

CBSE
Class XI Business Studies

Time: 3 hrs

Max. Marks: 90

General Instructions:

- i. All questions are compulsory.
 - ii. Marks for questions are indicated against each question.
 - iii. Question Nos. **1-8** are very short answer questions carrying **1** mark each. They are required to be answered in one sentence each.
 - iv. Question Nos. **9-14** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50-75** words each.
 - v. Question Nos. **15-18** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
 - vi. Question Nos. **19-23** are long answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
 - vii. Question Nos. **24-27** are long answer questions carrying **6** marks each. Answers to them should normally not exceed **200** words each.
 - viii. Answers should be brief and to the point, and the above word limits should be adhered to as far as possible.
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1. Which of the following partners contribute capital to the business but does not take part in any activities of the business? [1]
 - a. Sleeping Partner
 - b. Secret Partner
 - c. Nominal Partner
 - d. All of the above
2. Enterprise wherein equipment investment is more than Rs 10 lakhs but does not exceed Rs 2 crore is known as _____. [1]
 - a. Micro enterprise
 - b. Small enterprise
 - c. Medium enterprise
 - d. Large enterprise
3. What do you understand by the term carting order? [1]
4. State a single point of difference between equity shares and preference shares with respect to voting rights. [1]
5. Which of the given documents provides the company a distinct legal entity? [1]

- a. Articles of Association
 - b. Prospectus
 - c. Certificate of Incorporation
 - d. Certificate of Commencement of Business
6. Which of the following is/are the feature/s of retail trade? [1]
- a. Sells goods and services directly to the customer
 - b. Maintains personal relations with customers
 - c. Last link of the distribution channel
 - d. All of the above
7. Mr Chandresh is a well-known lawyer of the Supreme Court. On weekends, he attends a nearby village and helps those people to file cases in various courts with respect to any issues they are facing in the area. What type of human activity can be seen here? [1]
8. What are the stages in the formation of a company? [1]
9. An industry situated on the banks of a river is the least bothered about the pollution it is creating. What steps would you like to suggest to the firm to protect the environment from the dangers of pollution? [3]
10. All small industries are highly labour intensive. Give reason. [3]
11. Explain any three major agreements of WTO. [3]
12. Name the form of business apt for the following: [3]
- a. Boutique store
 - b. Shopping mall
 - c. Wholesale merchants
13. If Mr C decided to sell off an old cupboard on an online selling site, would it be considered a business? State the characteristic of business that is being underlined here. [3]
14. In a discussion among various college students, many favoured the fact that business is a profit-making entity. On the other hand, there was hardly anyone who agreed with the fact that it is essentially a social institution. On what basis can it be said that business is essentially a social institution and not merely a profit-making activity. [3]
15. Two college friends Mr A and Mr B studying in the same college decided to venture into business after their graduation. However, both are adamant about the type of company they should form with respect to profits and efficiency. The former is interested in opening a private company, while the latter wants it to be a public company. What would be your advice to Mr A and Mr B? [4]

16. Incorporation of a private company entitles it to certain privileges. Explain these privileges. [4]
17. Hari insures his house against theft for Rs 20 lakhs with insurer A and for Rs 10 lakhs with insurer B. He suffers a loss of Rs 12 lakhs. How much compensation can he claim from both insurers? Give reason. [4]
18. A company needs money to expand its business. However, it does not have the capacity to bear extra financial burden of paying interest. The equity shareholders made it a point not to issue more shares as they feared losing control due to issuance of new shares in the market.
- a. What source of owner's fund is suitable in this case? [1]
 - b. Write any two advantages of this source. [2]
 - c. Mention a disadvantage of this source. [1]
19. State the differences between a large retail showroom and identical retail shops. [4]
20. To ease parking problems in the mega city, Kolkata Municipal Corporation decided to start an underground car parking system. It started in 2007 and is still in operation. The project is a success as it has been able to reduce traffic jams, problems for pedestrians and haphazard and unruly parking of vehicles.
- a. Which type of enterprise is being discussed here? [1]
 - b. Define the type of enterprise mentioned above. [1]
 - c. Mention the features of this enterprise. [3]
21. The Indian Postal Service was founded on the 1st of April 1854. The demand for its services was huge 10 years ago. However, nowadays its services are hardly used, but they still continue to offer some facilities even today. State some of those facilities. [5]
22. There is a fund which is contributed by the owner and remains with the company. Also, this fund stays with the company and the company has no liability to repay the fund.
- a. Which fund is being referred to here? [1]
 - b. Explain the types of fund which is identified above. [4]
23. There is a type of product selling business which is carried through newspapers, magazines and circulars.
- a. What type of selling business is being referred to here? [1]
 - b. Explain its usefulness. [4]
24. Mr Pawan had a flourishing domestic business. He decided that he needs to venture into international business. What factors he needs to know before doing so? [6]
25. Small-scale industries compared to large-scale industries have been facing various

