

CBSE
Class XI Business Studies
Sample Paper – 3

Answer 1

The given statement is an example of ***insurable interest***. This principle states that the insured should have some kind of interest in the thing or person for which the insurance is taken. This is a necessary condition as without this it would become a fraudulent activity and not acceptable under law.

Answer 2

Public sector companies are owned by the government. Other options given in the question represent private sector enterprises.

Answer 3

Insurance is a device which provides protection against an eventuality and does not lend funds. The protection is in terms of money. Thus, the functions of insurance include providing certainty of payment in case of loss, protection from possible chances of loss, sharing of loss among all people exposed to the risk and assisting in capital formation by the premium payments received by the insurer.

Answer 4

Secondary industries are manufacturing industries which deal in materials which are extracted at the primary stage to manufacture goods for the final consumption or for further processing by other industrial products.

Answer 5

Size of business is measured by the number of people employed in the business, volume and value of business output, power consumption while running various business activities and capital investment in plant and machinery.

Answer 6

Entrepôt trade refers to ***goods which are imported in order to be exported*** to other places of different nations.

Answer 7

Point of sale refers to a terminal which is electronically tied to the bank computer. This terminal transfers money from the customer's account to the seller's account during a debit card transaction. It is used by many retail outlets because of the ease of money transfer.

Answer 8

Two social objectives of business are

- Proper supply of required products at reasonable prices
- Restriction of usage of unfair trade and anti-social practices

Answer 9

VIRUS: Vital Information Resources Under Siege is a computer program which duplicates itself when an infected program is executed. These viruses can enter one's computer either through e-mails, pen drives or unsafe websites. They disrupt the working of the computer to a great extent which in turn affects the business. Various types of viruses are

Level 1 Virus – Problems with on-screen display

Level 2 Virus – Problems with functioning of the computer

Level 3 Virus – Specific targeted data files are damaged

Level 4 Virus – Complete destruction of the system

Answer 10

Certain improvements in e-business:

- i. Fair amount of changes are being made in areas which deal with customers. Websites are made interactive for consumers to feel connected to traders and sellers.
- ii. Drastic improvement in communication technology has resulted in increased speed and quality of communication taking place over the web. These help customers to get in touch with various traders all across the globe in hardly any time.
- iii. Special efforts have been taken by the government, NGOs and international agencies to set up e-businesses and to overcome digital issues in rural areas.

Answer 11

Environmental protection can best be done by the efforts of **all the people**.

The environment does not belong to a specific person(s)/entity(s), it belongs to all. Thus, it becomes the collective responsibility of business people, government and scientists to protect the environment.

Example: It is the responsibility of people not to buy things which harm the environment and stick to buying only eco-friendly products. Also, the government needs to enact various laws for environment protection and banning of precarious substances. Business people need to come up with ideas/solutions to protect the environment.

Answer 12

To earn a living, human beings involve themselves in various economic activities. Business, being an economic activity, is all about production, purchase, sale and supply of goods and services. The principle motive behind engaging in a business is to earn adequate amount of profit. A businessman produces goods and services which are in demand so that he/she can earn maximum amount of profit.

Answer 13

Social responsibility of business refers to an obligation of a businessman to act for the benefit of society. This is because the business does not run on its own; it requires resources of society to carry on its activities. It is essential that a healthy relationship is maintained between society and the business.

Social Responsibility	Legal Responsibility
It is a voluntary act by any individual done for the well-being of society.	It is an act of an individual which he/she fulfils so as to comply with the law.
It is a much broader concept than legal responsibility because it involves a voluntary act which is not forced by law and is taken up by people on their own for society's betterment.	It is a narrow concept than social responsibility.

Answer 14

According to me, Suhana is right. Registration for a partnership firm is not necessary. However, firms still voluntarily apply for registration. This is because it is a definite proof of the firm's existence, and if a firm does not get itself registered, then it can lose out on many benefits. In addition, some serious consequences it can face because of non-registration are

- Inability to file a suit by the partner of an unregistered firm against another firm.
- Inability to file a suit against a third party for the recovery of claims. However, suits can be filed against a non-registered firm by a registered firm for their claims.
- Inability to file a suit against any of its co-partners.

