

CBSE
Class XI Business Studies
Sample Paper – 3

SECTION A

Answer 1

Correct option: b

The given statement is an example of insurable interest. This principle states that the insured should have some kind of insurable interest in the subject matter of insurance. Under a contract of insurance, the specific interest of the insured in the subject-matter of insurance is insured. For example, in case where a property or is insured, the interest of the insured must exist at the happening of the event whereas in case of a life insurance it is necessary to have an insurable interest at the time when the insurance is affected and not necessary at the time of maturity. Hence, having an insurable interest is a necessary condition, as without this, it would become a fraudulent activity, not acceptable under law.

Answer 2

Three trends shaping business in today's world:

1. Digitisation
2. Outsourcing
3. Internationalisation and globalisation

Answer 3

Correct option: b

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

Answer 4

Services are intangible economic activities which are consumed at the point of sale. These activities provide satisfaction of wants but may not necessarily involve the sale of a product. Also, such activities cannot be kept in stock. Two examples of business services are insurance and warehousing.

Answer 5

Correct option: d

Dharmendar Industries is a small enterprise.

1. According to the MSMED Act, business enterprises are divided into two categories— manufacturing enterprises and service enterprises.
2. In case of manufacturing enterprises, on the basis of investment in plant and machinery, they are further classified into micro, small and medium enterprises.

3. While calculating the investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items are excluded.
- Small enterprises: The manufacturing enterprises wherein investment in plant and machinery is more than Rs 25 lakh but does not exceed Rs 5 crore fall under the category of small enterprises.

Hence, Dharmendar Industries falls within the category of small enterprises as cost of pollution control devices need not be considered while calculating the cost of investment.

Answer 6

The depository receipts issued (denominated in USD) in return for local currency shares deposited in the account of the depository bank are known as Global Depository Receipts (GDRs).

Answer 7

Insufficiency of funds is one of the major issues faced by small scale industries. In most of the cases, they depend on local financial resources for funds as their credit worthiness is comparatively low. These local financial sources exploit the small scale industries. Banks too are not willing to provide loans to borrowers who do not have adequate collateral security. Such insufficiency of funds affect their business activities.

Answer 8**Correct option: c**

Sole proprietorship is a form of business wherein a single individual owns, manages and controls the business. It is suitable for business organisations in areas of personalised services like grocery shops, health clinics, tailoring shops etc.

Answer 9

A public-private partnership is an arrangement between two or more public sector enterprises and a private enterprise for the purpose of a project or for delivering services which are beneficial for the public.

Answer 10**Correct option: a**

Entrepot refers to import of goods not for consumption but for the purpose of exporting to another country.

Answer 11

Digital cash is a type of electronic currency which has no physical existence but exists only in cyberspace.

Answer 12**Correct Option: c**

Legal responsibility (a type of social responsibility) refers to the responsibility of a business to follow the rules and regulations framed for the welfare of society.

Zac Ltd. is fulfilling its legal responsibility by following the procedures laid down by the Maharashtra state government for installing pollution control devices

Answer 13

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 14

Owner's fund security holders do not have the right to get regular return whereas borrowed fund security holders have the right to get regular return.

Answer 15**Correct Option: d**

A startup is an entity

- Registered or incorporated in India
- Not older than 5 years
- With an annual turnover not exceeding INR 25 crore in any preceding year***
- Working towards innovation, development or commercialisation of products/services/processes driven by technology or IPRs and patents

(Note: This definition keeps changing according to the regulations and notifications issued by the Ministry of Commerce and Industry.)

Answer 16

Pollution is a serious problem because it deteriorates the quality of the environment and also affects living beings.

Answer 17

A business is required to perform various activities for its survival and growth. Business finance can be defined as the funds required to perform these activities.

Answer 18**Correct Option: d**

Sharmilee is a periodic market trader.

Periodic market traders sell their products periodically at different marketplaces. They fix the day and marketplace to sell their goods (e.g. every Thursday in Bhuleshvar market and every Friday in Dadar market or in some part of Mumbai city).

Answer 19

Bootstrapping is one of the ways used for funding startups.

Answer 20

Two ways in which goods can be exported or imported:

- Direct method
- Indirect method

SECTION B

Answer 21

The type of business in the given example is called outsourcing or business process outsourcing (BPO). Outsourcing refers to assigning non-core activities to an expert agency for better outcomes/results at reduced cost. For example company outsources its packaging functions to another company so that it can focus on production of goods and other important activities.