problems. Many think that they are on the verge of extinction. What are your opinions regarding the same. Give reasons. [6]

- 26.** Business risk is the possibility of occurrence of losses or insufficient profits because of various unexpected events which cannot be controlled by business. What can be its types and causes? [6]
- 27.** Shopping now has become more of an online process. This is all because of online shopping (e-business) and e-commerce. E-business refers to online business which includes buying and selling of products and services and all the functions which are conducted electronically. E-commerce, on the other hand, means tasks which involve contracting out non-core activities to specialists to gain from their experience, knowledge and efficiency. In light of this definition, explain why both are considered growing trends. [6]

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Solution

Answer 1

A **sleeping partner** contributes capital to the business but does not take part in any of the day-to-day activities of the business.

Answer 2

An enterprise wherein equipment investment is more than Rs 10 lakhs but does not exceed Rs 2 crore is known as **small enterprise**.

Answer 3

Carting order refers to the instruction given to the staff at the gate of the port which allows the entry of cargo inside the docks.

Answer 4

With respect to voting rights, equity shareholders have full voting rights. On the other hand, preference shareholders are not entitled to voting rights except when dividends have not been shared for two years.

Answer 5

A company becomes a distinct legal identity on receiving its **certificate of incorporation**. This happens after the registrar accepts the name of the company and enters it in the register, thereby issuing the certificate of incorporation.

Answer 6

Retail trade refers to business wherein traders purchase products in bulk and sell them to final customers in smaller quantities. It is the last link in the distribution channel as the products are usually bought from them by customers. Also, it directly sells goods and services to final customers at the doorstep. Hence, this helps them in maintaining good and personal relations with their consumers. Thus, all the options represent features of retail trade.

Answer 7

Mr Chandresh is involved in a **non-economic activity** as he helps the village people to file cases in various courts without expecting anything in return.

Answer 8

Stages in the formation of a company:

- Promotion
- Incorporation
- Capital subscription stage
- Commencement of business

Answer 9

Environment belongs to all of us. Therefore, it becomes our collective responsibility to protect and preserve the environment at any cost. However, businessmen being leaders in creation of wealth, technology, employment and trade have a greater moral and ethical obligation to protect the environment.

Some steps which need to be taken by firms to protect the environment from the dangers of pollution:

- **Commitment by top-level management:** An organisation and its management should be committed to create, sustain and maintain a work culture which believes in environmental protection or a pollution-free environment.
- **Shared by all employees:** The management of an organisation should make sure that every employee must honour the commitment made regarding environment protection. Also, employees should themselves commit to keep the environment protected and clean.

Answer 10

All small industries are highly labour-intensive industries because they use basic technologies wherein most work is done by workers. Although machines may be used to a certain extent, a person is needed to do majority of the work. Examples: Hospitality industry, coal mining

Answer 11

Three major agreements of WTO are

- General Agreements on Tariffs and Trade (GATT):** It was established on 1st January 1948 and continued to be in force till December 1994, although modified. GATT was liberalised and included certain special agreements which were concerned with specific no-trade barriers. Also, it indicated rules and regulations which were to be followed by all the countries involved in foreign trade.
- Agreements on Textile and Clothing (ATC):** This agreement was developed to get rid of the restrictions imposed by the developed countries on the exports of clothing from developing countries. Under this agreement, the developing nations agreed to reduce the restriction during the period of ten years starting from 1955. As a result, the developing nations were able to expand their exports of textiles.

- iii. **Agreement on Agriculture:** This agreement was incorporated with the intention to ensure free and fair trade relations among the nations with respect to agriculture. However, previously, trade of agriculture suffered various drawbacks. This was because of various subsidies offered by some developing nations. Thus, these countries agreed to lower down customs duty and subsidies on their imports and exports, respectively.