Answer 15

Basis	Licensing	Franchising
Meaning	A contractual agreement in which a firm grants access to its trademarks, patents or technology to another firm in a foreign country for a fee.	A parent company grants another independent entity the right to do business in a manner specified in the contract.

Business	The firm which grants access to a patent to the other firm is known as licensor and the other firm in the foreign country which acquires the patent is known as licensee.	The parent company which grants another independent entity the right to do its business is known as franchisor, and the other company which runs the business in a specified manner is known as franchisee.
Type of exchange	Business operations are relevant to production and marketing of goods.	Business operations are relevant to services.
Example	<i>Coca-Cola</i>	<i>McDonald</i>

Answer 16

a. **Long-term finance** has been referred to in the given statement.

b. Various sources through which long-term finance can be raised are

1. **Equity shares:** Equity share is the most important source of raising long-term capital. Capital raised from equity shares is called ownership capital or owner's funds. Thus, equity shareholders are the owners of the company.
2. **Retained earnings:** For the future expansion of the company, part of the profits is retained in the organisation instead of distributing profits completely in the form of dividends among shareholders.
3. **Preference shares:** These shares get preference over equity shares regarding the repayment of capital and payment of earnings after a certain specified period of time.
4. **Debentures:** They are one of the common securities issued for securing long-term financial capital of companies. A fixed rate of interest is paid to debenture holders at specified intervals.

Answer 17

Formalities involved in getting an export licence:

1. The exporter should have a **working bank account** authorised by the Reserve Bank of India.
2. An exporter needs to **obtain the Import Export Code (IEC) number**, a 10-digit number, which is obtained after submitting documents such as the exporter's profile, prescribed certificates, two attested photographs and details of non-resident interest with the Directorate General for Foreign Trade (DGFT) or the Regional Import Export Licensing Authority.
3. The exporter needs to **register with export promotion council**. Export promotion council issues the Registration-cum-Membership Certificate (RCMC) which

enables an exporter to take advantage of the benefits such as the export licence made available to export firms by the government.

4. To protect itself from any uncertainties in payments brought upon by political or commercial risks, an exporter must get **registered with the Export Credit and Guarantee Corporation (ECGC)**.

Answer 18

Reasons due to which a businessman earns profit:

1. **Survival:** Generally, a business is established with the intention of earning profits. Thus, if the business does not earn enough profit, then it becomes difficult for the organisation to survive in the market.
2. **Goodwill:** Profits and goodwill go hand-in-hand. A profit-earning firm has a better reputation/goodwill in the market as compared to those businesses which are in loss. The share value of a business increases with an increase in profit. High-profit earning firms are more prone to get and raise loans and obtain credit than the ones which lag behind in profit earning.
3. **Reward for risk bearing:** Profits are the rewards for bearing the risks and bringing in new products or processes to the market. The desire to earn profit motivates the business to successfully undertake all the risks and invest money.
4. **Growth and expansion:** Only incentives from profits keep a business going and involved in all its related activities. If a large chunk of the profit is re-invested for expansion and diversification of production, then that business can have a sound footing in the market.

Answer 19

Financial institutions are organisations established to provide financial assistance to industries and enterprises.

Some financial institutions:

- a. **Industrial Finance Corporation of India (IFCI)** was set up as a statutory corporation under the Industrial Finance Corporation Act, 1948, in July 1948. The main objectives of IFCI comprise helping in balanced regional development and encouraging new entrepreneurs to enter the priority sectors of the economy.
- b. **State Financial Corporation (SFC)** was established under the State Corporations Act, 1951, to provide short and medium-term finance to industries which were not under the scope of IFCI.
- c. **Industrial Credit and Investment Corporation of India (ICICI)** was established in 1955 to facilitate the creation, modernisation and expansion of enterprises in the private sector.

Answer 20

- a. Continuing as sole proprietor:
 - i. He can solely enjoy the benefits of business.

