. **Promotes innovative ideas:** Planning is the first activity of management wherein new and innovative ideas can be encouraged and moulded into definite plans. It 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 which forms the base of planning.
5. **Forms base for controlling:** Planning states in advance the goals and objectives to be achieved. In this way, it sets the standards for the purpose of controlling against which the actual performance is evaluated. Accordingly, a corrective course of action can be developed to cope up with any deviations. 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 30**

Following are the points that explain the importance of directing:

1. **Initiates Action:** Directing helps the employees to initiate actions and work towards accomplishing the objectives of the organisation.
2. **Integrates employee's efforts:** Directing helps to unite the efforts of all the employees (individuals) towards achieving the organisational goals/ objectives. This helps to ensure that every individual effort only contributes towards the goals of the organisation.
3. **Means of motivation:** Directing involves motivating and provision of an effective leadership. This enables the employees to recognise their potential and abilities. It is believed that a good leader has the ability to recognise the potential of the employees working with him/her and ensures that they work up to their full potential by motivating them.
4. **Balance in the organisation:** Directing as a function of management tries to strike a balance in the organisation which will help to build cooperation and commitment in the works. A co-operative environment and commitment in the employees helps to achieve balance amongst various groups, activities and departments.
5. **Facilitates Changes:** Directing enables acceptance of changes in the organisation. Generally every organisation is reluctant to accept any changes and this leads to difficulties. However, with the help of directing, which involves motivation, communication and leadership, resistance to the changes can be reduced, thereby, paving a path for introducing changes in the organisation.

**OR**

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

1. **Clear idea for communication:** Before communicating any ideas to the subordinates, executive must be clear about all the perspectives of the problem which is possible only after deep analysis and study of the entire problem. This will help the executive to clearly communicate the problem and avoid any confusion.
2. **Communication according to the receiver:** The communicator must be well aware about the level of understanding of the receiver and must make sure that the information communicated must be according to the educational level of the subordinates and their understanding.
3. **Appropriate language tone and content:** The language, tone and content of the information should be such that the important aspects of the information are communicated effectively to the receiver. And also it does not harm the sentiments of the listener and stimulate response from them.
4. **Communicate all aspects:** The communication must be regarding all aspects i.e. about the existing commitments required to maintain consistency and also must take care about the goal which an enterprise is required to meet in the future.
5. **Follow up communication:** Once the instructions are communicated clearly, there must be follow up instruction so that it helps the subordinates to overcome any hurdle in implementing the instructions.

**Answer 31**

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:

1. **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.
2. **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.
3. **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.
4. **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.
5. **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.
6. **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 32**

Principles of management refer to the guidelines for managerial behaviour in various situations and problems. The principles of management guide managers in decision making.

**The following points describe the nature of principles of management:**

1. **Universally applicable:** The principles of management are universally applicable in the sense that they are applicable to all organisations irrespective of their nature and size. However, the extent of application may vary from one organisation to another.
2. **General guidelines:** The principles of management are general guidelines for managerial behaviour and actions in various problems and situations. However, as real business situations are very complex, these principles do not provide straightforward solutions. In other words, the principles are just guidelines for actions and decision making which can be modified according to the situation.
3. **Formation:** The principles of management were formed by continuous observation and experimentation by managers in different situations.
4. **Flexibility:** The principles of management are flexible and can be moulded by managers according to the specific situation and circumstance.

5. **Behavioural:** The principles of management are behavioural in the sense that they influence human behaviour and help in understanding the relationship between human resources and material resources in an organisation.
6. **Explains the cause and effect relationship:** The principles of management explain the effect of their application in different situations. In other words, they help in explaining what would be the effect of application of a principle in a particular situation. However, as the principles of management deal with human behaviour, the effect of their behaviour cannot be predicted accurately.
7. **Dependent on situation:** The application of principles of management depends on the particular situation. In other words, the principles must be moulded according to the needs of the specific situation.