Answer 12

- a. **Boutique store:** Sole proprietor form of business is best for a boutique store. This is because it requires a personal touch while dealing with customers.
- b. **Shopping mall:** A company would be best for a shopping mall as the amount of capital required is huge.
- c. **Wholesale merchants:** A partnership form of business organisation is apt for wholesale merchants as the number of members required in this form of business is huge.

Answer 13

Mr C selling an old cupboard on an online selling site does **not constitute a business**. This is because this selling activity is limited to a single time, whereas business involves dealing with goods and services on a daily basis.

The characteristic of business which is being underlined in this example is **dealing with goods and services regularly**.

Answer 14

A business's main motto is to earn and maximise profits as profit is the main source of income. However, decisions and actions of an organisation are highly in accord with society because of their usage of society's resources. Therefore, businesses cannot work in seclusion from society. This has forced businesses to show concern towards society. Hence, businesses fulfil the expectations of society by maintaining an ideal environment. In other words, a business gives equal importance and consideration to social responsibilities along with profit making. A business needs to handle various social responsibilities such as resolving consumer complaints, supplying good-quality products, creating healthy working environment, cooperating with the government in solving social problems of unemployment, poverty and illiteracy and prevention of pollution. This helps the business to sustain a better public image and earn higher profits in the long run.

Hence, we can say that business is essentially a social institution and not merely a profit-making activity.

Answer 15

My advice to Mr A and Mr B would be to **establish a private company**. This is because it would be difficult for a public company to compete with the private company with respect to profits and efficiency as

- Public sector companies are usually government-owned companies having the responsibility of conducting social services. Thus, their operations do not work only for commercial purposes, thereby lessening their profits. Also, various social objectives have been taken care by these companies like development in backward and rural areas, creation of employment opportunities and tackling the problem of illiteracy.
- Public sector companies are answerable to the government and have to accept their points if put forward. Thus, flexibility and independence are something that public sector companies do not enjoy.
- A public company is controlled by bureaucrats and weakens the control of the owners on the company. As a result, the company's efficiency gets affected and it is unable to earn sufficient profits.

Answer 16

Important privileges available to a private company after its incorporation are

1. **Number of members required:** The number of members required for the formation of a private company is **two**, while it is **seven** for a public company.
2. **Number of directors required:** A private firm requires at least **two** directors, but a public company needs a minimum of **three** directors.
3. **Commencement of business:** Business can be started by a private company as soon as it **receives its certificate of incorporation**. A public company, on the other hand, **needs a certificate of commencement** for starting the business.
4. **Index of members:** There is **no compulsion** to maintain the index of members for the private company. On the contrary, it is **mandatory** to maintain an index of members for a public company.

Answer 17

Hari is entitled to get compensation from the insurers for loss due to theft. The loss suffered equals Rs 12 lakhs. So, the insurers have to pay Hari in the ratio 2:1, i.e. he will receive 8 lakhs from insurer A and 4 lakhs from insurer B.

This compensation to Hari follows the principle of contribution. According to this principle, if a person has taken more than one policy for the same risk, then it becomes the responsibility of all the insurers to contribute to the amount and pay the insured the loss amount. The insured, however, cannot claim the total loss amount separately from each insurer. This is because he does not have the right to recover a loss of more than the actual amount.

Answer 18

- a. **Retained earnings** are suitable in the given case.
- b. Advantages of retained earnings:

- i. **No cost:** It does not include any kind of expenses such as spending for prospectus and advertising. Thus, no cost is incurred in raising retained earnings.
- ii. **Dependable source:** This source is considered the most dependable source of income as it is generated internally leaving aside the preferences of market conditions and investors.
- c. Disadvantage of retained earnings:
 - i. **Careless use:** Because the source is available easily to the management without any hassles, they tend to invest the source in not-so-profitable investments or undesired protocols.