- ii. He is the sole decision maker and need not publish his business accounts.
- b. Benefits of converting into a joint stock company:
 - i. He can collect a large amount of funds by issuing shares to the public.
 - ii. Liability of members of company is limited to the amount of capital invested by them.
- c. If he wants to spread his wings, then he will need more capital and will require efficient management. Hence, he should opt for a joint stock company.

Answer 21

Various telecom services through which business can be done across continents:

1. **Cellular mobile services** include all forms of telecom mobile services, i.e. call (voice), messages (non-voice), Internet services and landline facilities. They also use any form of network equipment within the serviceable area.
2. **Radio paging services** transmit information from one person to another at a reasonable rate even when the person is mobile. These services include tone, numeric and alpha/numeric paging.
3. **Fixed line services** are used for long-distance calls. They include call (voice), messages (non-voice) and data services. Unlike cellular mobile services, these services use any form of network equipment laid down across the country.
4. **Cable service** is a one-way entertainment service which transmits media-related information in a specific area.
5. **VSAT services** use satellite to transmit information or data. Such services are useful to the government and businesses and are considered reliable and flexible in urban and rural areas. VSAT service is also an uninterrupted form of communication compared to other forms.

Answer 22

Role of the public sector industries before 1991:

- i. **Infrastructure development:** After Independence, India lacked various basic infrastructure facilities such as banking, communication, transport and energy supply. For development, establishment of all these facilities was a necessity. However, the private sector did not show much interest to invest in heavy industries which was the need of that time. Thus, it was assigned to the public sector to mobilise a large amount of investment and take responsibility for infrastructure development.
- ii. **Regional balance:** Before Independence, there were few areas (port towns) where industrialisation led to development. However, many areas were underdeveloped. Thus, the government took steps to develop all the regions and states in a well-balanced way which would remove regional disparities to a great extent. The government came up with Five Year Plans which helped them to focus on places which required development.
- iii. **Economies of scale:** The term economies of scale means benefits derived from some projects are greater when operated on a large scale. After Independence, the

private sector was not capable of handling large-scale industries which required huge capital. Also, these industries could not be handled in a small-scale way as it would have incurred losses. Thus, the public sector had to handle and operate industries such as electric power, petroleum and natural gas.

- iv. **Check on the concentration of economic power:** The public sector set up large industries with heavy investment. They passed down the benefits generated from these industries to most employees and workers. This prevented economic power going directly into the hands of a few.
- v. **Import substitution:** After Independence, the government came up with Five Year Plans with the objective of being self-sufficient in all spheres. It wanted to restrict imports while increasing exports. Therefore, public sector units were established which manufactured heavy machinery and industrial tools domestically. Industries such as Metals and Minerals Trading Corporation of India (MMTC) and State Trading Corporation (STC) were established to increase exports.

Answer 23

Incentives provided by the government for industries in backward and hilly areas:

- 1. **Land** is provided by the government at concessional rates to people in backward regions. Although the terms and conditions may vary, some industries are charged with rent in the initial years and some are allowed to pay in instalments. This makes it easier to set up a business at a low cost.
- 2. **Water** is supplied for 5 years on a no-profit and no-loss basis with 50% concession or exemption from water charges.
- 3. **Power** is an indispensable requirement for the functioning of industries. Thus, it is supplied at 50% concessional rate, whereas some states may exempt units from paying in the initial years.
- 4. **Paying sales tax** is exempted in many states. Some states extend this exemption to industries for five years.
- 5. **Octroi** is scrapped by many states.
- 6. **Raw materials** or scarce resources are provided to backward areas.

Answer 24

Limitations of partnership:

- i. **Unlimited liability:** All partners have unlimited liability. This implies that if business assets are insufficient to pay business debts, then the personal assets of partners can be used to do so.
- ii. **Limited resource:** The number of partners who can be added to this form is restricted; hence, the capital investment brought in is low. This possesses a restriction to the firm in terms of expansion beyond a certain point.