Answer 22

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 23

Yes, I agree with the statement. In modern times, the scope of business extends beyond selling goods and services. Goals of a business in modern times:

- Creating a customer for itself
- Converting economic resources into goods and services keeping in mind the preferences of consumers

- Innovating new products
- Marketing these innovative products and services so that these can reach customers

Answer 24

According to me, Suhana is right. Registration for a partnership is necessary although it is not compulsory. However, most of the firms 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 25

The type of retail trade reflected in the question is wholesale trade as Mritanio (wholesaler) buys wheat from Shamrao (producer/manufacturer) to supply it to various other departmental stores (retailers).

- Wholesale trade refers to buying goods and services in large quantities from a manufacturer and selling them to retailers.
- A trader who carries out this kind of trade is called a wholesaler.
- Wholesalers act as a link between producers/manufacturers and retailers. They enable producers to reach a large number of consumers in different areas.

OR

Answer

- A taxable event is an event on which tax liability arises. Under GST, a taxable event arises when goods or services are supplied.
- According to the facts of the above case, Ramlal supplying goods to dealers in Gujarat is a taxable event.

SECTION C

Answer 26

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>

OR

Answer

- a) The most important document required to enable a person like Radhesham to export goods is an export licence.
- b) Prerequisites for obtaining a licence:
 1. Opening a bank account in an authorised bank (authorised by Reserve Bank of India) and getting an account number
 2. Obtaining an IEC number (import export code)
 3. Obtaining RCMC (Registration cum Membership Certificate) from an appropriate export promotion council
 4. Registration with ECGC (Export Credit Guarantee Corporation)

Answer 27

The type of source of finance is public deposit. Points which provide information about public deposits:

1. Public deposits refer to unsecured deposits directly raised from the public.
2. Acceptance of these deposits is regulated by the Reserve Bank of India.
3. If a person is interested in depositing money, he/she can do so by filling up the prescribed form.
4. These deposits are favourable for the depositor as well as for the organisation accepting deposits. It helps the depositor to fetch a higher rate of interest in comparison to bank deposits, and it helps the organisation to raise finance at a cost which is lower than the cost of borrowing from a bank. This source of finance can be utilised to fulfil the medium-term and short-term financial requirements of an organisation.

Answer 28

1. **Cash on Delivery (CoD):** It refers to a financial transaction which takes place at the time of actual delivery of the goods or services to the customer. In case a customer fails to make payment at the time of delivery of goods, the goods are returned to the seller.
2. **Free on Board (FoB):** It is a contract between the seller and the buyer of goods in which the seller is expected to deliver the goods to the carrier and bear all charges up to the point of delivery to the carrier.
3. **Cost, Insurance and Freight (CI&F):** It is a contract between the seller and the buyer of goods in which the seller bears the entire cost of goods, freight and insurance charges up to the destination port.
4. **Errors and Omission Excepted (E&OE):** It is a term which is used in trade documents to reduce legal liability for incorrect or incomplete details.

SECTION D

Answer 29

- 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 raise 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 so it will help to limit his liability.
- c. One disadvantage of a joint stock company is its complicated process of formation. The formation of the joint stock company comprises many lengthy, complex and time consuming legal formalities and documentation.

OR

Answer:

Features of a joint Hindu family business:

1. **Formation:** A joint Hindu family business is governed by the Hindu Succession Act, 1956. To start the business, at least two members should be present and they should have inherited some ancestral property. It does not require any agreement as membership is obtained on the basis of birth.
2. **Liability:** The karta in a joint Hindu family business has unlimited liability as he is the eldest member of the family and has the responsibility of making all the decisions for the business. The liability of other coparceners is limited to the extent of their share in the business.
3. **Control:** The control of the business and power of decision making lies with the karta. His decisions are binding on the other members.

4. **Continuity:** There is continuity in the joint Hindu family business, as after the death of the karta, the next eldest member of the family becomes a karta and runs the business. However, the business can be terminated after obtaining the consent of all members.
5. **Minor members:** Minors can also become a member of a joint Hindu family business as membership in the business is obtained on the basis of birth.

Answer 30

1. Naina is using the e-banking services to carry out various activities like transfer of funds, payment of bills and checking her account balance.
2. Benefits of e-banking with respect to customers:
 - It provides round-the-clock services to customers, i.e. 24 hours a day and 365 days a year.
 - It helps customers to make digital payments and ensures transparency in financial statements.
 - Transactions can be made by consumers from any place like from their house and office through a smartphone.
 - It provides a sense of financial satisfaction to consumers as the details of all the transactions are available to them at their fingertips.
 - It enables customers to travel cashless which provides them a sense of security and freedom.