Answer 19

Basis	Large Retail Showroom	Identical Retail Showroom
Name	Also known as department stores	Also known as multiple chain stores
Range of Products	Offer <i>various products</i> to customers	Specialised in offering a <i>single line of products</i> to customers
Cash/Credit Basis	Offer <i>credit facilities</i> to regular customers	Sell on <i>cash basis only</i>
Risk	Face <i>greater risk</i>	Face <i>comparatively lesser risk</i>
Location	Located at <i>central places</i>	Located at <i>different places</i>
Services	<i>Maximum</i> customer services are provided	<i>Limited</i> customer services are provided
Types of Customers	Cater to relatively <i>high-income group customers</i>	Cater to all types of people ranging from <i>low-income group to middle income group</i>

Answer 20

- a. **Public Private Partnership (PPP)** has been discussed in the given case.
- b. An agreement between the public sector and private party wherein the skills and assets of both sectors are shared so as to deliver a service to the public of the country.
- c. Features of PPP:
 - i. **Contract between public sector and private party:** PPP is a contractual agreement between the public and private sectors. The private sector provides for public service and in turn bears risks related to finance, operations and technical aspects.

- ii. **Cost of using service:** The cost of using this service is usually paid by service users and not by taxpayers. In some scenarios, the government pays for the service wholly or partially.
- iii. **Provision of capital subsidy:** Capital subsidy is provided by the government in the form of a one-time grant to the private sector. This is purposely done by the government to entice the private sector to take up projects for public good.

Answer 21

The Indian Postal Department provides various services all over the country. In this regard, the country has been divided into 22 postal circles. These circles manage the working of various head post offices, sub-post offices and branch offices.

Facilities offered by the Indian Postal Department:

1. **Financial facilities:** Post offices provide financial facilities through various saving schemes such as

- Public Provident Fund
- National Savings Certificate
- Kisan Vikas Patra

They also provide facilities such as retail banking for savings accounts, recurring deposits or monthly income schemes.

2. **Mail facilities:** Post offices provide mail facilities which involve transmitting articles/goods/products from one place to another. These may also involve a registration facility and insurance for goods during the period of transmission to provide security to the goods and save the products from any risk.

3. **Allied facilities:** These include

- **Greeting Post** for sending greeting cards for every occasion.
- **Media Post** to advertise an Indian cooperative's brand in a novel and effective manner—a postcard, envelope or aerogramme.
- **Direct Post** to advertise directly to both addressed and unaddressed.
- **International Money Transfer** allows for money to be transferred from 185 countries to India.
- **Passport Facilities** and processing of passport applications have been initiated with a partnership with the Ministry of External Affairs.
- **Speed Post** covers over 1000 destinations in the country to transmit mails quickly. It also has links with more than 97 countries across the globe.
- **E-bill Post** is the latest addition to the postal services. It collects payments for *BSNL* and *Bharti Airtel* services from consumers across the country.

Answer 22

- a. The fund referred in the paragraph is **owner's fund**.
- b. Types of owner's fund:

- i. **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.

Merit:

The holders of equity shares **contribute permanent capital** to the company as and when required. Thus, there is **no responsibility** on its part to **repay any money** or to **pay dividends** to shareholders.

Demerit:

Before any equity shares can be **issued** to the **public**, a lot of **legal formalities** need to be **completed**.

- ii. **Retained Earnings:** For the future expansion of the company, part of the profits is retained in the organisation instead of completely distributing profits in the form of dividends among shareholders.

Merit:

No acquisition cost is involved as these funds are raised internally and do not depend on any outside resource.

Demerit:

Business fluctuations occur from time to time because of which retained earnings are an **uncertain source of finance**.

Answer 23

a. Mail order houses are referred to in the given case. These are retail outlets which sell their goods through mail. There is no personal contact between buyers and sellers. They advertise their products through advertisements in newspapers, magazines and circulars to inform customers about the features and prices of products and terms of payment.

b. Usefulness of mail order houses:

- i. **Limited capital requirement:** They require low capital to conduct business. This is because they do not need money to be invested in a building or any infrastructural facilities.
- ii. **Elimination of middlemen:** They help in eliminating middlemen between buyers and sellers, thus saving money of both buyers and sellers.
- iii. **Absence of bad debt:** They do not provide credit facilities to customers. Thus, the chance of having bad debt with respect to non-payment of cash is nullified.
- iv. **Wide reach:** It has a wide reach as a large group of people can be served all across the nation having postal services.
- v. **Convenience:** Customers get the goods delivered at their doorstep.