- iii. **Conflicts:** All partners share the authority of decision-making equally in a firm. Thus, owing to their different backgrounds, there are chances that they may have different opinions on various subjects. This may lead to a difference of opinions and conflicts among them which may result in the downfall of the business.

Merits of partnership:

- i. **Easy formation and closure:** Formation of this form is easy as there is a requirement of only an agreement between the two prospective partners. Also, it is not mandatory to register the firm. This helps in closing of the business easily.
- ii. **Effective decision making:** It has members with different areas of expertise which are used in the decision-making process. As all the decisions are taken by partners together, it results in effective decision making as compared to other forms of business.
- iii. **Risk sharing:** Risks are shared among partners equally, thereby motivating more risk taking to earn more profit. This also helps reduce concerns and distress.

Answer 25

A consumer cooperative store is owned, managed and operated by consumers for their own benefits. It provides goods at reasonable prices to members of the consumer society. The main objective of this society is to provide quality goods and services at the lowest price possible.

Advantages which consumer cooperative stores have over large-scale retailers:

1. It is ***simple to form a consumer society***. It can be easily formed when any 10 people come together to form a voluntary association and complete formalities and register themselves with the Registrar of Cooperative Societies.
2. The amount of shares held by the members of the consumer society depends on the liability granted to them. Thus, if a society's liability increases beyond the assets, the ***members will not be liable to repay debts using their personal assets***.
3. Consumer societies are able to ***sell goods at lower prices*** as goods offered by consumer cooperatives are directly purchased from manufacturers and wholesalers, thereby eliminating the role of middlemen.
4. They ***operate at convenient public places*** wherein the members and others can easily buy products at any given time.
5. They usually sell goods on a cash basis; this ***reduces the requirement for working capital***.

Answer 26

Major trends in India's foreign trade:

- a. Contribution of India to world trade in 2003 was only 0.8%. However, the share of other countries to world trade during the same year is as shown below:

Country	Share in world trade in 2003
China	5.9%
Hong Kong	3.0%
South Korea	2.6%
Malaysia	1.3%
Singapore	1.9%
Thailand	1.1%

- India's exports and imports have shown phenomenal growth—about 480 times and 590 times, respectively, from 1950–51 to 2003–04.
- India's major items of exports include engineering products, chemicals and related products, agricultural and allied products.
- India is the largest exporter in the world in commodities such as basmati rice, tea and ayurvedic products.
- Its major items of imports include crude oil, petroleum products, capital goods, electronic goods, pearl, precious and semi-precious stones, gold, silver and chemicals.
- India trades mainly with USA, UK, Belgium, Germany, Japan, Switzerland, Hong Kong, UAE, China, Singapore and Malaysia.
- India's trade in services has also increased in foreign travel, transport and insurance.
- India's foreign investments both inward and outward have shown significant growth. Inward foreign investments and outward foreign investments have increased more than 750 times and about 4927 times, respectively, from 1990–91 to 2003–04.

Answer 27

Trade credit refers to the credit granted to manufacturers and traders of goods and services by suppliers. No immediate cash payments are made by the purchaser if trade credit is extended. It is granted only to customers or traders who are considered creditworthy by the supplier and have a good financial standing. The credit term varies from one industry to another and from person to person.

Merits of trade credit:

- It is considered **quite popular and the cheapest form** of working capital finance.
- Trade credit leads to **increase in sales** of the organisation.

Demerits of trade credit:

- a. Trade credit generates only **limited amount of funds** depending on the creditworthiness of the firm.
- b. It is an **expensive source of finance** as compared to other sources of raising money.

Bank credit is short-term finance lent by commercial banks to business organisations. The banks charge an interest rate which is prevailing in the economy, i.e. the interest can be either fixed or varied.

Merits of bank credit:

- a. It can be **easily procured** with significantly lower interest rates than credit cards. These interest rates are tax-deductible.
- b. It **maintains secrecy** of the business as information provided by the borrower is not shared with outsiders.

Demerits of bank credit:

- a. Loan is usually provided for **short periods** and it is difficult to extend and renew the loan.
- b. Mostly banks impose **difficult terms and conditions** on mortgaged goods or property.