**OR**

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

1. **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.
2. **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.
3. **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 33**

1. **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. This is because a longer production cycle would imply greater inventories and other related expenses, so greater requirement of working capital.
2. **Scale of operations:** Firms which operate on a larger scale require greater working capital than those which operate on a lower scale. This is because firms with greater

- scale of operations are required to maintain high stock of inventory and debtors. As against this, a business with smaller scale of operation requires less working capital.
3. **Credit allowance:** Credit policy refers to the average period for collection of sale proceeds. This depends on the competition in the market and the credit worthiness of clients. So, a company which allows liberal credit policy will require more working capital and vice versa.
  4. **Level of competition:** If the market is more competitive, the company will require larger stocks of finished goods in order to supply goods on time. So, they maintain higher inventories which require a large amount of working capital.
  5. **Availability of raw material:** If raw materials are easily and continuously available, then lower levels of stocks would suffice. This will help the firm/company to avoid storing a large amount of raw materials, thereby reducing the need of working capital. However, if the lead time between placing the order and supply of raw materials increases, then the company will require to store a large amount of stock of raw materials which will lead to more requirement of working capital.
  6. **Operating efficiency:** Companies with a high degree of operating efficiency will require less working capital, whereas companies having a low level of operating efficiency will require more working capital because efficiency may help the company/firm in reducing the level of raw materials required, average time for which finished goods inventory is held etc.

### Answer 34

Following are the three marketing management philosophies:

1. **Production Concept:** According to this philosophy the main focus of business activities was on production of goods because due to Industrial Revolution, the demand for industrial goods was greater than the supply and the number of producers was less in comparison to the demand for the goods. Therefore, businesses believed in undertaking production of activity on a large scale which would lower the cost of production and maximise the profit. It was assumed that goods which are widely available in the market at affordable prices will be preferred by the consumers. Thus the only focus was upon improving the production and distribution processes of an organisation to make it more efficient.
2. **Marketing concept:** This philosophy laid emphasis on customer satisfaction. According to this philosophy, customer satisfaction determines the success of an organisation and so every business firm needs to identify the needs of present and prospective buyers and take steps to satisfy them in an effective manner in order to maximise their profit. Thus all the decisions in the firm must be taken after taking into consideration the perspective of customers.
3. **Societal Concept:** This philosophy gives adequate consideration to social problems like environment pollution, deforestation, shortage of resources, overpopulation etc. According to this philosophy all business activities which satisfy human wants and needs but are detrimental to the interests of society cannot be said to be justified in any way. Hence, Business should not ignore the interest of society at large but consider

the issues of long-term social welfare while serving customers. In short, the primary focus of a business must be to satisfy customer needs along with taking care of society's well-being.

OR

**Answer:**

Following are the factors affecting determination of price:

1. **Cost of product:** Cost of the product is the most important factor determining the price. The cost of product includes producing, selling and distributing costs. It can be classified into the following three types:

- **Fixed cost:** These are costs which remain fixed irrespective of the level of output. For example, cost of machinery, land etc.
- **Variable cost:** These are costs which vary according to the level of output i.e. directly proportional to the level of activity. As the level of output increases, the variable costs also increase and vice versa. For example, cost of labour and raw material.
- **Semi-variable cost:** Similar to variable costs, these are costs which vary with the level of output but not in direct proportion with it. For example, commission paid to intermediaries.
- **Total costs:** These costs are the sum total of fixed, variable and semi-variable costs for a specific level of activity like quantity produced, volume of sales etc.

Generally, a firm decides such a price for its product so that it can cover the various costs and earn a profit.

2. **Utility and demand for the product:** Utility of a product has a direct connection with the price of the product. It helps the seller to charge a higher price keeping in mind the utility of the product. A person may be ready to pay a price for the product up to the period wherein the utility of product is equal to the sacrifice made by him/her in case of the price paid for the product. Similarly, the seller tries to recover his costs from the price of the product. This is how the interests of both parties, i.e. buyer and seller, are reflected in the price of the product. Another important factor determining the price of a product is the elasticity of demand for the product. Price elasticity of demand implies how responsive the demand is to the changes in price.

- **Elastic demand:** The demand is said to be price elastic if a given proportionate change in price leads to a more than proportionate change in demand. In such a case, charging a higher price by the firm would lead to a large fall in demand.
- **Inelastic demand:** The demand is said to be price inelastic if a given proportionate change in price does not bring about any significant change in demand. In such a case, it is possible for a firm to charge a higher price. This is because even at a higher price, the demand will not fall much.

So, goods generally having an elastic demand have a comparatively lower price than those which have an inelastic demand.

3. **Degree of competition in the market:** The price of a product is influenced by the nature and degree of competition prevalent in the market. In case there is high degree of competition in the market, it is not possible for a firm to charge a higher price. This

is because if the firm charges a higher price, consumers would shift the demand to its competitors. But if there is less competition in the market, sellers may charge a high price for products. Apart from this, while fixing the price of a product, the firm must also take into consideration the quality and features of competitive products.