Answer 24

Mr Pawan needs to understand the following factors before venturing into international business. These are

- i. **Size of the market:** Size of the market is an important factor a company must analyse before selecting an entry mode. This is because countries having **large**

market size need to ensure more investment such as wholly owned subsidiaries in international business.

- ii. **Government regulations:** Legislative policies of the international business operation decide the selection of the mode of entry. The government has made it compulsory for foreign firms to have a local partner. ***Licensing is thus an easier way to expand globally.*** In this mode of entry, all the business transactions in the production and sale of goods are controlled and maintained by a local person called licensor. There is less scope of government interference in business dealings.
- iii. **Level of risk:**
 - a. **Political risk:** If the political situation is not stable, then it may discourage firms from supplying raw material to a market.
 - b. **Economic risk:** This may arise because of unstable exchange rate; unfavourable balance of payment situations may affect the cost of raw materials for producing goods in the international market. So, foreign firms face a tough time to regulate business operations with a high inflation rate.
 - c. **Operational risk:** Firms of the home country should realise business operational threats in the international market.
Hence, a company must analyse the risk involved in the international business and accordingly select the mode of entry in the international business. For example, ***the level of risk involved in contract manufacturing, exporting and licensing is low.***
- iv. **Low cost of production:** This is an important factor to decide the mode of entry in international business. Basically, a company needs to ***analyse the cost involved in the business*** and select the appropriate entry mode in the international market.

Answer 25

Despite various problems faced by small-scale industries, they are still existent in the country due to the following reasons:

1. **Personal touch:** Small-scale industries are usually owned by a single person or limited group of people. Thus, it becomes easier to know about customers and their preferences and to keep in touch with them. As a result, good relations are maintained among them.
2. **Limited sources and simple technology:** Because these firms work on a small scale, they call for less capital and simple technology, i.e. they are labour intensive. Advanced products are rarely used.
3. **Flexibility:** As a small-scale industry is self-operated, it has the benefit of being flexible, especially when introducing new products, implementing new ideas, pilot running various procedures, without the requirement of a lengthy process.
4. **Low cost of production:** Small-scale industries have low cost of production because the products available locally are cheap.
5. **Quick decision making:** Small size of the company makes it easier to take quick and timely decisions without many people's consultation.

6. **Customised production:** Customised production is best suited for a small-scale industry. It gives producers full liberty to utilise their creativity to best suit the preferences of customers.

Answer 26

Business risks are of two types:

- **Speculative risk:** Risk taken on the basis of forecasts and guesses can be termed speculative risk. It involves an equal possibility of earning gains or incurring losses. It arises because of change in market conditions such as changes in government policies and fluctuation in demand and supply.
- **Pure risk:** Risk which cannot be predicted precisely is pure risk. A firm can incur only losses or incur no loss at all. Pure risk can be the risk associated with theft, fire or natural calamity.

Causes of risks are

1. **Natural causes:** The one thing which humans have no control over is nature. So, when unforeseen natural calamities occur, it causes heavy and irreplaceable losses to life, property and income.
2. **Economic causes:** Price fluctuations and change in government policies, preferences, taste and demand of consumers are some economic causes which will cause the downfall of a business.
3. **Human causes:** A common cause of business loss is humans. For example, dishonest behaviour of employees, carelessness of employees and strikes.
4. **Other causes:** Political disturbances, exchange rate and interest-rate fluctuations, budget amendments, physical or technical disabilities and mechanical failures can be some other causes which may result in a business risk.

Answer 27

Both e-business and e-commerce are considered emerging modes of business because of the following:

- i. **Enhancement of technology:** Improvement in information technology with respect to quality and speed has resulted in an increase in e-business and outsourcing.
- ii. **Increasing demands of consumers:** There has been an increase in the demand with respect to round-the-clock delivery and customer service. Both trades have been pretty successful in ensuring product delivery much before time and satisfying customers with after sales service.
- iii. **Growth of business:** Growth of business is due to adapting new technologies, by innovation and by implementing different marketing methods. E-business and outsourcing do wonders in facilitating continuous development of business strategies and new technologies.

- iv. **Increased demands for good-quality products:** Consumers are now interested in buying good-quality products at the cheapest price available. E-business and outsourcing have been successful in pleasing consumers with the required products at reasonable prices.