OR

Answer

Points which provide information about the postal services:

1. The postal system in India is administered and controlled by the government.
2. The Indian Telegraph and Postal Department provides postal services in India.
3. For the purpose of administrative convenience, the country is divided into 22 postal circles. These post circles supervise and regulate the functioning of various head post offices and sub-post offices.
4. The postal department provides a wide range of mail facilities and financial facilities.
5. The mail facilities along with parcel facilities (transfer of parcels from one place to other) also include allied facilities like greeting post, media post, speed post, passport facilities etc.
6. Financial facilities provided by the postal department include savings schemes like Public Provident Fund (PPF), Kisan Vikas Patra, National Savings Certificates and other retail banking functions of monthly income scheme, recurring deposits, savings deposits etc.
7. These services are more reliable and economical (relatively cheaper than other means of communication).

Answer 31

Yes, I agree with the given statement. Points which depict the journey of the changing roles of the private sector and the public sector since Independence:

- Nationalisation of enterprises and the industrial resolutions of 1948 and 1956 gave the public sector a dominant role in the economy. Many areas were reserved only for the public sector.
- Factors like licencing limits and expansion restricted the entry of private sector enterprises.
- Even after the public sector was attributed a clear advantage over the private sector, it could not contribute to the country's economic development.
- On the other hand, surpassing the restrictions, the private sector continued to grow, expand and contribute to the country's economic development.
- Due to all these factors, the government adopted the liberalisation and globalisation policy in 1991.
- Main outcomes of this policy:
 1. Cancellation of industrial licencing for the private sector
 2. Reduction in reserved areas for the public sector
 3. Amendment of Monopolistic and Restrictive Trade Practices Act (MRTP) to raise the limit of expansion
 4. In short, introduction of this policy led to the development of a more open and competitive environment between the private sector and the public sector.

SECTION E

Answer 32

Limitations of partnership:

1. **Lack of continuity:** There is a lack of continuity in this form of business organisation as a partnership agreement comes to an end with the death, retirement, bankruptcy or insanity of any of the partners. However, if the other partners want to continue with the business, they need to create a new agreement.
2. **Limited resources:** There is a restriction on the total number of partners in a firm. Hence, the capital investment brought in is low in comparison to other forms of business organisations like a joint stock company. This poses a restriction for the firm in terms of expansion of business activities beyond a certain limit.
3. **Conflicts:** All the 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. Also, an incorrect decision of a partner may affect all other partners.

Merits of partnership:

1. **Easy formation and closure:** Formation of this form of business organisation is very easy as there is a requirement of only an agreement between two or more prospective

partners. Also, it is not mandatory to register the firm. Similarly, there are no compulsory or tedious legal formalities for closure of a partnership firm.

2. **Larger financial resources:** In a partnership firm, a number of partners contribute to the capital of the firm. As a result, the financial resources of a partnership firm are larger than those of a sole proprietorship firm. These funds help the partnership firm to carry out or expand its business activities.
3. **Confidentiality:** A partnership firm is not required to publish its records and accounts; therefore, it can maintain business confidentiality and secrecy with regard to its activities or operations.

OR

Answer

1. **Cost of setting up a business organisation:** In Every form of business organisation needs some initial capital for its establishment. The company form of organisation incurs the maximum cost and involves complex formalities, whereas the sole proprietorship form of business is the most inexpensive form with minimum legal formalities. In case of a partnership, there are less legal formalities and limited scale of operation, so the cost of setting up a partnership firm is low.
2. **Nature of business:** The type of business one wants to conduct is the most important factor in determining the form of business. If one wants to have direct personal contact with customers, then a sole proprietorship would be the best form. If one is willing to set up a large manufacturing unit, then a company form of business would be preferred. However, for providing professional services, a partnership form of business would be most suitable.
3. **Capital:** It is one of the important factors which help in determining the choice of the organisation. A sole proprietorship form of business requires minimum investment/capital. If one has adequate funds, then he can opt for a partnership form of business. However, huge financial resources are required for the company. So, if the operations are carried out on a large scale, then the company form of business is the most suitable, whereas for medium or small businesses, a partnership or sole proprietorship form of business is most suitable. From the point of view of growth and expansion, a company is the most suitable form of business as it has the capacity to raise funds required to expand its scope of operations.
4. **Liability:** Liability of different forms of business organisations also plays an important role in choosing a suitable form of business organisation. In case of sole proprietorship and partnership, the liability of the sole proprietor and the partners, respectively, is unlimited this means that the personal assets of the owners/partners will be utilised to pay off the debts (if needed). Under the joint Hindu family business, only the karta has unlimited liability. Unlike the other forms of business organisations, the liability of the members of a cooperative society and the company is limited, so the creditors can claim repayment of debt only to the extent of the assets owned by the business organisation.

Taking into consideration the extent of liability and the risk involved, a company form of business organisation is considered most suitable.

- 5. Continuity:** In a sole proprietorship, continuity depends on the people and the events which take place such as death or insanity of owners, insolvency etc. However, the mentioned factors do not affect the continuity of the other forms of business organisations like joint Hindu family business, cooperative society and company. So for short-term business plans, a sole proprietorship or partnership form of business organisation is most suitable. However, for a long-term and permanent business, a company form of business proves to be most suitable.
- 6. Control:** If one is interested in having decision-making power in his/her hands, then a sole proprietorship would be preferred. However, if the owners are interested in sharing control for effective decision making, then a partnership or company form of business is suitable. In a company form of business organisation, the management is completely separate from the ownership as the Board of Directors hires professionals for the efficient management of the company. This proves to be an added advantage.

Answer 33

A consumer cooperative store is owned, managed and operated by consumers for their own benefit. The main objective of this society is to provide quality goods and services at the lowest price possible. Limitation of consumer cooperatives:

- 1. Lack of initiative:** People voluntarily take up the task of managing consumer cooperative stores. This work is taken up by people on an honorary basis, and therefore, they do not take sufficient initiative. There is no motivation for people to work more effectively and efficiently.
- 2. Shortage of funds:** Consumer cooperative stores primarily raise funds from members by issuing shares. The number of members are limited; hence, they always face a shortage of funds. This becomes a hindrance in their progress.
- 3. Lack of patronage:** Members of cooperative stores generally do not patronise them regularly. Due to this, the stores are not able to operate successfully.
- 4. Lack of business training:** The people who own, run and manage the stores lack expertise as they are not trained and do not possess the required skills and knowledge. Hence, it becomes difficult to effectively operate the stores.

Answer 34

Trade credit refers to the credit granted by one trader to another for the purpose of purchase of goods and services. It falls under the category of borrowed fund. It is granted only to customers or traders who are considered creditworthy by the supplier and have a good financial standing.

Merits of trade credit as a source of short-term finance:

- **Flexible and convenient:** There are no specific or rigid rules governing this source of finance. The period of repayment can also be adjusted as per the needs and convenience of the parties. This makes it a flexible and convenient source of financing.
- **No creation of charge:** In case of trade credit, no charge is created on the assets of the firm while providing funds.
- **Promotion:** Trade credit helps in promoting the sales of the organisation as it becomes flexible and convenient for purchasers to purchase from a manufacturer/producer/wholesaler who provides trade credit for purchase of products.

Demerits of trade credit as a source of short-term finance:

- **Increases risk:** Due to easy and flexible availability of funds through the medium of trade credit, there is a possibility that firms may indulge in over trading. This can increase the risks of the firm.
- **Limited funds:** The amount of money/finance which can be raised through trade credit is very limited.
- **Cost involved:** The cost involved in raising funds through trade credit is comparatively more than other sources of finance.

OR

Answer

Sources of raising finance or funds can be classified on the basis of period, ownership and source of generation.

1. **On the basis of period:** Sources of funds can be classified into long-term, medium-term and short-term sources. Long-term sources of funds are the ones which satisfy the financial requirement of an organisation for a period of more than five years, whereas medium-term sources of funds are required for a period of more than one year but less than five years and short-term sources of funds are required for a very short period which is not more than one year.
2. **On the basis of ownership:** Sources of funds can be classified into owner's funds and borrowed funds. Owner's funds are raised by owners, i.e. the owners contribute to this fund, whereas borrowed funds are those funds which are raised by way of loans or borrowings.
 - a. **On the basis of generation of sources:** Sources of funds can be classified into internal and external sources of finance. Internal sources of funds are generated within an organisation without the need to have a formal agreement from any outside source. External sources of funds are generated from sources outside an organisation with the need to have a formal agreement, and in some cases, there is also a requirement to mortgage or create a charge on the assets of the company as security.